DEVELOPING A PROCUREMENT FRAMEWORK FOR THE MALAYSIAN HOSPITALITY INDUSTRY: A PRELIMINARY STUDY

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ABSTRACT

Businesses are made up of many sub-structure of activities. One particular activity that demands high attention is procurement. In the hospitality industry, the procurement department plays a major role in ensuring supply of raw material and goods are planned, purchased, distributed, and consumed efficiently. An influx of activities such as requisition, acquisition, and quality check is done in this department. In estimating the total cost of acquiring goods and services, it is important for organizations to identify unit costs and other costs associated with operations and maintenance that occurs during purchasing and conserving of goods. Recent studies have reported the usage of an Electronic Procurement System (EPS) that replaces the conventional procurement system typically used in Hotels. This paper aims to explore the current practice, effectiveness and efficiency of the procurement systems used in Malaysian hotels through in-depth interviews. Findings of this study will assist hospitality businesses to analyze their procurement activities and develop proper strategies that enables them to reduce costs, increase efficiency, and most importantly, improve their bottom line.

Keywords: Procurement, E-Procurement, Purchasing, Supply Chain Management, Hospitality Industry.

INTRODUCTION

Travel and hospitality industry is one of the fastest rising sectors in the world. This can be seen in the gross booking for the industry that reached 1.6 trillion US Dollar recently (Phokuswright, 2017). The strengthening of the global economy has led to the growth of the industry and can be seen through the yearly increase in the number of travellers. The number of international travellers increased from 600 million to 1.3 billion worldwide and is expected to continue to rise in the year 2018 (Langford & Weissenberg, 2017). The World Travel & Tourism Council reported that Travel and Tourism Industry direct contribution to Gross Domestic Product was USD 2.57 billion (3.2% of total GDP) in 2017, and is forecasted to rise by 4 % in 2018. The GDP for travel and tourism is expected to rise by 3.8% per annum to USD 3.8 billion (3.6% of

total GDP) from 2018 to 2028. In Asia Pacific, after the average performance in 2017, transaction pace is expected to pick up in 2018 as the the hotel sector in the Asia Pacific region remain strong. Tourism traffic in the region is projected to grow at an average annual rate of 6.2% throughout 2014-2018, based on Pacific Asia Travel Association's five-year forecast. The connectivity in the region is expected to improve, giving greater accessibility to secondary markets (PATA, 2018). In Malaysia, the hospitality industry is the third-largest contributor to the Malaysian economy. The Ministry of Tourism Malaysia reported that the hospitality and tourism industry contributed RM73.3 billion to the economy in the year 2016 alone (MOTAC, 2018).

The increase in inbound and outbound tourists in Malaysia has contributed to the significant development of the hospitality and tourism sector. Penang, located in the northern part of Malaysia, has been known to host a large amount of domestic and international tourist. Penang is also is also known to be among the most progressive states in Malaysia and has shown a tremendous increase in the demand for hospitality and tourism service-related. Penang reported highest tourist receipts and arrival as compared to its neighbouring states such as Kedah, Perak and Perlis (Tan, 2018). According to the statistics from Malaysian Airport Bhd, international arrivals for the period of January to August in 2017 increased by 8% from 919,506 to 997,627, in the same period in 2016. Statistics from Penang Port Sdn Bhd showed an increase in arrivals of international cruise ships tourist for the period of January 2017 to June 2017 with an increase from 114,230 to 172,438.

Besides others, one of the particular elements that plays a very important roles in the success of the business is the procurement system and the processes (Rosli & Songip, 2017). It is an act of acquisition of goods and services to fulfill the needs of the business at the right process, from the right service provider or supplier that is in accordance to the quantity needed and at the specified time of the inventory is required (Awadallah & Saad, 2018). The procurement system plays a significant role as it deals with purchases, documentations, procedures and processes (Nasrun et al., 2016). According to Ivanovska, 2004) procurement system in the hotel business is the key features to achieve success. However, as the world and industry moving it is well known that hotels are trying to improve their procurement systems in order to minimize the operating cost (Kothari et al., 2005). The hotel management need to look for a system that can assist them to save time and money on order to make profit (Aikins et al., 2014). Thus, a new internet related technologies are the solution and has the potential to bring significant changes towards the process of procurement (Osmonbekov et al., 2018). E-Procurement has high potential to improve cost management, generate revenues, and eases auditing and control. The costs of fragmentation may be overcome as companies turn from the conventional economic approach to E-Business framework (Kothari, Hu, & Roehl, 2007). Despite the importance of the E-Procurement system, limited numbers of academic research has been carried out on the procurement systems being used the Hospitality Industry in Malaysia (Au, Ho C. K, & Law, 2014). Existing studies on E-Procurement has mostly been on technology-oriented business sectors (Tatsis, Mena, Wassenhove, & Whicker, 2006) or manufacturing (Saha & Grover, 2011). Research on procurement practices in the service sector, especially in the hospitality industry was found to be insufficient (Aikins et al., 2014). Through the literature review, it can be observed that the study on procurement and purchasing system in the Malaysian hospitality industry remains scarce.

This research is conducted to study whether hotels in Penang have proper procurement and purchasing systems. From the findings of the study, the researcher could identify which hotel has a proper procurement and purchasing system and obtain opinions on the effectiveness and

efficiency of the existing system. The findings will enable hotels to implement effective procurement strategies that could improve their businesses.Majority of hotels have some sort of procurement and purchasing system in place. The literature on procurement and E-Procurement system were found in abundance, however, citing from the past literature review on the study of procurement or e-procurement system in the Malaysian hotel industry were found to be none. Therefore, this study is important as a reference for future research on procurement and E-Procurement in the Malaysian hotel industry. Although hotels implement various types of procurement and purchasing systems to successfully control and maintain their cost and expenditure, research has found that there are hotels that lack proper procurement system (Kothari et al., 2007). It was known that the majority of hotels have some sorts of procurement and purchasing system, whether is manually or electronically operated (Al-aomar & Hussain, 2018). Literature on procurement and e-procurement system were found in abundance in other countries, however, citing from the past literature review on the study of procurement or e-procurement system in the Malaysian hotel industry were found still at the infant stage (Rosli & Songip, 2017).

This study is conducted to be used as a reference for future research. The findings is hoped to add to the existing body of knowledge in improving the implementation of an effective and efficient procurement system in the Malaysian Hospitality industry, especially in Penang. This study will benefit the industry, particularly in the Malaysian Hotel Industry. The finding of this study will provide a better understanding of procurement and e-procurement and help them to maximize the profit as well as minimize the cost (Angeles & Nath, 2007). To this end, this research can assist the Malaysian Hotel sector in Penang in managing its procurement and purchasing system. As for academia, this research will contribute to the Malaysian (Northern Region) hotels operator. This finding is important as to assist hotel business to sustain in the long run and also it will have the capacity role to support the Malaysia Hotel industry to provide a bigger opportunity for employment towards Malaysian. This research also assists academician for future research and enriching the literature on procurement system. It also assists hotels in recruitment where it was found that millennials prefer to work with technology rather than a manual system (Roman, Bernardino, & Mccue, 2014). Therefore, relying on foreign workers can be reduced and with that strategy, hotels can attract young people to work in the industry. The rapid development of information technology (IR 4.0) altered and shaped the way the hospitality and tourism industry works, as work can be performed anywhere by using a fingertip (Rüßmann et al., 2015).

LITERATURE REVIEW

Supply Chain Management

Supply chain management is a method or process flow often used by suppliers, manufacturers, warehouses, stores, and producers to ensure products (raw material) are delivered, received, stored, and distributed at the right quantity and quality (Cho, Lee, Ahn, & Hwang, 2012). The method ensures accurate number of orders, time, and location without compromising the standard of goods and services as well as value for money (Bozarth & Handfield, 2006). Supply Chain Management (SCM) emphasizes the interactions that take place among the marketing department, logistic and production within a firm and those interactions that take place between the legally separate firms within the product flow channel (Presutti, 2003). Opportunity for cost reduction or improving customer service can be achieved through coordination and collaboration among co-workers and the system (Kothari et al., 2005).
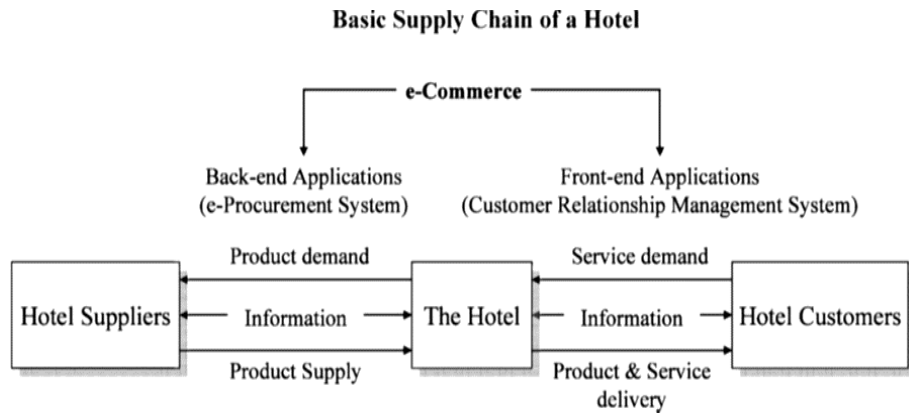
Basic Supply Chain of a Hotel

Diagram 1 : Basic Supply Chain Management in Hotel involving the E-Commerce (Kothari et al., 2005)

Procurement

Procurement is an activity or processes to acquire goods and services. Importantly, it is extinguished from purchasing, procurement comprises of activities such as establishing fundamental requirements, sourcing activities such as market research, vendor evaluation and negotiation of contracts (Bratt, Broman, Robèrt, & Sophie, 2012). Procurement continues through the processes of risk assessment, seeking and evaluating alternative solutions, the awarding of a contract, the delivery of and payment for the goods and services and, where relevant, the ongoing management of the contract and concern of disposal of goods (Awadallah & Saad, 2018). In many instances, many parties have mistakenly understood between procurement and purchasing. Part of the process in procurement is 'purchasing', this process consists of activities such as product and services requisition from the department, receiving goods or services from vendors and distributing them to the intended department (Knudsen, 2003). In other words, procurement can be described as the whole process of acquiring goods and services between vendors and firm (Cho et al., 2012). It also ensures that comprehension of how to satisfy particular needs like something arising suddenly with a tight deadline (Sigala, 2006). It also helps other staff in the same organization to understand how to select the best source without the need to do the preliminary steps again.
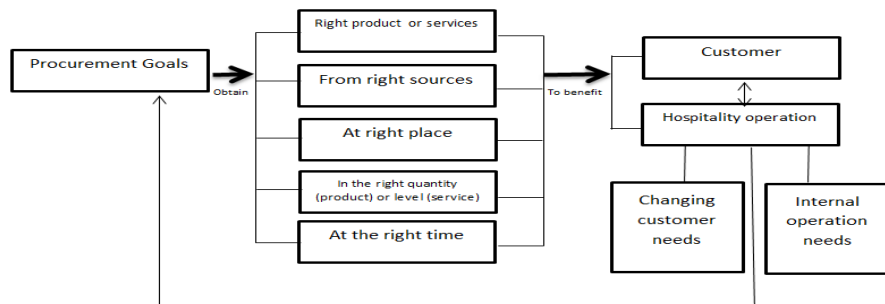

Diagram 2 : Objective of Procurement (Hall, 2009)

The diagram illustrates that the main objective of procurement is to obtain the right product or services from the right sources, at the right places in the right quantity or level of service and at the right time. All this is done to provide excellent product and service to customers.

Procurement involves satisfying the internal operation needs and wants and the changes in customer's need. In short, the procurement main objectives are to obtain resources at the desired quality, the exact quantity, timely manner and at the right place for a hotel to function well (Hall, 2009).

E-Procurement

The purchasing department in the buyer's internal marketplace defines the scope of the products to buy and invites vendors to bid or negotiate prices. The agreed-upon prices (contract prices) are stored in the buyer's internal electronic catalogue/ databases. The final buyer or end-user (not the purchasing department) can compare the various alternatives either on the electronic catalogue using the Internet or on the internal databases. An organizational purchasing decision would tightly follow the internal workflow management system where business and purchase rules are predefined. Supplier selection is extremely important to enhance quality, reduce delivery time, and minimize purchasing costs. The information on the internal databases or the electronic catalogues can be updated manually using software agents. These systems not only allow end-users to order products and services online without intervention by the purchasing department but also enables automatic fulfilment by the supplier organization and payment via electronic funds transfer or purchasing (credit) cards as illustrated in below (Kothari et. al, 2005).
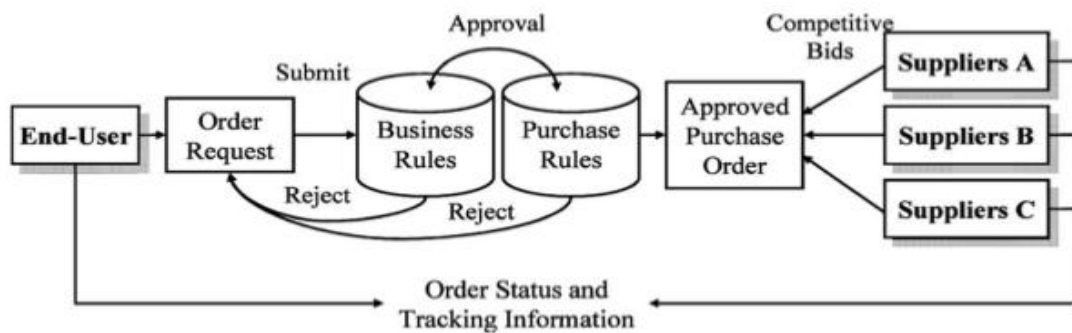

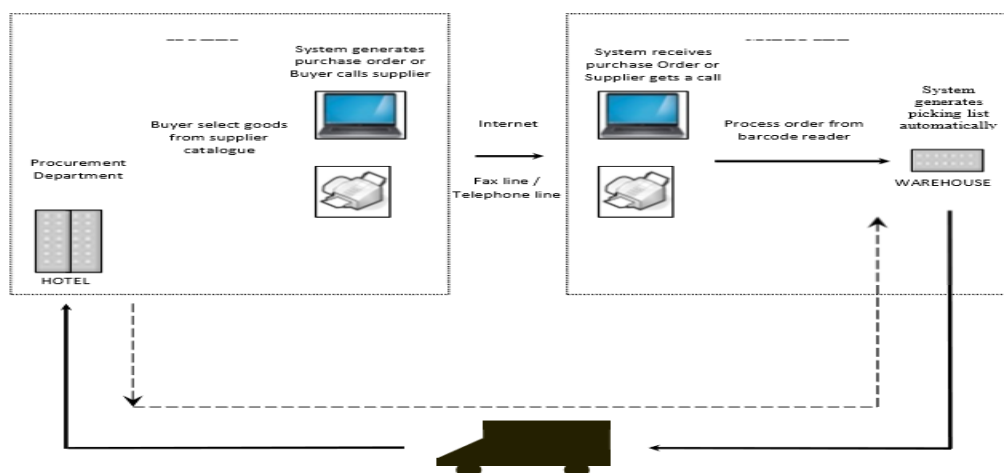Diagram 3 : E-Procurement (Kothari et al., 2005)

Diagram 4: A typical E-Procurement System (Chan et al., 2006)

Although E-Procurement has substantially streamlined the procurement and coordination processes for indirect goods, many companies operate multiple E-Procurement solutions. For integrated procurement solutions, the paper recognizes the need for an overall procurement strategy and organization, alignment of various E-Procurement solutions along the procurement process and the need for integrated system architectures. Companies also have to realize that no standardized E-Procurement solutions exist and success factors are 'non-technical' in nature (Puschmann & Alt, 2005). On the other hand, the widespread use of information technology has changed the way the business rules in the Hospitality industry. These changes have resulted in a substantial expansion in the availability and transparency of information and new forms of competition (Ronchi, Brun, Golini, & Fan, 2010). However, it was found that not all vendors are ready to adopt the E-Procurement system as many of them need to be educated before they are ready to be a partner with an establishment that employs E-Procurement. Although E-Procurement is still very much in its infancy in the lodging industry, one may expect to see a rapid increase in its functionality that will assist both buyers and suppliers in the electronic environments over the next few years, as Au et. al. (2014) submits that the low adoption of E-Procurement specifically in the hotel industry may explain why hotel industry is still very far from other industry, for example, the manufacturing industry. E-Procurement may be very influential and beneficial; however, if companies do not have clear visibility of costs and benefits, they are unlikely to invest. This was one of the main reasons why companies are reluctant to implement E-Procurement (Tatsis et al., 2006).

Level Of Adoption

Not all e-Procurement vendors might be compelled to team with hotel organizations. E-Procurement provides substantial market capacity as well as vulnerabilities, for example, those shown in this circumstance must be targeted before notable asset responsibility for e-Procurement is presumed(Al-aomar & Hussain, 2018). Even though e-procurement is still in its early stages in the hotel industry, a rapid increase in its compatibility can be expected to help both consumers and vendors in the digital settings for the next several years (Rosli & Songip, 2017)The minimal implementation of e-procurement in the hospitality industry primarily (Au et al., 2014) illustrates why e-procurement is clearly nowhere near the other industrial sector.

METHODOLOGY

This qualitative study adopts an in-depth interview method (Burnard, Gill, Stewart, Treasure, & Chadwick, 2008) designed to explore current procurement practices, as well as its effectiveness and efficiency. This study will also identify whether the usage of e-procurement efectively assist hotel businesses in reducing cost and increasing revenue. Interviews will be conducted with key procurement personnels (Woods, 2011) in hotels. This includes those who are directly involved in the the procurement process and their managers. The study's population are personnels in the hotel procurement department. This preliminary study will be conducted in Pulau Pinang (Penang), Malaysia. Penang is selected due to numbers of 4 and 5 stars' hotels that available and Penang is the most suitable location to conduct this preliminary study due to the high turnover of domestic and international tourist (Tan, 2018). Furthermore, Penang has the highest number of 4 and 5-star hotels (72 hotels) in the northern region of Peninsular Malaysia. Hotels with higher star ranking are usually priced higher and provide better services for guests (Agušaj, Bazdan, & Lujak, 2017). 4 and 5-star hotels are considered

for this research as they have bigger and more organized operations with specific department that oversees procurement and purchasing (KKP & SPIP, 2015). Purposive sampling will be employed as it involves the act of selecting a sample of given population which the researcher believes to represent the given population (Kumar et al., 2012). The result of this preliminary study will be used to develop a quantitative instrument that will assist the researcher to conduct research in a bigger sample that includes every state in the Peninsular of Malaysia, Sabah and Sarawak.

CONCLUSION

Findings of this study will serve as a foundation for future research that will include hotels in all of the 13 states in Malaysia. This study will provide an insight for industry players in improving their procurement system. The finding of this research will be published as to ensure that the knowledge is well disseminated among the industry players. This study also assists hotels specifically Malaysian Hotel Industry to develop their short and long-term strategy in cost management, profit maximization and cost minimization.

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