STRUCTURAL RELATIONSHIP OF KNOWLEDGE MANAGEMENT, PROCESS INNOVATION AND ORGANIZATIONAL PERFORMANCE IN THE MALAYSIA'S HOTEL TOURISM INDUSTRTY

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LIST OF ABBREVIATIONS

KM	Knowledge Management
PI	Process Innovation
OP	Organizational Performance
LP	Leadership
OC	Organizational Culture
HRM	Human Resource Management
ICT	Information and Communication Technology
IPI	Incremental Process Innovation
RPI	Radical Process Innovation
ES	Employee Satisfaction
CS	Customer Satisfaction
FP	Financial Performance
ASEAN	The Association of Southeast Asian Nations
TDC	Tourism Development Corporation
MOCAT	Ministry of Culture, Arts, and Tourism
CEO	Chief Executive Officer
S&T	Science and Technology
SM	Strategy Management
SMEs	Small and Medium Enterprises
SOEs	State-Owned Enterprises
DEA	Data Envelopment Analysis
CAALYX	Complete Ambient Assisted Living experiment
ACAP	Absorptive Capacity
RBV	Resource-based View
SEM	Structural Equation Modeling

SPSS	Statistical Package for Social Sciences
SmartPLS	Smart Partial Least Squares
VAF	Variance Accounted For
CB-SEM	Covariance-based SEM
PLS-SEM	Partial Least Squares SEM
TPM	Total Productive Maintenance
JIT	Just-In-Time
TQM	Total Quality Management
MP	Manufacturing Performance
CR	Composite Reliability
AVE	Average Variance Extracted
β	Path Coefficient
R^2	Prediction Model
f^2	Dependent Variables
Q^2	Prediction Model is Relevant
VIF	Variance Inflation Factor

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The tourism industry has been emerging as the major industry for the Malaysia's economy (Beh & Joel, 2013). In the last few decades, the Malaysia's tourism industry observed has developed to be the third largest industry globally after the oil and gas industries and automobile industries (Hafiz & Fauzi, 2010). The industry recorded approximately 8 percent of the world export, 10 percent of the world gross income, and 35 percent of the world trade in services (Beh & Joel, 2013). Coincide, the Malaysia's hotel tourism industry shows as a vital industry for Malaysia's economy nowadays.

According to Hassan (2008), the culture and tourism industry in Malaysia is the main contributor to the Malaysian economy. Beh and Joel (2013) found that the tourism industry contributed RM 60.6 billion in tourist receipt and reached 25.03 million tourists in 2012. Undeniably, culture and tourism have put Malaysia on the world map as one of the targeted tourism destinations for a diverse ethnic and culture experience. The tagline of Malaysia - Truly Asia is recognized and prized worldwide as one of the top 10 most-visited tourist destinations (Mohamed, 2008). This is a crucial testament that the nation's colorful culture is a powerful brand for Malaysia.

The tourism industry in Malaysia has been recognized as a major source of income and mechanism (Hafiz & Fauzi, 2010). The trend and benefits can be easily identified in the past ten years by looking at the consistent increase of tourist arrival. In 2013, the number of tourists reached 25.72 million with a total rise of 10.02 million tourists in the past ten years, from only 15.7 million tourists in 2004. The receipts from the same period show a significant increase from 29.7 million ringgit to 65.44 billion ringgit in 2013 (Beh & Joel, 2013). These figures proved that the Malaysia's tourism industry is one of the major tourism destinations in the world. The statistics from the Tourist's Arrivals and Receipt (2004 to 2013) are shown in Table 1.1.

Table 1.1

Tourist Arrivals and Receipt Statistic, 2006 – 2013

2006	17.55	36.3
2007	20.97	46.1
2008	22.05	49.6
2009	23.65	53.4
2010	24.58	56.5
2011	24.71	58.3
2012	25.03	60.6
2013	25.72	65.44

Source: Adapted from Tourism Malaysia, 2014, Facts and Figures

The tourism industry in Malaysia began with the establishment of Tourism Development Corporation in year 1972 (Rahman, 2006). Since, the Malaysia tourism industry performance has increased over the years and showed positive achievement (Kalsitinoor, 2013). The author added that Malaysia has a lot of unique features, natural resources and a multi-racial and multi-cultural society. The combination of them has been strengthening through tourism policies developed and implemented by the Malaysian government to develop successful competitive advantages for the Malaysia's tourism industry.

The Malaysian Government has already played a big role of planning, gearing and developing the tourism industry (Jaafar, Abdul-Aziz, Maideen, & Mohd, 2011). A study by Mazumder, Ahmed and Al-Amin, (2009) stated that the government has continuously assisted and planned value-added programs for tourism industry through specific tourism

initiatives. The implementation strategy has followed the five-year economic plan since the 2nd Malaysia Plan (1971 – 1975) until the recent 10th Malaysia Plan (2011 – 2015). The Malaysian National Tourism Policy (NTP) will change in line with the Malaysia Plan. The NTP was formulated in 1992 by the Ministry of Culture, Arts and Tourism Malaysia. This policy integrated essential guidelines and management practices for the tourism industry (Kalsitinoor, 2013). The policy emphasized on community-based tourism, coordination and cooperation in tourism development, identification of potential tourism assets and diversification of new products mix (Anowa, 2013). Table 1.2 shows the policy of the ministry in the 10th Malaysia plan.

Nowadays, knowledge management (KM) is seen as a critical driving factor for business success (Kuan, 2005). The author added that the organizations need to become more knowledge intensive and focused on hiring more ideas. KM implementation increases the value of knowledge. A study by Hasanali (2002) shows the result that KM creates a system that is easy to implement and many organizations are exploring the KM field in order to improve their organization to become more competitive and sustainable. Ignorance and oversight of the KM implementation will make the organization fail to realize the full benefit of KM.

However, a study by Hassan (2008) stressed that many organizations under the Malaysia's tourism industry are not implementing KM as a critical factor in the organizational work culture. The study pointed out the critical factor of KM construct in terms of information and communication technology (ICT) was not implemented wisely

in an organization. Normally, the organization's official websites are not attractive and do not give satisfaction to the customers in their effort to obtain some information about the organization. In addition, a study by Shahizan and Laith, (2013) stated that there is a lack of KM implementation in terms of human resource management (HRM) in an organization under the Malaysia's tourism industry. A HRM practice is a vital construct to ensure that employee work cultures in the organization become more comfortable and achieve a high organizational performance (OP).

Table 1.2
Policy of the Ministry

VISION
Developing Malaysia as a world-class tourist destination
MISSION
To work with all industry players to position the tourism industry as a catalyst for sustainable economic growth
NATIONAL TOURISM POLICY
To transform the national tourism industry into a major, sustainable, viable and quality sector that contributes to national development
OBJECTIVES
• To boost the contribution of the tourism sector to the national economy   • To empower the rural community through rural tourism activities   • To catalyze the development of 1Malaysia through tourism activities
FUNCTIONS
• To formulate a national tourism policy in order to achieve the vision, mission and objectives of the ministry   • To implement policies relating to the growth and development of the tourism industry
QUALITY POLICY
The Ministry of Tourism is committed to the delivery of quality tourism industry services to its customers in accordance with MS ISO 9001:2000.

Source: Adopted from Official Portal Ministry of Tourism and Culture Malaysia, 2014.

Thus, the researcher would like to point out that the implementation of KM is needed to support the Malaysia's tourism industry. According to Wey (2009), the implementation of KM considered as an important issue in various industries. In addition, a study by Wei (2006) shows significant KM implementation to improve innovation which reflects on the OP improvement. Hence, the implementation of KM in tourism industry is one of the best strategies to support the policy of the Malaysian tourism ministry. In relation to that, the OP of Malaysia's tourism industry will be increase.

Additionally, process innovation (PI) is also seen as a factor which can support to achieve a high OP in the Malaysia's tourism industry. According to Rajnish (2008), PI is the new implementation which has significantly improved production, delivery report and services. PI can be intended to increase the quality or product with decreased unit costs of production. Based on the current situation, the Malaysia's tourism industry faced challenges with the tourism industry from other ASEAN countries (Hilman & Kaliappe, 2015). Thus, the Malaysia's tourism industry needs to implement some innovation to ensure that tourism in Malaysia is better than others. The implementation of PI in Malaysia's tourism industry can change the tourism landscape. In addition, the Malaysia's tourism industry can show the world that Malaysia is the most exciting place and a valuable experience to visit.

From previous research, there are a few studies in the Malaysia's tourism industry which only focused on a few categories of tourism, namely, island tourism (Beh & Joel, 2013), small and medium enterprise tourism (Kalsitinoor, 2013), and healthcare tourism

(Heng, 2007). However, this study is about hotel tourism as a main source which focuses on hotels rated as three-star to five-star. There is still a lack of research in hotel tourism (Mazumder et al, 2009; Zakiah & Noorsalwati, 2012). Research on hotels rated as three-star to five-star views as one of the factor that can contribute to increased tourist arrival and receipts in the Malaysia's scenario. This study attempts to present a new dimension of landscape in Malaysian hotel tourism industry.

Based on statistic from *annual report 2015 industry performance-MOTAC (Ministry of Tourism and Culture)* show that there have 355 hotels rated as three-star to five-star were operating in Malaysia. From the 355 hotels, 142 hotels represent as hotel three-star rate, 110 hotels represent as hotel four-star rate and 103 hotels represent as hotel five-star rate. The determination of hotel rated as three-star to five-star as sample for this research because of convenience to find the information. Normally, hotel rated as three-star to five-star have their own official website for customers to obtain some information relating to the hotel. However, there is still have some hotel rated as three-star to five-star that do not have their own official website or their official website is to complicate to explore.

In addition, cooperation aspect also recognized as one of the reason in determination of hotel rated as three-star to five-star as research sample. Normally, hotel rated as three-star to five-star is easy to give cooperation because they have a systematic policy to face their customer. Every type hotel rated from three-star to five-star has their own strategy how to grab their customer needs and demands. Based on that, this study

only focusing on hotel rated as three-star to five-star as research sample. Besides, the decision on choosing hotel rated as three-star to five-star as a research sample also because of study by Alshourah (2012). The study stated that majority respondents are choosing hotel rated upper qualification for their preferences. In addition, the study also stresses that, hotel that have a high qualification provide a high impression to the customer and they know what the customer needs and demands.

Indeed, tourism industry is one of the contributors to the Malaysia economy. Thus, the researcher is determined to assess the impact of OP in relation to the relationship between the implementation of KM constructs and PI constructs. Hence, to ensure that the Malaysia's hotel tourism industry can emerge positively, the implementation of KM and PI in an organization should be emphasized. In this regard, the hotel tourism industry can be more competitive with the current situation and make the Malaysia economy stronger.

Based on that, this study conducted to identify the KM constructs, PI constructs and OP measures for the Malaysia's hotel tourism industry. Besides, the researcher develop a research model that explaining KM as an independent variable, OP as dependent variable and PI as mediating between KM and OP. Finally, this study show the summary of analyzes of the relationship between KM, PI and OP measures for the Malaysia's hotel tourism industry. Therefore, the researcher hopes that this study will give some advantages to the hotel participant. This study can be used as reference material in the future to make improvements to the organization's management system.

Furthermore, leadership party from each hotel organization can used the result of this study to give some value added to their organization to ensure that they get a high volume receipt of customer.

1.2   Problem Statement

The tourism expansion is one of the important determinants of economic growth (Dayang, Dayang & Salbiah, 2012). The Malaysia's hotel tourism industry was growth attributed mainly to the increase in tourist arrivals. Tourism is an activity that has grew terrifically over the years as a source of revenue to the country. Tourism sector is one of the important generators of national wealth and employment creation and contributed as the economic engine for developed and developing economies worldwide (World Tourism Organization, 2017). This study can provide some important point to government on the causal relationship between the selected variables. By knowing the relationship, the government able to design appropriate policy that can improve tourism sector. In order to maintain outstanding contribution of tourist arrivals towards hotels industry in Malaysia. The policy makers should adopt and establish the policy guidelines such as establishment of a good hotels infrastructure for the development of the hotels industry. For instance, give more attention on hotel services so that the tourists become more comfortable.

In the tourism industry, the demand for KM implementation and PI implementation is needed to measures the OP (Hilman & Kaliappen, 2014). The author added that, KM implementation is a vital element to ensure the successful of achieving the OP. However, PI implementation is supportive element to support the KM implementation in achieving a better OP. Therefore, OP will achieve higher when require that the measurement to get obtain of it. The core require OP is the existence of the hotel services. Despites being demanding, there is still considerable confusing surrounding the effect of OP on the KM implementation and PI implementation. A review of the literature recognized, there is still lack of study on the KM, PI and OP especially in the hotel tourism industry (Zakiah & Noorsalwati, 2012).

From previous years, positive achievement in the Malaysia's hotel tourism industry can be seen until now. However, there is still lagging behind in KM implementation (Laith & Shahizan, 2013). The author added that, in the era of globalization, KM construct in terms of ICT is important in e-commerce to ensure of achieving a better OP in hotel tourism industry. In Malaysia, many of the hotel organizations still do not have their own websites especially hotels rated as three-star accommodation. To be more competitive, the hotel organization should be more proactive and moving forward. According to Aziz, Musa and Sulaiman (2010), in order to present an outstanding website and gain a lot of competitive advantage, the hotel organization should know the most significant factor which influences the user to surf the website. A superior website has an advantage to achieve a better OP.

In addition, there are a few KM constructs which have not been implemented wisely into the organizations in the Malaysia's hotel tourism industry. A study by Shahizan and Laith (2011) found that the implementation of KM construct in terms of HRM is a vital practice which supports the organization to achieve an OP. However, many of the hotel organizations do not implement HRM practice in their work culture. Normally, these problems are significant with the leadership (LP), organizational culture (OC) and informational and communication technology (ICT) in the organization. The KM constructs should present relevant strategies to ensure their organization can achieve the organizational objective. Laith and Shahizan (2013) stated that the KM constructs in term of LP, HRM, OC and ICT are a responsible group which works to ensure the organization objective is achieved by creating the knowledge vision and communicating with the vision.

According to Hashim, Habidin, Conding, Zubir and Jaya (2013), innovation can be described as the lifeblood in the organization which is vital in order to survive in the global markets and achieve a successful OP. Normally, innovation implementation involves huge investments to be successful. It includes the costs for importing expert workers, buying new equipment and machines and providing training to the employees. However, PI constructs in terms of incremental process innovation (IPI) do not involve huge investment but can effect of the achieve a better OP (Kim & Suh, 2011). Thus, the implementation of innovation from PI constructs is available to be applied in any organization to achieve OP.

In line with this problem statement, this study was undertaken to fulfill the existing gap of KM implementation and PI implementation by examining the relationship between KM constructs, PI constructs and OP in the Malaysia's hotel tourism industry. Additionally, this study also assists the industry throughout with a systematic model of KM, PI and OP. The researcher chooses KM, PI and OP as a model because these models are more comparative and comprehensive for achieving a high volume of tourist arrival. At the same time, hotel organizations can improve their quality management, service management, innovation performance and organization measurement.

1.3   Research Questions

Four research questions to be addressed during this research as follow:

1. Does KM contribute to OP in the Malaysia's hotel tourism industry?

2. Does KM contribute to PI in the Malaysia's hotel tourism industry?

3. Does PI contribute to OP in the Malaysia's hotel tourism industry?

4. Does OP affect the relationship between KM and PI in the Malaysia's hotel tourism industry?