

## **The Roles Of Auxiliary Players In Health Tourism Industry In Penang, Malaysia**

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*The main players of the drama in health tourism industry have always being acknowledgement said the medical service providers and health seeking tourists. Most of the credits have been directly taken by these groups. The success of health tourism industry in a location practically does rely on its supporting players in the industry's supply chain. The objective of this paper is to introduce the critical roles played by the supporting activities in the health tourism industry. In addition, it is also to facilitate the formulation of recommended interventions to develop the competitiveness of each of the identified roles the players. The Value Chain Analysis (VCA) will be applied in this research paper as a methodology for the systematic competitiveness analysis of enterprises and local industries. All relevant activities and processes will be examined and sorted out which have a critical relevance to improve the competitiveness in health tourism industry. The application of VCA in the health tourism industry has a clear objective in mind that is to introduce roles of processes and elements in the production of health tourism services of the supporting players. The importance of VCA is also indicates the critical phase in the process of producing best services. Details observation will also be conducted with the local entrepreneurs in Penang, as chosen to be the case study of this research paper. Initial findings show that the local entrepreneurs in Penang are adapting well to compete in the industry and being innovative in different ways.*

**Key words:** medical tourism, value chain analysis, tourism industry, competitive advantage, innovation

### **Introduction**

Tourism is an attractive tool for economic development, for both developed and developing countries. Tourism is stimulating the world's economy, as it being a strategically important sector for economic growth. It can play a critical role in reaching the goals of every countries in the world. According to Research EU Focus (2008), tourism represents almost 11% of European Union's GDP, providing approximately 12% of the labour force, and a significant growth potential. Tourism is particularly important when it comes to offering job opportunities to young people, who represent twice as much of the labour force in tourism than in the rest of the economy (CORDIS, 2008). Employment growth in the tourism sector has been

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significantly higher than in other economic sector in recent years. The importance of tourism in the EU economy is likely to continue to increase with the expected annual growth rate above 3 % in the coming years (Tourism Satellite Accounting Regional Reports, European Union 2007, World Travel and Tourism Council, London, United Kingdom). The main objective of this paper is to show the existence and also to introduce the importance of the roles of auxiliary players in health tourism industry.

Generally, health tourism being classified under this huge industry as it is an important source of income for most of the countries in the world. Health tourism, sometimes referred to as medical tourism, is broadly defined as people travelling from their place of residence for health reasons (I Aniza et al. 2009). Health tourism has been made possible and extremely affordable in the last few decades as a result of globalization. This phenomenon proves that globalization is no longer limited to manufacturing because the provision of health services will also eventually transcend national barriers (Farrugia, 2006). Hence, the business of medical travel is very promising and more than 130 countries worldwide are competing for a pie of this global business. Promoting Penang as Medical City of the Region of Indonesia, Malaysia and Thailand-Growth Triangle (IMT-GT) is the holistic plan to set its name in the world. Penang envisage the objectives of providing quality healthcare that is affordable for all segments of the market and capable to look into the comfort and needs of tourist patients and their families. As a result, Penang was chosen as the case study for this paper.

In comprehending these objectives, the application of value chain analysis in the tourism subsector has the roles to play. The term 'Value Chain' was used by Michael Porter in his book "Competitive Advantage: Creating and Sustaining superior Performance" (1985). The value chain analysis describes the activities the organization performs and links them to the organizations competitive position. It is the objective of this paper to explore the introductory of the value chain analysis towards Penang's health tourism. In the chain itself, there are many auxiliary players that involved in the health tourism which will be described in the paper.

## **Health Tourism In Malaysia**

Medical tourism in Penang is one of the best options available to people within IMT-GT which was formed in 1993 to speed up economic transformation within the sphere of 14 provinces in southern Thailand, 8 states of Peninsular Malaysia and 10 provinces of Sumatra in Indonesia (IMT-GT, 2012). Millions come every year to get treated and then enjoy their recuperative holidays across Penang. People from different walks of life cut across the entire span of the IMT-GT to come to Penang to have their treatments done with a peace of mind. Penang provides world class medical facilities with hospitals and specialized multi specialty health centres providing their expertise in the areas of cosmetic surgery, dental care, heart surgeries, coronary by-pass, heart check up, valve replacements, knee replacements, eye surgeries, Chinese traditional treatments like acupuncture therapies and much more, practically covering every aspect of medicine combining modern treatments with traditional experience.

With Penang having captured 57% of the medical tourism receipts for Malaysia in 2009 and 66% in 2010, the state government is aiming to develop and promote the state as a medical city in the region (InvestPenang, 2012). The primary reasons as to why medical tourism would flourish in Penang include much lower medical costs for various ailments such as by-pass surgery, knee surgery and full medical check-up as compared to other places. As a result of higher and very

expensive medical costs in the western countries, patients from countries within IMT-GT region and various Asian countries have started exploring medical treatment in hospitals on the basis of economies of scale in Penang because its medical infrastructure has geared up to provide them non-subsidized medical treatment at comparatively much lower costs. It is from here that the competitive advantage of Penang establishes.



Source: Indonesia-Malaysia-Thailand Growth Triangle, [www.imtgt.org](http://www.imtgt.org)

### **Rivalry Within The Region**

Thailand is one of the giants in this industry because its government has promoted Thailand as the “Health Tourism Hub of Asia”, “Wellness Capital of Asia”, and “Thai Herbs for Health” to become health service centre in the Southeast Asian Region by 2010 (The Star, 2008). In 2004, Thailand embarked on a five-year strategic plan to establish Thailand as “Centre of Excellent Health of Asia”. The plan focuses on three key areas: medical services, healthcare services and Thai herbal products. The three leading products under the “Healthcare Services” category are health spas, traditional Thai massage, and long stay healthcare products and services. For health care the target is to raise the number of foreigners seeking medical treatment in Thailand’s hospitals from 970,000 persons treated in 2003 to two million by 2010, and total income of Baht 19,000 million to Baht 80,000 million (USD 605 million to USD 2.6 billion) (The Star, 2008).

Medical tourism in Singapore is not new. In 1997, Singapore was already receiving 370,000 healthcare visitors, which increased to 410,000 in 2006. The country spends less than four percent of GDP on healthcare but yet was ranked the best healthcare system in Asia by the World Health Organizations and has more Joint Commission International (JCI) –accredited facilities than any other country in Asia.

The hospitals in Singapore are extremely well equipped and are staffed by highly qualified doctors, many of them with international qualifications. One well known case demonstrating the expertise of Singapore doctors is when in April 2001 Singapore doctors successfully separated Nepalese twins, Ganga and Jamuna, who were joined at the head in a 90-hour operation. This has put Singapore medical expertise in the world headlines (The Star, 2008).

### The Basic of Industry Value Chain

Value chain analysis describes the activities within and around an organization, and relates them to an analysis of the competitive strength of the organization. Therefore, it evaluates which value each particular activity adds to the organizations products or services. This idea was built upon the insight that an organization is more than a random compilation of machinery, equipment, people and money. Only if these things are arranged into systems and systematic activates it will become possible to produce something for which customers are willing to pay a price. Porter (1985) argues that the ability to perform particular activities and to manage the linkages between these activities is a source of competitive advantage. He distinguished between primary activities and auxiliary activities where primary activities are directly concerned with the creation or delivery of a product or service. They can be grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service. Each of these primary activities is linked to auxiliary activities which help to improve their effectiveness or efficiency. There are four main areas of auxiliary activities: procurement, technology development (including R&D), human resource management, and infrastructure (systems for planning, finance, quality, information management etc.) (Porter, 1985).

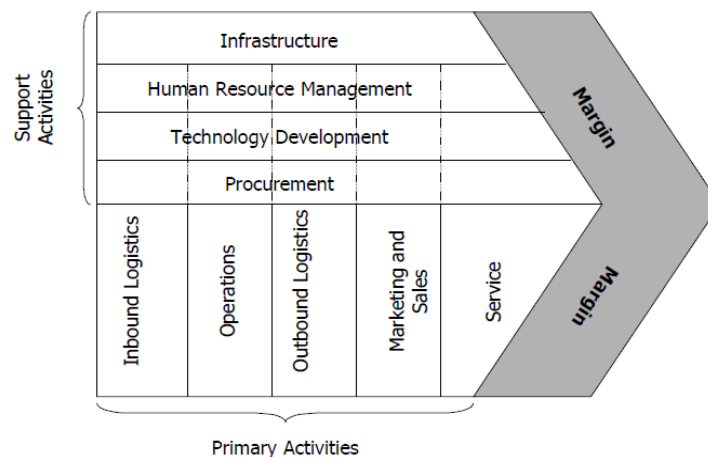


Figure 1 : The Basic Model Of Porters Value Chain Is As Follows

Source: Porter, M. (1985), *Competitive Advantage: Creating and Sustaining Superior Performance*, The Free Press, New York

The term ‘Margin’ implies that organizations realize a profit margin that depends on their ability to manage the linkages between all activities in the value chain. In other words, the organization is able to deliver a product / service for which the customer is willing to pay more than the sum of the costs of all activities in the value chain (Porter, 1985). The same goes to health tourism industry whenever the

patient-tourist coming in for treatment, the margin of each activity will be gained respectively.

The linkages are crucial for industry success. The linkages are flows of information, goods and services, as well as systems and processes for adjusting activities. Their importance is best illustrated with some simple examples: Only if the Marketing & Sales function delivers patients forecasts for the next period to all other departments in time and in reliable accuracy, medical departments will be able to arrange nurses and necessary material for the correct date. And only if front office does a good job and forwards patients' information to respective clinics, only then operations will be able to schedule treatment in a way that guarantees the delivery of services in a timely and effective manner – as pre-determined by marketing. In the result, the linkages are about seamless cooperation and information flow between the value chain activities.

In most industries, it is rather unusual that a single company performs all activities from product design, production of components, and final assembly to delivery to the final user by itself. Most often, organizations are elements of a value system or supply chain. Hence, value chain analysis should cover the whole value system in which the organization operates. This is also applies in health tourism industry.

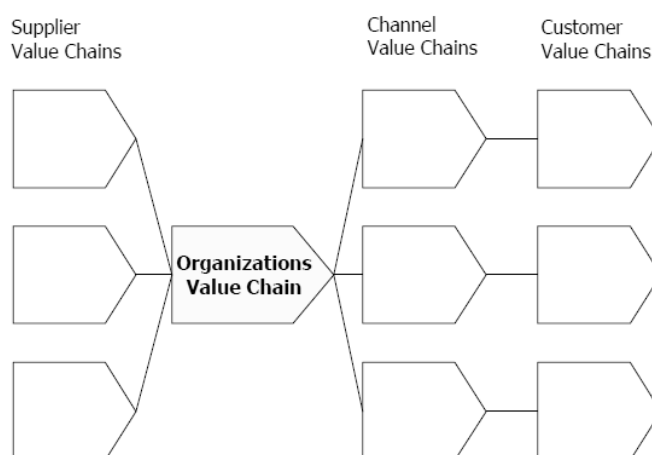


Figure 2 : Value Chain Analysis

Source: Porter, M. (1985), *Competitive Advantage: Creating and Sustaining Superior Performance*, The Free Press, New York

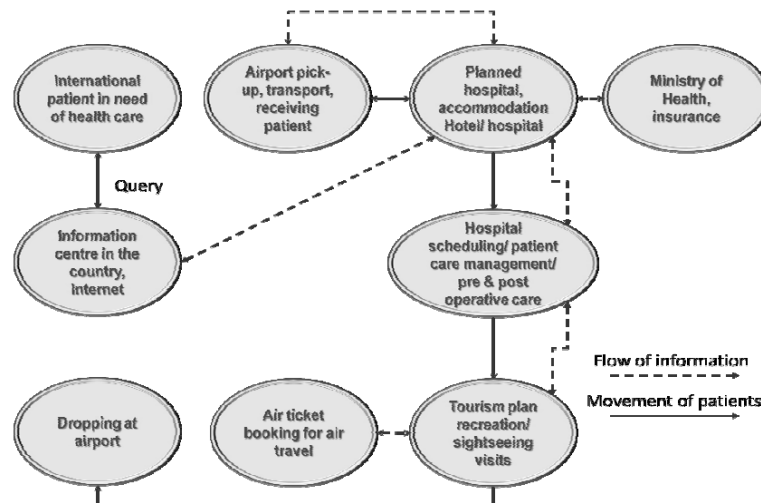
Within the whole value system, there is only a certain value of profit margin available. This is the difference of the final price the customer pays and the sum of all costs incurred with the production and delivery of the product/service (e.g. raw material, energy etc.). It depends on the structure of the value system, how this margin spreads across the suppliers, producers, distributors, customers, and other elements of the value system. Each member of the system will use its market position and negotiating power to get a higher proportion of this margin. Nevertheless, members of a value system can cooperate to improve their efficiency and to reduce their costs in order to achieve a higher total margin to the benefit of all of them (e.g. by reducing service lead-time in a Just-In-Time system). A typical value chain analysis can be performed in the following steps:

1. Analysis of own value chain – which costs are related to every single activity
2. Analysis of customers value chains – how does our product fit into their value chain

3. Identification of potential cost advantages in comparison with competitors
4. Identification of potential value added for the customer – how can our product add value to the customers value chain (e.g. lower costs or higher performance) – where does the customer see such potential

### **Value Chain and Auxiliary Players for Health Tourism in Penang**

Acharyulu and Reddy (2004) conceptualized value chain for an international patient as following:



Adapted from Acharyulu and Reddy (2004)

Source: Porter Acharyulu, G. R., & Reddy, B. K. (2004). Hospital logistics strategy for medical tourism. *Supply Chain Seminar: An International Conference on Logistics*. Brisbane: Queensland University of Technology.

According to Prakash M., Tyagi N. and Devrath R. (2011), medical travel operators can be broadly classified into two groups. First, there are medical service providers such as hospitals and specialist centres. Hospitals that actively attract international patients are not involved only in the medical procedure itself, but are, in many cases, also responsible for all patient logistics from arrival to departure. Often the hospitals' involvement starts before arrival with the processing of the visa requirements and ends only after departure with patient follow up. The second group consists of medical travel facilitators who function like local agents and associated service providers. These are often smaller companies with just a few people on their payroll and most of them have spread their risk by dealing with hospitals and clinics in a number of different countries particularly Indonesia, Thailand, Cambodia, Philippines and Vietnam. Those medical travel agents which are dealing exclusively with hospitals of only one country or region are exposed to the same risks as the hospitals with which they work. These facilitators offer Penang's health-care options that will enable international patients, primarily from source countries to access local health care at fraction of the cost of domestic care or shorter wait time. By selling a type of medical value travel, they focus particularly on the self-insured patient. Some companies charge clients a flat rate commission or a percentage of the total cost of care. Others do not directly charge customers, but are paid by the hospitals to which their clients travel for treatment. The companies typically provide experienced nurse care managers to assist patients with pre and post procedure medical issues. They also

help provide resources for follow-up care upon the patient's return. Medical travel packages can include all costs associated with medical care, air and ground transportation, hotel accommodation, provision of a cell phone in the destination country for ease of communication, practical assistance from a local company representative at the health-care facility, travel arrangements for a companion, stays in nearby resorts during the post-operative recovery period and vacation to tourist destinations.

Table 1: List of Penang's specialist centres visited by medical tourists in 2011

Name of medical centre	Total numbers of medical tourist
Pantai Mutiara Hospital	333,000 people
Lam Wah Ee Hospital	
Mount Mariam Cancer Hospital	
Loh Guan Lye Specialist Centre	
Gleneagles Hospital	
Penang Adventist Hospital	
Island Hospital	

Source: The Star Newspaper: Penang tops list for medical tourism, 2012, viewed 5 October 2012,

<http://thestar.com.my/news/story.asp?file=/2012/10/5/nation/12125673&sec=nation>

On the other hand, there are small-medium enterprises that are operating along benefiting while playing their roles in the industry in Penang. It has been a trend in Georgetown with the mushrooming of new lodging inns which are designed in the way to suit the theme of heritage zone. This player does the accommodation roles for family and friends when they accompany the foreign patient to Penang. Others activities involve are laundry services, local limousines, nursing homes, tour guide agencies and many others.

## **Conclusion and Recommendations**

Value chain with the auxiliary players playing their part has made health tourism possible and continues to flourish. In the ASEAN region, Malaysia is making a mark in the health tourism industry (I Aniza et al. 2009), thanks to the availability of value chain practices that bring in medical and technical expertise, political and economical stability, high quality infrastructure, and scenic beauty of the land. Nonetheless, despite all these, Malaysia has yet to be at par with her neighbours - Thailand, Singapore and India, in terms of the number of foreign patients and the revenue gained from this industry.

As a first step, it is recommended to intensify the discussion and to involve other relevant partners in Penang and, if needed, also from elsewhere. A broad debate is necessary to identify products, strategic options, partnerships and a step-by-step approach. Furthermore, it is recommended to gain firsthand experience from best practice in Malaysia and abroad. This also includes to actively seeking information, knowledge and partners to further professionalize stakeholders.

The next step should put the emphasis on bringing together suppliers and operators to jointly engage in extending the limited health tourism offer and to better commercialise it. External expertise could contribute in bringing in innovative services concepts and sensitize on quality improvement. It is also recommended to

initiate roundtable meetings in the field of healthcare resort construction and operation.

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