TRANSPARENCY AND HALAL PROCUREMENT IN THE HOTEL INDUSTRY

Sara Shakira Shari (a)*, Muzairihana Md Moid (b), Kamisah Supian (c), Nurul Syafiqah Hirman (d)
*Corresponding author

(a) Faculty of Business and Accountancy, Universiti Selangor, Shah Alam, Malaysia, sarashakira.shari@gmail.com
(b) Faculty of Business and Accountancy, Universiti Selangor, Shah Alam, Malaysia, hana84@unisel.edu.my
(c) Faculty of Business and Accountancy, Universiti Selangor, Shah Alam, Malaysia, kamisah@unisel.edu.my
(d) Faculty of Business and Accountancy, Universiti Selangor, Shah Alam, Malaysia, nsyafiqahhirman@gmail.com

Abstract

The demand for the halal industry is increasing each year across the globe. Businesses are actively improving their understanding of halal products and practices in meeting this demand. As one of the highest contributors to the country’s economic development, the hotel industry is not left to grab this opportunity. One of the broadest sections of the halal sector is food supply chains, focusing on halal risk management, halal integrity, halal logistics, and halal warehousing. However, the study on transparency in the halal supply chain is minimal, whereas the existing research mainly focuses on traceability. Even though transparency and traceability are intimately related, there is a major difference in properly executing halal procurement. This paper discusses the understanding of transparency, the impact of transparency in halal procurement, and management’s role in practising transparency. This conceptual study was based on the comprehensive literature review of the most recent available research on transparency and halal procurement. The findings provide societal value by guiding the hotel industry or businesses to adequately implement the halal practices according to Shariah compliance, resulting in better overall services, thus recommending transparency practices in halal procurement policy. Further empirical research should be conducted in testing the relationship between transparency and halal procurement.

Keywords: Halal procurement, hotel industry, transparency
1. Introduction

Tourism is categorised as one of the world’s largest and most dynamic industries that act as a major contributor to employment and economic growth. The requirement of interacting with other industries they engage in leads tourism to produce a compounding effect (Mueller & Sensini, 2021). Hotel is one of the subsidiaries of the tourism industry, where the demand has increased significantly over the years (Jeaheng et al., 2020). In 2019, the international hotel business generated US$570 billion globally (Condor Ferries, 2021). Despite that, the hotel industry faced challenges worldwide that included inconsistency in supply and demand, reduction in occupancy rates, high competition (Balasubramanian & Ragavan, 2019) and environmental and economic uncertainties (Mat et al., 2020). In addition to room income, revenue from food and beverage (F&B) has been observed. The revenue of F&B is the primary driver of RevPAR (revenue per available room) and is one of the marketing tools to maintain a high level of profitability (Jitpakdee et al., 2017).

As the industry becomes more competitive, halal emerges as a central operational strategy and customer-oriented business model. Since halal requirements for products and services are strict, the risk of contamination is minimised, making halal products more attractive (Khan et al., 2021). The vulnerability of halal products and services has caused businesses to implement total risk management. Where transparency, through traceability, is the focus. Despite both transparency and traceability being indistinguishable, some aspects of transparency should be considered in implementing halal practices appropriately (Hamdan et al., 2018).

1.1. Procurement in Hotel Industry

Procurement has long been the object of criticism. The absence of purchasing has resulted in unreasonable and prejudiced decisions that negatively impacted everyone (Kakwezi & Nyeko, 2019). However, the increasing realisation of procurement’s importance led businesses to actively improve procurement performance efficiency in their company. With this demand, the study in procurement is increasing starting mid-2000s (Hong et al., 2018). Some of the dimensions that are being discussed were procurement risk management (Hong et al., 2018), green and sustainable procurement (Song et al., 2017), and most discussed were on e-procurement (Kumar & Ganguly, 2020).

Procurement is a complex set of processes designed to obtain resources, including materials, people, equipment, and facilities, to enable the company to conduct its core business activities (Hong et al., 2018). Even though service supply chains, including those in the hospitality industry, continue to expand, they are contending with several issues that may limit their progress (Al-aomar & Hussain, 2017). The specifications of hotel materials have a significant effect on how procurement channels are selected. The key variables that differ by hotel material and supply type are perishability, standardisation, and cost (Jitpakdee et al., 2017). Purchasing food usually involves a tender process in acquiring it, whether in the public, private, or third sector (Sumner & Stahlbrand, 2019). Therefore, procurement has a critical role in the hospitality industry. It allows companies to manage their supply chains, integrate suppliers, and maximise cost efficiency, which helps keep the companies ahead of their competitors (Daghfous & Belkhodja, 2019).
1.2. Halal Procurement

Procuring halal raw materials is done by getting involved in the halal supply chain, which includes ensuring the integrity of the halal supply chain. Halal raw materials are evaluated from the halal products, covering sources and payment systems (Hasan, 2021). It aims to ensure that Islamic standards of ethical business conduct are applied throughout the supply chain and to the end consumer. Supply chain networks are used to produce Halal products, in which the flow of raw materials, finished products, information, and finance is jointly planned, implemented, and controlled (Perdana, 2020). Figure 1 exhibits the cycle of halal procurement, where each step is built on robust halal risk and reputation management (The Halal Times, 2021).

In general, halal procurement is referred to as conventional procurement with the element of shariah, where every step of the procurement practices was done according to Islamic law. It also implements the methods of Islamic financing and assurance (Maman et al., 2017). Halal procurement targets the procuring of halal-certified items. Still, it also deals with the conventional approach’s lack of ethical and sustainable supply chains, especially transparency (Talib & Sakalayen, 2020). Since halal sourcing, production and supply chain management are heavily reliant on halal purchasing, ensuring the robustness of procurement function is crucial. The top management and purchasing department are responsible for following a halal procurement strategy (Tieman et al., 2020). Talib and Sakalayen (2020) study discussed the Halal Supply Chain (HSC) and Islamic finance limitation. Conversely, this study provides a brief insight into the link between HSC and Islamic finance. They argued that the significance of Islamic finance should never be overlooked, and the use of Islamic finance principles and methods in transactions across the halal supply chain is recommended.

![Figure 1. Procurement Cycle (The Halal Times, 2021)](https://example.com/image.png)
2. Problem Statement

The increasing demand for halal products and services has pushed businesses in implementing several halal accredited systems. This institutional pressure puts firms at risk of finding equilibrium between the complicated motivations and tensions that arise and addresses the many halal supply chain issues and problems (Rasi et al., 2017). Hotels across the globe are competing extensively due to the oversupply of hotels. Having a competitive advantage will improve the performance of a company. Existing literature found that a company’s performance can be increased through halal (Ridha & Hidayat, 2020). In addition, consumers and stakeholders pressure businesses to share more information about their supply chains, and the reputational cost of not doing so is considerable. A study by Bateman and Bonanni (2019) mentioned that companies must comply with requests for information regarding the supply chain’s material and sources. Therefore, this paper highlights transparency as the main consideration for halal procurement. Previous literature suggested that products and services can uphold the concept of halalan toyyiban by implementing transparency (Alzeer et al., 2020).

Nonetheless, researchers have neglected to explore how greater transparency in the halal supply chain could be achieved. Most halal supply chain studies focused on managing traceability from manufacturing halal products to reaching consumers (Lee et al., 2019). Thus, this study was aimed to focus on the relationship between transparency and halal procurement. The increasing interest in the concept of halal procurement and demand towards transparency practice make this study to be relevant.

3. Research Questions

In addressing the research gap, this paper examines existing literature and the possible relationship between transparency and halal procurement. Based on the problem discussed in the previous section, this study targeted to explore on below questions:

i. What are the elements of transparency practices in halal procurement?
ii. What is the relationship between transparency and halal procurement?
iii. Does management play a vital role in practising transparency?

4. Purpose of the Study

This paper discusses the concept and elements of transparency, its impact on halal procurement, and the role of management in practising transparency. Evaluating those variables allows businesses to properly understand the importance of transparency and halal procurement and guide them in implementing those practices.

5. Research Methods

This study adopts a literature research approach to understand the existing literature better. Google Scholar was used as the reference database to comprehensively find halal procurement and transparency subjects. Google Scholar has recently acquired a lot of attention as an open-access transdisciplinary citation database and a tool for scientific measurement and researchers to identify scholarly literature.
Existing literature stressed Google Scholar’s ability to serve as a primary resource for a systematic review of material (Eksan, 2020). Wolfski et al. (2017) stated that investigating a new topic that will likely benefit from theoretical exposure requires a literature review in several situations. The author’s input would stem from developing a conceptual model based on new theoretical foundations.

6. Findings

6.1. Transparency

Transparency is always associated with data information. In general, it is defined as information availability among parties involved. Transparent businesses can be internally aware of their due diligence and externally demonstrate it (Gardner et al., 2019). Civil society has a shared belief that transparency is a good thing. The widespread use of transparency in recent codes of conduct and best practices mirrors its importance. People generally believe that transparency helps people gain access to more information, and they assume that this enables them to make higher quality decisions better (Davis & Hanich, 2020). Over the years, the study on transparency has been increasingly explored due to its ability to provide performance benefits to businesses by improving cross-business interaction and cooperation (Zhu et al., 2018) and promoting sustainability (Brun et al., 2020). According to Ahmad and Rusdianto (2020), as transparency refers to confidence in information discovered, three elements need to be considered: disclosure, clarity, and accuracy. In addition, the Organization for Economic Co-operation and Development (OECD) has highlighted transparency as one of the 10 characteristics that underpin procurement integrity (Quiroga et al., 2021).

All participating companies and partners need to be across the supply network to guarantee effective supply chain transparency. Since there is little transparency in the supply chain regarding sustainability information, customers cannot fully understand product or service attributes, for example, food safety (Bai & Sarkis, 2020). In food and beverages, the existing practice of non-transparent procurement posed a serious issue. Various health-related concerns arise due to the non-transparent supply chain practices, such as the UK horsemeat scandal in 2013 (Astill et al., 2019), the melamine-milk scandal in China (Sun & Wang, 2019), and the latest one, Malaysia fake halal meat scandal 2020 (Ruzulan et al., 2021). In comprehensively discussing transparency practices, this paper proposes three elements of transparency that can be considered: tender practice, Islamic finance, and e-procurement.

6.1.1. Tender

A large proportion of the economy consists of business-to-business markets, but they are often vague. The negotiation of contracts with multiple buyers is standard practice. Each buyer may pay a different price due to the lack of information about other buyers’ deals. The entry of information intermediaries, who assist with buyers’ price benchmarking abilities, has been observed in numerous business-to-business markets (Grennan & Swanson, 2020). Transparency simply cannot be comprehended as disclosure; it also involves having well-processed and understood information (Mabillard & Zumofen, 2020). Procurement culture is institutionalised as business-as-usual behaviour, and tendering has become a nearly un-changeable discourse. This argument holds that tendering is
preferable to other forms of purchasing. The transparency of bidding is touted as one of the most significant advantages. The buyers in the tendering process are attempting to expand their endorsed and credentialed supplier lists. It is done to save money, which people often think is only found within the company and not in their business relationships (Engelseth et al., 2017). The tender process includes negotiating activities, allowing businesses to have more reliable procurement practices. An open book environment was developed due to negotiated procurement, where the suppliers and purchasers could see and trust each other. Proper adjudication of tender applications facilitated transparent two-way knowledge transfer to ensure that all parties had full and equal access to information (Ellis et al., 2021).

According to Rashid et al. (2017), tendering processes that comply with shariah include the forbidden acts of hoarding and middle person roles in a scheme to defraud customers or inflate prices as it is deemed unethical. Besides, gambling, market manipulation, and harmful speculation are prohibited because they possess the element of uncertainty. It is important to avoid the use of monopolies in business transactions. In complying with the shariah-based tendering process, businesses must always respect the values of honesty, ethics, integrity, and accountability. The practice of tendering in procurement allows companies to have an open relationship between buyer and supplier, thus improving trust (Ellis et al., 2021).

6.1.2. Islamic Finance

Rather than being profit-motivated, Islamic finance serves the greater social good (Baber, 2019). Islamic finance refers to the use of Islamic law to govern financial activities. Islamic finance’s main characteristic is the prohibition of interest (commonly known as riba) (Sekreter, 2018). The Islamic financial market is still quite young and is only in the early stages of development. The resulting rise in competitors has made it difficult for all of them to compete for the larger share of the market. The Islamic Finance Development reported that the total value of the Islamic finance market grew to US$ 2.4 trillion in 2018, a 3% increase over the previous year (Hassan et al., 2020). Alam et al. (2019) mention that the importance of transparency, disclosure and strict implementation of Shariah principles grows when Islamic principles are implemented.

A study conducted by Saad and Abd Rahman (2018) stated that the halal industry might be jeopardised should shariah governance are not implemented. This is because of Islamic finance’s fundamental values, including rigorous corporate governance, transparency, and adherence to Islamic law. Besides, according to shariah practices, gharar (uncertainty), riba (charging of interest), and maysir (gambling) must be eliminated from all forecasting, procurement, and sourcing in the supply chain (Saad & Abd Rahman, 2018). Risk sharing and a clear, measurable outcome are key components of collaboration, which is essential in the Shariah administration (Talib & Sakalayen, 2020). In addition, any form of fraud, corruption, and ignorance, along with any information presented inaccurately, is avoided under the ban of gharar. Therefore, the practices of Islamic finance will lower uncertainty as it disallows any information ambiguity and limited information, which will improve business efficiency (Alahouel & Loukil, 2021).
6.1.3. E-Procurement

The objective of the hotel purchasing management system is to utilise information technology in the purchasing process as efficiently as possible. Electronic purchasing via the internet improves productivity, lowers costs, and streamlines operational activities, shifting from manual to electronic (Awadallah & Saad, 2017). Electronic procurement or e-procurement has become more popular worldwide, and the spread of technology has helped this. Organisations in different industries use e-procurement to improve purchasing or supply management efficiency and cut costs. E-procurement is the term used to describe a business-to-business purchasing method that helps identify supply sources, purchase goods and services, transfer payment, and communicate with suppliers. In addition, e-procurement allows businesses to practise transparency by providing trackable transactions and activities in the supply chain (Rabbani et al., 2020).

The importance and benefits of e-procurement are widely discussed. However, Ibrahim et al. (2020) study shows that the hotel industry is still behind in adopting e-procurement. The practises of e-procurement allow all aspects of halal food supply chain management, from procurement to production to sales and distribution, can be integrated into one place. Software or system can keep track of halal compliance throughout the entire food supply chain. Customers looking for halal food or services will appreciate this system because it keeps halal integrity intact and provides customer satisfaction (Zahra et al., 2019). Besides, a study conducted in Kenya focusing on 5-star hotels found that e-procurement transparency makes it easier to manage fraud cases. It is easier to manage and get information from electronic procurement documents because e-procurement makes it faster and more efficient. Organisations that want to stay competitive and improve procurement practices should accept e-procurement (Rahman et al., 2019).

6.2. Managerial Role

The manager role in this paper refers to manager capabilities in implementing transparency practices. Managers play a crucial role in developing, structuring, and organising resources that maximise advantage (Ilyas et al., 2020). Every manager on the supply chain, from bottom to top, can observe and learn from its various practices. Roespinoedji et al. (2019) refer to top management as establishing arrangements to aid in the growth and improvement of a business. Top management’s decisions and commitments play a key role because they significantly affect the entire process, from resource acquisition to resource development, which has a knock-on effect on policy and practice (Ilyas et al., 2020). Despite the importance, few studies concluded that top management is not involved enough, making the implementing policy and procedure hard to achieve (Ahmad et al., 2017).

6.3. Transparency and Halal Procurement

Both transparency and Halal procurement provide significant advantages to businesses in all sectors. The connection between transparency and halal procurement is access through information sharing (Sofyani et al., 2020). A study by Beer et al. (2021) provides significant information for companies planning to implement transparency initiatives in their procurement processes. The research
found that a company can avoid overspending practices in their procurement practice through transparency, indirectly improving business performance. Previous studies found that the lack of transparency in companies will reduce procurement efficiency (Kumar & Ganguly, 2020). A key component of procurement policy and legislation is transparency. As a result of the equality principle, all bidders in public procurement processes must submit and evaluate their offers under identical conditions. Equal and sufficient information on the contract’s aim must be provided to both parties. As a result, the idea of transparency is often incorporated into this principle (Georgieva, 2017). Transparency has been proven to be one of the finest anti-corruption in procurement practices (Cesi & Di Natale, 2019). Through the practices of tender, Islamic finance and e-procurement, the impact of transparency towards halal procurement can be strengthened.

H1: The implementation of transparency has a significant impact on halal procurement.

6.4. Managerial Role and Transparency

Senior management should devote enough time and effort to ensure that openness is broadly understood. The executive management team sets the company’s goals and vision. Changes in processes and organisational structure and policies and strategies to implement transparency should also be brought together. Senior management support is crucial in fostering a supportive environment and providing businesses with resources (Masudin et al., 2021). The previous study had shown that transparency provides a beneficial influence on a company’s performance (Zhu et al., 2018). Success in any strategic programme requires the full support and dedication of the company’s top management. Strategy, action plans, and the successful execution of transparency depend on senior management support (Khan et al., 2019). The usage of the electronic platform has been seen as a way of increasing transparency. The ability of a company to successfully embrace or execute new services or practices depends heavily on the backing of the company’s senior management. Therefore, it is reasonable to assume that openness to technology adoption is beneficial primarily as top management support impacts the practices (Hsu et al., 2019).

H2: The manager role has a significant effect on the implementation of transparency.

7. Conclusion

The demand for transparent businesses is increasing, and fulfilling this demand, will increase trust and attract customers. Besides, the implementation of halal procurement may improve business performance. The halal practices had been proven to boost the company’s efficiency, which resulted in better performance. With the proper understanding and practices of transparency, it could assist businesses in implementing halal procurement and indirectly improve business performance. Top management plays a crucial role in ensuring transparency practices are practised in the organisation. However, this study does have certain flaws, where it relied solely on the electronic database Google Scholar, which may not have covered all Halal procurement and transparency papers. The theoretical aspect of the study may limit its application in practise. Despite that, this literature review can be utilised
as a starting point for future studies on Halal procurement policy to increase its relevance. It is suggested that empirical studies be conducted in developing a framework of transparency in halal procurement.

References


