

CHAPTER 1

INTRODUCTION

1.1 Purpose and Significance of the Study

Rapid globalisation has increased the competitive intensity facing businesses in Malaysia, Singapore and other ASEAN countries. This led to an increased interest in competitive strategies and the integration of internal processes and capabilities to improve performance. Furthermore, there appears to be much agreement in the strategies management literature on the important role of strategy in organisations that is used to outline the fundamental steps that they plan to follow in order to accomplish their business objectives. Considerable attention has been focused on strategies issues such as achieving competitive positions, optimum fit with the environment and capitalizing on competencies and regenerating strategy.

The writings of the American management-guru and Harvard-Professor Michael E-Porter are considered to be among the most influential and had a lasting influence on strategic management with his books about competitive advantages on industry and global level, which were written in the eighties. Porter's models i.e. the Five Competitive Forces and the Business-level Generic Strategies have become standard equipment of the manager's toolbox.

According to Porter, a firm achieves competitive advantage first by picking the right industry in line with the results of industry structure analysis, then understanding the five competitive forces better than competitors, shape its favourable position in the industry. Industry analysis is accomplished by picking a right generic strategy out of the three business-level generic strategies suggested by him: cost leadership strategy, differentiation strategy or focus strategy. With the utilisation of value chain analysis, activities in the company can be fragmented to achieve any one of the generic strategies that will yield above

average returns. Each one of the generic strategies must be specific in the activities to be performed in order to succeed the firm's objectives. At this juncture, the firm should be specific in its choice of competitive strategy or runs the risk of being 'stuck in the middle', which will not be able to generate above average returns (Porter 1985, pp1- 163).

However, Porter's generic strategies became more and more subject of critique under the impression of the developing Internet economy during the last decade. Under fast changing conditions, it is not possible to employ generic strategies that are mutually exclusive or follow a structured process of strategic analysis. Feurer & Chaharbaghi (1997) identify successful strategies that are crafted and realised through a process of creativity and innovation involving all the skills, expertise and genius that are available throughout the organisation. Michael Dell on the other hand stated, "The only constraint in our business is that everything is changing. We have to take advantage of change and not let it take advantage of us. We have to be ahead of the game". This is reflected in a MCI/Gallup survey of 550 US American CEOs, 38% said that industry newcomers, not traditional competitors, had taken the best advantage of change over the past ten years. When asked how the newcomers had succeeded, fully 62% of those polled said they had profoundly changed the rules of the game. Only 31% thought the newcomers had won through better execution (Hamel, 1997). Jack Welsh of General Electric, one of the world's most successful CEO, revealed in his interview with Harvard Business Review the need to combine financial strength, market position, and technology leadership with an organisational focus on speed, agility and simplicity in order to be the number one (Tichy & Charan, 1989).

When there are hardly any industry left that shows such stable and predictable conditions, the effectiveness of Porter's mutually exclusive generic strategies comes under close scrutiny. Pursuing both strategies, cost leadership and differentiation at the same time and with the same priority, while this contrast

Porter's views may be necessary for firms to accomplish impossible things to survive. There exist a viewpoint that a single generic strategy is not always the best option because within the same product customers often seek multidimensional satisfaction such as combination of quality, style, convenience, and price.

There are not many studies in Malaysia or Singapore examining the extent of integrated cost leadership-differentiation strategy applied in industries over here. Khairuddin (2000) did establish the type of business-level strategies followed by the Malaysian SMEs, while Teoh and Sim (1997) using the Miles and Snow typology identified strategy types in Malaysian and Singaporean companies. Since the integrated cost leadership-differentiation strategy is now considered as a feasible option for above average returns, the author is trying to establish whether the Malaysian firms currently apply such views. Therefore the purpose of this research is to identify the extent of integrated cost leadership-differentiation strategy application, if any in shaping competitive advantage in Malaysian industries in present times. This study will have a significant impact on firms' choices of strategy that can be followed by them with the aim of remaining competitive in the era of globalisation. As the author is familiar with the Malaysian food industry, this research is confined to firms that deal with food industry.

1.2 Research Questions

The following research questions will try to answer whether any successful firms who command above average returns in the Malaysian food industry identify their value chain activities with the integrated generic business-level strategies, differentiation and cost leadership.

- A. Are differentiation and low cost leadership strategies the only two mutually exclusive options available to the business firms?
- B. If business firms do adopt the integrated cost leadership - differentiation strategy, are they successful?
- C. What about the application of value chain activities for firms that adopts the integrated cost leadership-differentiation strategy?
- D. If a business firm follow neither differentiation nor low cost but choose instead to integrate their strategies, why do they do so?

1.3 Scope of the Study

The study is confined to four leading Multinational Corporations that deals with food, beverages and tobacco products operating in the Klang Valley and Negri Sembilan. All these firms are classified as part of the food industry in the Foreign Companies in Malaysia Yearbook 2001.

1.4 Limitations of the Study

This study is concluded based on discussions with respondents who have had experience working or attached in these firms. They are able to narrate the approach taken by each firm, however some of them are unable to provide quantitative measurement to support their views because they are no longer associated with the firms. Much of the information provided by the respondents is deemed confidential thus making it difficult to confirm with the firms. Wherever possible the author tries to confirm the views with the firm's homepage, annual reports, media reports and journals. This study is an exploratory research to establish the strategy direction based on qualitative discussions with each respondent (Zikmund, 1996). This can be considered a limiting factor in the study.

As concluded by Brouthers and Werner (1990), foreign firms have different competitive strategy based on their country of origin, however this view will not be taken into consideration in this study. In addition, although these firms are operating in different segments of the food industry, in this study they will be considered to be part of one industry. Such generalisation can be considered as another limiting factor in this study because this biasness is not taken into consideration. The author hopes these limitations will provide an opportunity for others to conduct in depth research in these areas in the future.

1.5 Organization of Chapters

This research paper is divided into five chapters. The **first chapter** will introduce the study by giving out the background of the generic strategies, its application in various industries, critic's opinion on the mutually exclusive strategy approach stressed by Porter (1985), and the assessment of the integrated cost leadership-

differentiation strategy in present business environment. This chapter will also highlight limitations of the study.

Chapter two will stress on literature review from previous research/ studies that are related to the subject concerned. These findings will be discussed in an attempt to answer the research questions and to understand the theoretical background of the issue. Literature reviews quoted are mainly from the western countries as not many studies on the subject matter carried out in the Far East that can be found in journals.

Chapter three will look into the research methodology that includes propositions, sampling design, data collection method, and analysis method and brief introduction on the firms investigated.

Chapter four will tabulate the interview results with the selected respondents and discuss the findings. These findings will be organized based on the primary and supporting categories of the value chain activities.

Finally in **chapter five**, the findings discussion will be summarized and the implication on the study evaluated. Any suggestions derived from the study will be highlighted along with areas that can be subjected for further future research.