

## CHAPTER 3

### RESEARCH METHODOLOGY

This chapter outlines the methodology employed in the study. This chapter will introduce the research propositions, provide description of data collection procedure, which covers the questionnaire design and sampling design, and finally describe the method of data analysis. This study is an exploratory research using the case study method (Zikmund, 1996 pp 107 –108).

#### 3.1 Introduction to Research Propositions

Porter (1985) noted that for a firm to gain competitive advantage, it must either focus on business-level cost leadership or differentiation strategy. His arguments on firms that follow the integrated cost leadership - differentiation strategy will not be able to generate above average returns. Miller (1998, p 18) and Hitt et al., (2001, pp 172-175), however disputes Porter's views and acknowledge integrated business-level strategies are capable to generate above average returns. This study will try to relate those views with the approach taken by the Malaysian food industry through the validity of the following three propositions.

**Proposition 1:** Although some firms in select industries, by exception, may at least theoretically be able to perform well if they primarily compete with the low cost competitive strategy, it is expected that businesses will not only stress in business-level cost leadership strategy. The justification for this expectation is that firms, which choose to compete only on the basis of lower costs, would ordinarily have their profit margins under pressure (Patridge & Perren, 1985). Consequently, managements' abilities to implement measures to improve

outputs, or augment products with superior services, or to expand more on marketing activities are limited (Helms et al., 1997).

**Proposition 2:** Although some firms in select industries, by exception, may at least theoretically be able to perform well if they primarily compete with the differentiation strategy, it is expected that businesses will not only stress the differentiation strategy. The justification for this expectation is that firms which choose to compete only on the basis of differentiation, whereas not stressing low cost operations, may be vulnerable to competitors that have lower cost positions and may offer similar outputs, occasionally at predatory prices (Patridge & Perren, 1985). Possibly, the threat of substitute products is also greater for such firms.

**Proposition 3:** It is expected that firms that compete with the integrated cost leadership - differentiation strategy to perform well, because they would likely benefit by achieving greater profit margins whether they are smaller or larger in their industries. Support for this proposition may be drawn from a number of perspectives, which are different from what was proposed by Porter (1985).

### 3.2 Data Collection

Primary data was collected through personnel interviews with business consultants and executives who had experience consulting or working in the selected firms. The interviews were conducted using an open-ended response questionnaire prepared on areas deemed important to this study. The primary data were collected using a two-stage collection method.

In stage one, a business consultant who was familiar in strategy management and had experience consulting in Philip Morris (M) Sdn Bhd was interviewed. From his response, the questionnaire was fine tuned and used in stage two to solicit primary data from the rest of the selected respondents. The main respondents in this study, the author himself who is currently attached with Ajinomoto (M) Berhad, Mr S who is currently a business consultant assigned to F & N, Mr M, formerly a business consultant assigned to Philip Morris (Malaysia) Sdn Bhd and Mr K who was an employee of Nestle (Malaysia) Berhad.

The sampling frame selected for this study was the food industry in Malaysia. This sampling frame was selected because of the author's familiarity with the food industry. In the process of selecting sampling units, nonprobability sampling using the convenience sampling method was used to select the firms. The sampling units were drawn from the pool of food multinational corporations operating in Malaysia. Multinational corporations were chosen for the reason that strategists at these firms can draw on a rich body of work to advise how to compete in their industry which is lacking among local firms (Dawar & Frost, 1999). Moreover, in a study conducted by Yusoff and Norzima (2000) there is lack of skills and knowledge in Malaysian SMEs in organizing effective manufacturing and business strategy development. The author identified the selected firms as market leaders in their industry and are achieving above average returns. Availability of trusted source of information in these firms also played a role in selecting the sampling units (Zikmund, 1996).

The interview began by the interviewer explaining the objective of the study to the respondents. Each interview was conducted on an average of two and a half hours. Follow-up interviews were conducted through telephone. The author also obtained secondary data from annual reports, media reports, homepage of the respective firms and any other reports deemed fit as a material in this study.

### **3.3 Data Analysis**

In analysing the data, discussion technique was adopted. Instead of examining the frequency of activities in the value chain for statistical inference, the study identified the firm's value chain activities with either differentiation or cost leadership generic strategy or ending up with the combination of both strategies. The conclusion from these discussions would be identified with the propositions.

### **3.4 Background Information of Respondent Firms**

**Ajinomoto (Malaysia) Berhad**, a Japanese multinational corporation was established in Malaysia in 1965. It manufactures and distributes monosodium glutamate, artificial sweetener, edible oil, and hydrolysed vegetables protein based products. Ajinomoto currently monopolise the monosodium glutamate business capturing almost 90% of the Malaysian market share. Although in the financial year 2000/2001, the sales grew by 3.7% when compared with the previous year but the profit before taxation (PBT) grew by almost 100% in the same corresponding period, evidence of a concentrate effort to reduce cost as to remain competitive in post AFTA era.

**Nestle (Malaysia) Berhad**, a Swiss multinational corporation established in Malaysia in 1918 and listed on the main board of KLSE. The firm manufactures and distributes a wide variety of food products example confectionery, beverages, instant noodles, dairy, seasonings and ice creams. Nestle is the number one food company in Malaysia with a sales turnover of 2.59 billion ringgit in 2001 (2.2 billion ringgit in 2000). PBT is standing at 264.7 million ringgit. Nestlé's growth is driven by new product innovations, higher sales due to advertisement and improved distributions.

Formerly known as Malaya Glass Berhad, **Fraser and Neave (Malaysia) Berhad (F & N)** is involved in the manufacturing and sale of glass containers, soft drinks and dairy products. The Singaporean multinational corporation is listed on the KLSE main board. As a soft drinks manufacturer and distributor, the F&N Group's brand "Coca-Cola" holds more than 70% share in the cola market segment while "100 Plus" has more than 90% share of the isotonic segment. The firm's turnover in 2001 was 1.54 billion ringgit with PBT being 395 million ringgit. The sales and PBT grew by 12.4% and 11.2% respectively compared to 2000. The firm noted strong recovery in volume of soft drinks and a favourable shift in demand towards higher value products, from returnable glass bottles to modern packages like cans and PET contributed to the profits (Source for the firm's homepage/KLSE).

**Philip Morris (Malaysia) Sendirian Berhad**, is an US based multinational corporation involved in tobacco processing and cigarette manufacturing. The firm is a private limited entity, which manufactures some of the well-known cigarette brands such as Marlboro and L & M. Marlboro brand is in the number two position in Malaysia after Dunhill and with a market share of 18%. Only 20 % of the 14 billion cigarettes manufactured annually are for local consumption, the rest are exported. Philip Morris emphasizes on advertisement and promotional activities to differentiate their products and capture the number one brand position in Malaysia.