

Competitive strategy for malaysia sme

Business



A total of 212 respondents or small and medium enterprises returned the completed questionnaires.

Data analysis was conducted using mean scores and t-tests. Findings – The Seems have placed high emphasis on firm management, marketing and human resource management; and moderate emphasis on total innovation. On the other hand, low emphasis can be seen in some innovation elements and all global orientation indicators. Results also show that the competitive strategies between the F&B and T&C industries are significantly different in innovation and global orientation.

Research limitations/implications – With greater competition in the globalizes market, emphasis on firm management, marketing and human resource management are insufficient. The Seems also should give greater priority to dynamic capabilities, especially innovation and global orientation, in order to survive in the marketplace.

Originality/value – Similar emphasis on firm management, marketing and human resource management indicates that the Seems have slim competitive advantages in these basic resources and capabilities.

Therefore, the findings serve a strong signal or Seems to step up their competitive strategies more towards improving dynamic capabilities in innovation and global orientation. Keywords: Global competition, Competitive strategies, Seems, Malaysia Introduction Unprecedented changes in the global business environment induced by rapid developments in communication and information technology, trade liberation's, trade-related support services, cross-border capital flows (Koch et al. 2009) and <https://assignbuster.com/competitive-strategy-for-malaysia-sme/>

more demanding consumers in the last two decades have made competitive strategies become more relevant to the firms. As globalization flexes its muscle in the economy, firms compete not only with their domestic but also foreign rivals.

With a rapid adoption of the Internet, physical boundaries and distance become less important as firms all over the world are now able to cater for larger markets more efficiently (Kim et al. , 2004). All this development has coerced firms to step up the level of competitiveness against their competitors in the same industry.

Only the firms that have the capability in all facets of competitive priorities (Sings et al. , 2007) will survive in such a turbulent marketplace.

Confronting with more rapid changes in the market than ever before, firms have no choice, but to adapt to the environment in order to survive and prosper (Grief, 2001). Small and Medium Enterprises (SMEs) do not escape from the globalization phenomenon. Traditionally, some SMEs confined their activities to the region of their presence, but most of them remain in their national boundaries (Rustier et al. , 2006).

A majority of the actors in less developed countries may give little emphasis on core competitive strategies in order to survive in such a globalized world. In the past, some SMEs could focus exclusively on the domestic market, but now they have to be globally competitive for their own long-term survival and growth (Garrulously and Linden, 1988).

93 O Centre for Promoting Ideas, USA wry. Carnet. Com In fact, if they are incapable of going abroad, foreign firms and products will come to their land. This development is especially true since the firms and not the nations compete in the market (Porter, 1998).

It is very unlikely for Seems operating in high technology and manufacturing sectors act independently without considering the risks and opportunities presented by foreign competitors (Rustier et al.

2006). This leads to the point that competitive strategies should be a top priority for the sector to remain competitive in the hostile environment. Generic competitive strategies in terms of cost leadership, differentiation and market focus as envisaged by Porter (1980, 1985), are necessary, but may not be adequate for Seems in such a globalizes world.

In this connection, innovation and global orientation adopted by firms become crucial for firms to compete with its rivals in the open economy. Studies on firm's strategic capabilities are abundant, but they are mostly done on rage firms (Mammal and Folio, 2010).

This trend does not spare Malaysia: a study by Josh and Apparel (2008) on the competitive strategies of manufacturing firms, for example, size and industry blinds. In Malaysia, innovation has become a centre stage to its industrial policy in the recent period (Malaysia, 201 Oh).

In the meantime, global orientation is a new trend not only among large enterprises, but also Seems (see Rustier et al. , 2006). Despite the case, how Malaysian small and medium enterprises respond to this policy orientation

and global changes in business calls for investigation. Until a study is conducted, no one knows whether or not Seems in Malaysia give emphasis on this global, dynamic aspect of competitive strategies.

Thus, this paper explores competitive strategies emphasizes by Malaysian Seems and identifies whether they are in the right direction or not in coping with the globalizes world.

Literature review Increased competition in the global market makes the competitive strategy topic more dominant in entrepreneurship, business and management literature. In fact, strategy and performance research on firms could be easily found in a large number of offline and online Journals.

Strategy research attempts to answer the question of “ why’ some firms are better performers than others (Porter, 1991). Bowman (1974, p.

47) says that strategy is about a “ continuing search for rent”.

Closely related to this concept, competitive strategies try to address the issue of “ how’ a firm should compete with its competitors in a particular industry (Ascended and Hooper, 1979). A competitive strategy outlines how a business unit or firm competes within the same industry (Apparel, 2006).

This strategy enables a firm to gain competitive advantages over its rivals (Porter, 1986). Strategies for competitive advantage are explained in various perspectives.

However, the most notable theoretical explanations for competitive strategies are Industrial Organization Economics (I.

E.), business or competitive strategy typologies, Resource-Based View (REV) and relational view (Retrial and Loner, 2010; Apparel, 2006). The I. E. through its structure-conduct-performance paradigm argues that a firm's performance is contingent upon the conduct of the market agents (buyers and sellers), which in turn dependent on the structure (number, size etc.) of the market (Porter, 1980).

This theory perceives that firm's profitability is merely a function of industry or market structure within which the firms operate.

This model is, however, more suitable for a market condition with simple group structures, high concentrations, and rather homogeneous firms (Seth and Thomas, 1994); and much less applicable to explain large variations of firm performance in a single industry (Apparel, 2011). In order to close the literature gap in I. E., many business strategy typologies have been developed.

However, Miles and Snow's typology and Porter's generic strategies have gained much recognition and eroticism in the literature (Wan and Ballard, 2009; Apparel, 2006).

While Miles and Snows (1978) strategy typology defines firms into four categories – prospectors, analyzers, defenders, and reactors – based on their strategic actions; Porter (1980) distinguishes competitive strategies into cost leadership, differentiation and market niche as the sources of competitive advantages. The greater focus on firm-level analysis in the later period has given birth to the REV. This approach emphasizes an inside-out business

strategy, in which a firm using its internal unique resources and abilities is better able to outperform its rivals (Barney, 1991).

Corbett and Whosoever (1993) strongly believe that internal competencies are the basis for a firm to be a strong competitor in the market. In fact, there was a tendency for relating firm performance in the old days with a particular business functional area (Trucker, 1973; Title, 1997).

Nevertheless, such a case becomes much less applicable in the present day of business environment. Fierce competition in the marketplace requires firms to be more proactive in positioning themselves.

Thus, Porter's (1980) generic strategies in the form of cost leadership, differentiation and market focus may be useful, but inadequate for firms to stay competitive. Recent studies found that a firm, which has competencies in many functional areas, would be better able to remain competitive in the market (Evans and Lindsay, 1996; Porter, 1990). It is advisable that mixed strategies, such as cost reduction, innovation and quality enhancement to be adopted simultaneously to gain domestic and international competitive advantage, regardless of industry (see Johnson and Devilish, 2009).

In this paper, three functional areas, namely firm management, Human Resource Management (HRM) and marketing; as well as two internal dynamic capabilities, i. e. Innovation and global orientation were examined to identify the recent emphasis of Malaysian firms on competitive strategies. This paper does not intend to test any hypothesis, but the five resources and capability areas were chosen because they are normally

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hypothesized or regarded to be significant factors to firm performance. For examples, Chasten et al. 2001) found that HARM practices, firm management (quality and information) and innovation (new product development) are core competencies and crucial for firm growth.

Firm management encompasses all activities undertaken by one or more persons for the purpose of planning and controlling other people's activities in order to achieve an objective that could not be attained by those who act independently (Herewith and Kong, 1993). To Daft (2008), management is the process of attaining organizational goals in an effective and efficient manner through planning, organizing, leading, and controlling.

Management is also the process of combining and coordinating a range of resources – money, people or equipment – to achieve the goals of an organization (Hit, 2007). This management factor is important to any organizations regardless of size. The improvement in management quality, for example, would enhance the performance of small businesses (Raman, 2001 ; Sahara and Saddened, 2000). Marketing in the REV is regarded as one of the organizational resources (Barney, 1991).

Porter (1985) regards marketing with special reference to differentiation as competitive strategies of a firm.

An effective marketing needs a specialized skill, which allows entrepreneurs to communicate and inform potential customers about their products or services. Thus, effective marketing encompasses one-on-one immunization skills and the ability of entrepreneurs to define and target their markets.

Brooking et al. (1992) in their examination of British mid-sized firms reveal
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that firms which give a higher priority to marketing than other business functions achieve higher performance.

These firms use annual and longer-term marketing planning, perform marketing research, adopt a proactive approach in future planning, as well as employ market expansion strategies and clear approaches to manage marketing activities. Levity (1983) and Kettle (1988) also stress that marketing is important for business success. The importance of HARM to a firm has been shown in a large number of theories and empirical evidences. The REV, for example, argues that the HARM practices have a positive relationship with firm performance (Barney, 1991).

In similar argument, a firm may gain competitive advantage if it has greater capability to manage its human resources (Barney and Wright, 1998).

According to the human capital theory, investments in knowledge, skills and competencies would enhance the productivity of employees (Becker, 1964). Numerous empirical studies confirm a positive relationship between HARM and firm performance (Ghent et al. 2006). Participation and empowerment, promotion from within, training and skill development are among notable HARM practices having great value to an organization (Prefer, 1994).

Recognition may come in many forms, such as allowing employees to be involved in decision-making and rewards by the firm, which may motivate employees to work harder and hence improve firm performance.

Past evidence also showed a positive relationship between entrepreneurship training and venture performance (Putrid et al. , 2009). Innovation and

internationalization (global orientation) are firm-specific abilities (Away and Mammal, 2011), which should not be overlooked in any study of firm competitiveness under the present world of business.

Miles and Snows (1978) business strategy typologies place great emphasis on innovation as a dynamic processing tool in adapting to the changes and uncertainties in the market environments. Roberts and Amid (2003) see innovation as a means leading to a competitive advantage and superior profitability. Innovation is the application of new ideas, which adds value to products, processes, work organizational systems or marketing systems of a firm (Warranted, 2003).

With innovation, quality of rodents could be enhanced, which in turn contributes to firm performance and ultimately to a firm's competitive advantage (Carving, 1987; Former et al. 1996). Global orientation of a firm encompasses its various activities, such as exporting, trade, clustering, collaboration, alliances, subsidiaries, branches, and Joint ventures, which transcend the home country boundary (Sings et al. , 2010). 95 In other words, global orientation is the process of firm's involvement in global operations (Welch and Illustration, 1999), which can be either a gradual-sequential or leapfrog process (see Chesty and Campbell-Hunt, 2003). The first process sees a firm's increased commitment in the global market in stages, I.

E. Room no regular export activities to exporting via independent agents, setting up an offshore sales subsidiary, and finally establishing production facilities overseas. In addition, the latter occurs when a firm does not follow

the stages, but it jumps from totally domestic operation to a more advanced stage (say setting up an offshore subsidiary). It is argued that global orientation is a strategy, which enables a firm to enhance or sustain its competitive advantages by cost minimization, obtaining financial sources overseas, global diversification, assets acquisition (e. G.

Rand's, technology) and networking (Demurrage and Toggle, 2008).

Competitive strategies among Seems in Malaysia should be investigated given the significant presence of this sector in the economy. In Malaysia, Seems formed 99. 2 per cent of the total number of enterprises and contributed 56. 4 per cent to total employment; and of the total number of Seems, 39.

4 per cent are in the manufacturing sector (Malaysia, 201 Oh). The largest portion of manufacturing Seems is in the two non-resource-based industries, I. E. Food and Beverage (F&B), and Textile and Clothing (T&C), representing 15. Per cent and 23.

2 per cent of total manufacturing Seems, respectively (MIT, 2006). Despite the significant position of the sector in the economy, studies on competitive strategies of Seems in the manufacturing sector, particularly the two industries are not found. This provides the opportunity for this paper to explore the following research questions: RSI . ARQ. ARQ.

What are the competitive strategies most emphasizes by manufacturing Seems? Do manufacturing Seems emphasis innovation and global orientation in their competitive strategies?

Are there any different emphases on competitive strategies between food and beverages, plus textile and clothing firms? Research methods Variables and measures Global competition demands firms to be concerned with their competitive strategies, so that they are not squeezed out from the marketplace. Drawing from the literature, five competitive strategies, which should be a great concern for entrepreneurs, are considered. They are firm management, HARM, marketing, innovation and global orientation (Chasten et al. , 2001; Sings et al. , 2010; Johnson and Devilish, 2009; Chasten et al. 2001). The respondents (firm owners) were asked to rate the level of their emphasis on competitive strategies in firm management (10 items), human resource management (7 items), marketing (6 items), innovation (7 items) and global orientation (8 items) on a 7- point scale from “ 1= hardly emphasizes” to “ 7= strongly emphasizes”. The degree of their emphasis on the strategy was then averaged by calculating the mean score across the number of items for each strategy. Seven (1987) used to apply this mean score method for measuring strategy in his study.

Data Source Data for this paper were obtained from a survey on the firms in the Food and Beverage (F&B), and Textile and Clothing (T&C) industries.

The largest concentration of Malaysian Seems is in these two industries. The survey was conducted using a self- administered questionnaire specially designed to solicit information on firm profile and firm’s competitive strategies in facing global competition. To check reliability and validity of the survey instrument, a pilot study was done on 20 respondents in Koala Lump.

This exercise was made in order to check time duration taking a respondent to complete the questionnaire and to validate items used for each construct. Aided by extensive literature review, the questionnaire was comfortably completed by the respondents in 15-20 minutes time.

A quick check on reliability of each competitive strategy construct produced Cockroach's (1951) Alpha of more than 0.70, indicating the reliability of the instrument for further use. In the actual survey, the questionnaires were distributed to 300 SMEs in person.

Besides the background information provided on the cover page of the questionnaire, the respondents were told verbally about the purpose of the study. They were assured about the confidentiality and anonymity of their participation.

After a few follow-up efforts, 212 respondents (with a 70.7% response rate) returned the complete answers in about one month time. Comparing the early and late responses found no significant differences between the respondents across demographic variables ($p > 0.1$). All of the respondents were owner-managers, who had the best knowledge on business strategies of the firms.

Table I shows the profile and characteristics of the samples.

It needs to be emphasized here that the sample firms are SMEs. In Malaysia, an SME is defined as an establishment having up to 150 full-time employees. Results and discussion Descriptive analysis The firms' emphasis on competitive strategies for each resource or capability is shown in Table II.

Firm management, marketing, and HARM were ranked much higher than the mid-rank value of 4; whilst innovation was ranked just about the mid-rank value (Mean= 4.05; SD= 1.372).

With respect to firm management, profit focus was ranked first by the firms, which is concomitant with the firm's profit maximization argument of the neoclassical economic theory. In addition, the firms gave high priority to safety and environmental aspects which ranked second and third respectively in the management domain. This emphasis should be commended because under the present day of business, safety and environmental issues become part and parcel of international trade. The firms also were concerned with cost, production and financial management. The lowest rankings were for risk taking and product quality dimensions.

For marketing, the most emphasized competitive strategies were related to price setting, marketing and promotion, niche market development, product diversification and the enhancement of company reputation and branding. Porter (1980, 1985) in his generic strategy typology believes that a firm in an industry can maximize revenue either by engaging on cost leadership or product differentiation. Attempts by any firms to emphasize their strategies both on low costs and differentiation will end up "stuck in the middle" (1980, p. 1), which ultimately results in low profitability. The firms in this study, however, did not discriminate their marketing strategies. To them, cost leadership, differentiation and market niche were equally important and compatible with their competitive strategies.

Whether the mixed strategies bring positive or negative impact on firm performance is beyond the scope of this paper. In terms of HARM, the firms saw the importance of high-skilled employees in their organizations.

Thus, in-house training for workers and recruitment of skill workers became the most emphasizes practices among the firms. They also practiced performance-based recognition system as well as encouraged their employees to attend outside training and participate in production decision-making. It was reported that performance-based reward systems have consistently replaced the old seniority approach in staff promotion among Malaysia companies (Osama et al.

, 2011). The entrepreneurs themselves attended training courses provided by the overspent, but less for the courses offered by the private sector.

In Malaysia, many government agencies at the federal and state levels offer various preliminary, intermediate and advanced technical and managerial courses for both employees and employers at heavy subsidized rates. Therefore, training programmer offered by government agencies are more popular among entrepreneurs. Although the emphasis of the firms on innovation in general was rather moderate, some areas of innovation were substantially emphasizes.

As shown in Table II, the Seems ranked high on product innovation, the application of the latest technologies in recess and product as well as new material sourcing.

This balanced emphasis on product and process innovations would enable the firms to be more effective in maintaining or enhancing their performance than the sole emphasis on either process or product innovations (Downpour and Even, 1984). More importantly, the combined competitive strategies would make the Seems gain two advantages at the same time. While product innovation generates new price premiums and hence higher revenues, process innovation pushes the production costs down.