EFFECTS OF GLOBALIZATION ON THE SUSTAINABLITY OF A MANUFACTURING COMPANY A CASE STUDY

YEOW CHAI HONG

BACHELOR OF FOOD SCIENCE AND NUTRITION
NATIONAL UNIVERSITY OF MALAYSIA

SUBMITTED TO THE FACULTY OF BUSINESS AND ACCOUNTANCY,
UNIVERSITY OF MALAYA, in partial fulfillment
Of the requirements for the degree of
Master of Business Administration

1999/2000

Executive Summary

This case study addressed the issue of globalization effect on a Malaysian company. Business world become borderless especially with the recent advancement of telecommunication and computer technology. The case analyzed the effect of globalization on a cocoa manufacturing company. The top management has been given a business scenario using a case study methodology. In this case analysis, in depth investigation on the management obstacles as result of globalization and strategy formulation are required to provide a remedy to the management challenges faced by the company.

The analysis was performed using situation analysis, industry analysis and value chain analysis framework developed by Michael Porter. The analysis of the general environment showed that the cultivation of cocoa would be reduced due to industrialization of the developing and third world countries. Globalization has caused consumers become more quality conscious due to faster and accessibility of information and exposed the businesses to commodity risks as raw materials has to purchased from a free market.

The Five Forces model suggested high entry barrier to the cocoa industry. High capital requirement, switching cost and economies of scale must be posses by new entrant to achieve strategic competitiveness. The shortage of raw materials, unpredictable deliveries, increase of prices and reduction of cultivation of cocoa has given high bargaining power to the suppliers. Existence of the cheap and highly innovative substitute vegetable fat, and allowances of 5 % of vegetable fat in chocolate-making process through NAFTA will cause a major threat to the industry. Vertical integration and outsourcing activities by the buyers create a very unique and competitive environment. As the industry is rated as a slow cycle market, the firm competes actively with one another to achieve strategic competitiveness.

Internal analysis revealed that the company has good financial strengths. The company has very low borrowing and is capable to undertake any cyclical resilience. As the company has a good plant strategic located coupled with a team of skillful human resource, it has a processing cost that is one of the lowest in Malaysia. The core competencies of the company are flexible manufacturing capability, which customized individual customer need in timely manner by a team of skilful human resources. The value chain analysis showed that procurement is determinant of company profitability.

Through SWOT analysis, it is recommended that the company should maintain the specific business strategy based on the company's core competencies and capabilities. Customization strategy according to individual customer needs should be maintained. A mixture of cost leadership, differentiation and focused strategy are needed to serve each market segment. Price risk management policy shall be established. An appropriate hedging strategy should be formulated to protect the business from sudden price movement. The problem faced by the company could be resolved if the understanding of price risk and physical requirements is properly matched.

Acknowledgment

I would like to thank En. Mohd. Khidzir for his constructive advice and did an outstanding job in reviewing this research project

I wish to thank my wife, Tsan Tsan, and my children, for their support in my life and especially throughout UM-MBA program.

YEOW CHAI HONG

April 2000

TABLE OF CONTENT

List of Table

List of Figure