

## Competitive Strategy of Malaysian Small and Medium Enterprises: An Exploratory Investigation

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### Abstract

**Purpose** – The purpose of this paper is to explore the competitive strategy emphasised by SMEs in order to cope with global competition.

**Design/methodology/approach** – A self-administrative questionnaire was distributed to 300 potential respondents in the F&B and T&C manufacturing industries throughout Malaysia. 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 SMEs 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 globalised market, emphasis on firm management, marketing and human resource management are insufficient. The SMEs 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 SMEs have slim competitive advantages in these basic resources and capabilities. Therefore, the findings serve a strong signal for SMEs to step up their competitive strategies more towards improving dynamic capabilities in innovation and global orientation.

**Keywords:** Global competition, Competitive strategies, SMEs, Malaysia

### Introduction

Unprecedented changes in the global business environment induced by rapid developments in communication and information technology, trade liberalisation, trade-related support services, cross-border capital flows (Koh *et al.*, 2009) and more demanding consumers in the last two decades have made competitive strategies become more relevant to the firms. As globalisation 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 (Singh *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 (Gereffi, 2001).

Small and Medium Enterprises (SMEs) do not escape from the globalisation phenomenon. Traditionally, some SMEs confined their activities to the region of their presence, but most of them remain in their national boundaries (Ruzzier *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 globalised 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 (Karagozglou and Lindell, 1988).

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 SMEs operating in high technology and manufacturing sectors act independently without considering the risks and opportunities presented by foreign competitors (Ruzzier 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 SMEs in such a globalised 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 large firms (Amal and Filho, 2010). This trend does not spare Malaysia: a study by Jusoh and Parnell (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, 2010a). In the meantime, global orientation is a new trend not only among large enterprises, but also SMEs (see Ruzzier 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 SMEs in Malaysia give emphasis on this global, dynamic aspect of competitive strategies. Thus, this paper explores competitive strategies emphasised by Malaysian SMEs and identifies whether they are in the right direction or not in coping with the globalised 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 (Schendel and Hofer, 1979). A competitive strategy outlines how a business unit or firm competes within the same industry (Parnell, 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 Organisation Economics (IOE), business or competitive strategy typologies, Resource-Based View (RBV) and relational view (Ritala and Ellonen, 2010; Parnell, 2006). The IOE 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 (Parnell, 2011).

In order to close the literature gap in IOE, many business strategy typologies have been developed. However, Miles and Snow's typology and Porter's generic strategies have gained much recognition and criticism in the literature (Wan and Bullard, 2009; Parnell, 2006). While Miles and Snow's (1978) strategy typology defines firms into four categories - prospectors, analysers, 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 RBV. This approach emphasises an inside-out business strategy, in which a firm using its internal unique resources and capabilities is better able to outperform its rivals (Barney, 1991).

Corbett and Wassenhove (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 (Drucker, 1973; Etlie, 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 SMEs 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 Jonsson and Devonish, 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 SMEs 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 hypothesised or regarded to be significant factors to firm performance. For examples, Chaston *et al.* (2001) found that HRM 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 (Wehrich and Koont, 1993). To Daft (2008), management is the process of attaining organisational goals in an effective and efficient manner through planning, organising, 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 organisation (Hitt, 2007). This management factor is important to any organisations regardless of size. The improvement in management quality, for example, would enhance the performance of small businesses (Rahman, 2001; Sharma and Gadenne, 2000).

Marketing in the RBV is regarded as one of the organisational resources (Barney, 1991). Porter (1985) regards marketing with special reference to differentiation as competitive strategies of a firm. An effective marketing needs a specialised skill, which allows entrepreneurs to communicate and inform potential customers about their products or services. Thus, effective marketing encompasses one-on-one communication skills and the ability of entrepreneurs to define and target their markets. Brooksbank *et al.* (1992) in their examination of British medium-sized firms reveal 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. Levitt (1983) and Kotler (1988) also stress that marketing is important for business success.

The importance of HRM to a firm has been shown in a large number of theories and empirical evidences. The RBV, for example, argues that the HRM 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 HRM and firm performance (Zheng *et al.*, 2006). Participation and empowerment, promotion from within, training and skill development are among notable HRM practices having great value to an organisation (Pfeffer, 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 (Petridou *et al.*, 2009).

Innovation and internationalisation (global orientation) are firm-specific capabilities (Awuah and Amal, 2011), which should not be overlooked in any study of firm competitiveness under the present world of business. Miles and Snow's (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 Amit (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 organisational systems or marketing systems of a firm (Weerawardena, 2003). With innovation, quality of products could be enhanced, which in turn contributes to firm performance and ultimately to a firm's competitive advantage (Garvin, 1987; Forker *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 (Singh *et al.*, 2010).

In other words, global orientation is the process of firm's involvement in global operations (Welch and Luostarinen, 1999), which can be either a gradual-sequential or leapfrog process (see Chetty and Campbell-Hunt, 2003). The first process sees a firm's increased commitment in the global market in stages, i.e. from 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 minimisation, obtaining financial resources overseas, global diversification, assets acquisition (e.g. brands, technology) and networking (Demirbag and Tatoglu, 2008).

Competitive strategies among SMEs in Malaysia should be investigated given the significant presence of this sector in the economy. In Malaysia, SMEs 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 SMEs, 39.4 per cent are in the manufacturing sector (Malaysia, 2010a). The largest portion of manufacturing SMEs is in the two non-resource-based industries, i.e. Food and Beverage (F&B), and Textile and Clothing (T&C), representing 15.0 per cent and 23.2 per cent of total manufacturing SMEs, respectively (MITI, 2006). Despite the significant position of the sector in the economy, studies on competitive strategies of SMEs in the manufacturing sector, particularly the two industries are not found. This provides the opportunity for this paper to explore the following research questions:

- RQ1. What are the competitive strategies most emphasised by manufacturing SMEs?
- RQ2. Do manufacturing SMEs emphasise innovation and global orientation in their competitive strategies?
- RQ3. 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, HRM, marketing, innovation and global orientation (Chaston *et al.*, 2001; Singh *et al.*, 2010; Jonsson and Devonish, 2009; Chaston *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 emphasised" to "7=strongly emphasised". The degree of their emphasis on the strategy was then averaged by calculating the mean score across the number of items for each strategy. Segev (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 SMEs 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 Kuala Lumpur. 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 Cronbach'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 emphasised 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 HRM 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 maximisation 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 emphasised 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 maximise performance either by engaging on cost leadership or product differentiation. Attempts by any firms to emphasise their strategies both on low costs and differentiation will end up "stuck in the middle" (1980, p. 41), 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 vis-à-vis 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 HRM, the firms saw the importance of high-skilled employees in their organisations. Thus, in-house training for workers and recruitment of skill workers became the most emphasised practices among the firms. They also practised 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 (Osman *et al.*, 2011). The entrepreneurs themselves attended training courses provided by the government, 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 subsidised rates. Therefore, training programmes 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 emphasised. As shown in Table II, the SMEs ranked high on product innovation, the application of the latest technologies in process 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 (Damanpour and Evan, 1984). More importantly, the combined competitive strategies would make the SMEs 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.

**Table I. Characteristics of the entrepreneurs and SMEs**

Items	Number	Percentage (%)
Sample distribution	212	100.0
Johore	28	13.2
Malacca	16	7.5
Negeri Sembilan	17	8.0
Kedah	35	16.5
Kelantan	21	9.9
Terengganu	23	10.8
Pahang	19	9.0
Selangor	29	13.7
Sabah	10	4.7
Kuala Lumpur	14	6.6
Gender	212	100.0
Male	102	48.1
Female	110	51.9
Education level	212	100.0
Non-schooling	4	1.9
Primary school	25	11.8
Secondary school	124	58.5
Tertiary education	55	25.9
Others	4	1.9
Manufacturing activities	210	100.0
Food and beverages	119	56.7
Textiles and clothing	91	43.3
Age of business	212	100.0
Less than 5 years	33	15.6
5-10 years	85	40.1
More than 10 years	94	44.3
Number of fulltime employees	212	100.0
1-4	103	48.6
5-19	82	38.7
20 -50	20	9.4
51 and more	7	3.3

Source: Based on the sample survey.

**Table II: Means and rank orders for the competitive strategies by functional/capability area (N=284)**

	Item	Rank (mean)	SD
1.	Firm management	5.26	1.036
	Profit focus/orientation	5.63	1.298
	Safety first (product, employees, workplace)	5.58	1.309
	Giving priority to environment conservation in production	5.54	1.282
	Cost reduction at all levels of production	5.51	1.226
	Effective utilisation of existing production capacity	5.42	1.227
	Ensuring cost/time efficiency in all managerial levels	5.34	1.195
	Having systematic outcome-oriented planning	5.11	1.293
	Using standard accounting procedures	5.02	1.503
	Aggressive action on risk taking	4.97	1.528
	Emphasising product quality (striving for GMP, ISO etc)	4.46	1.905
2.	Marketing	5.18	1.462
	Setting competitive price of products	5.31	1.393
	Application of innovative marketing and promotional techniques	5.24	4.519
	Developing niche market	5.12	2.938
	Product Diversification	5.08	1.565
	Enhancing company reputation and branding	5.05	1.600
	Developing new market (geography and target group)	4.92	1.616
3.	Human resource management	4.50	1.409
	Providing in-house training for workers	4.89	1.622
	Priority for skill workers in new recruitment	4.73	1.716
	Practicing performance-based reward and recognition systems	4.66	1.669
	Encouraging workers to attend skill training outside	4.49	1.636
	Encouraging active worker's participation in decision making of production	4.48	1.724
	Attending courses or training provided by government agencies	4.42	1.949
	Attending courses or training provided by private agencies	3.80	1.937
4.	Innovation	4.05	1.372
	Introduction of new product	4.67	1.645
	Application of the latest technology in production process	4.44	1.667
	Application of the latest technology in product	4.41	1.706
	Materials Sourcing from new suppliers/sources	4.21	1.894
	Using new material combination in production	3.99	1.812
	Employing the Internet in business	3.59	4.052
	Investing in research and development (R & D)	3.33	2.048
5.	Global orientation	2.61	1.626
	Striving for international standard (ISO etc)	3.17	1.961
	Striving for meeting foreign consumers and distributors	2.90	2.040
	Putting more efforts to penetrate export market	2.82	1.968
	Export market expansion	2.67	1.954
	Production cooperation with foreign counterparts	2.48	1.799
	Market networking with foreign counterparts	2.44	1.801
	Entering smart partnership with foreign business counterparts	2.40	1.759
	Outward investment (Investing abroad)	2.00	1.565

Note: N=212.

Source: Based on the sample survey.

On the contrary, the least emphasis of the SMEs was on the application of the Internet in business and the investment in research and development (R&D). The Internet is the heartbeat of the present digital economy. It tremendously transforms the way the people doing business worldwide. Using the Internet, smaller businesses are able to reach consumers beyond their traditional geographical locations.

With the Internet, the impossible becomes possible because smaller firms have equal opportunities alongside their larger counterparts to market products or services almost anywhere in the world. Through the Internet, an entrepreneur can develop a web site either to display or sell their products or services depending on the type of e-commerce they subscribe to. If they opt for information-based e-commerce, the entrepreneurs can display their products and services only; but if they develop the transaction-based e-commerce, the firms can display and sell their products or services online as well as receive payments from the customers. Unfortunately, the SMEs in this study did not emphasise the Internet as their competitive strategies in business. This finding is consistent with other reports that Malaysian SMEs are slow in adopting the web. Without denying an increasing trend in the web adoption, at present only about 37 per cent of the SMEs choose to have a web site due to some barriers in money, risks, technicality and knowledge in information technology (see Alam, 2009).

R & D investment in the West is remarkable not only in large organisations (Talebi and Tajeddin, 2011), but also in SMEs. The SMEs in Italy, for instance, spent 1.1 per cent of the Gross Domestic Products on R & D; 1.8 per cent in the European average and 2.3 per cent in the OECD average (Kumar, 2010). Quite the opposite, low R&D investment among the Malaysian SMEs is a major concern because it would retard the growth of the sector. In fact, knowledge and competencies are cumulative over time and very much dependent on R&D capability obtained in the past (Cohen and Levinthal, 1989). Despite a positive impact of R&D investment, this investment entails a long-term investment of specialised resources and incurs a high degree of uncertainty as instant returns are not guaranteed (Wang and Hsu, 2010). In other words, investment in R&D would lead to innovation, but many SMEs realise that R&D investment involves high explicit and implicit costs. Moreover, adjusting the level of R&D spending itself is costly because hiring and training high-skilled workers to be involved in R&D activities are normally expensive (Czarnitzki and Hottenrott, 2011). Access to external funding for SMEs is also extremely restricted. They have no choice, but to rely on internal sources of fund to invest in R & D. Unfortunately, small and young firms may not be able to accumulate sufficient profits from their products or service portfolio. As a result of such financial constraints, firms may choose to conduct R&D activities at a sub-optimal level, on selective basis or may forget about R&D at all (Czarnitzki, and Hottenrott, 2011).

The SMEs also did not give much attention to global orientation in their competitive strategies. The mean score for this construct and all its items are far lower than the mid-rank value of 4. This is another cause for concern because SMEs elsewhere have increasingly internationalised their business (Coviello and McAuley, 1999). Many barriers confront SMEs for global orientation of their operation, among others related to competition policy, legislative and regulatory frameworks, telecommunication infrastructure, research and education policy, intellectual property rights, political risks, corruption, and rule of law in which the sector is less equipped to address these obstacles compared with larger firms (OECD, 2004).

Knowledge about foreign market is, however, identified as one of the greatest barriers to embarking on global orientation. Knowledge of potential global entrepreneur is in turn contingent upon many other factors, such as the level of education, foreign market experience, ability to speak a foreign language and the place they were born (see Chetty and Campbell-Hunt, 2003). It should also be borne in mind that not all SMEs have growth orientation as their prime goal (Porter, 1996). The adoption of global orientation approach in business incurs rising costs, especially at the initial stages of expansion (Chiao, *et al.*, 2006). The costs of globalisation might exceed its benefits if the growth of resource commitment and the internal capabilities of the firms lag behind the internationalisation growth rate (Hitt *et al.*, 1997; Tallman and Li, 1996). Besides lack of resources, which hinders a firm to adopt global orientation in their operation (Welch and Luostarinen, 1988), most SMEs have no clear objectives for their existence. In fact, many small and medium entrepreneurs went into business simply because they were unemployed or they had nothing to do.

#### *Multivariate analysis*

As this study is exploratory in nature, no single hypothesis is stated and going to be tested. Nevertheless, it is interesting to examine competitive strategies across the F & B and T & C industries. As displayed in Table III, the SMEs in both industries showed insignificant differences in all firm management, marketing and human resource management items ( $p > 0.05$ ); but had some differences in innovation and global orientation. The three significant differences in the innovation domain were the introduction of new products, the application of new technology in production process and the investment in R&D ( $p < 0.05$ ) in which the firms in the F&B industry took the lead. The firms in the same industry also showed significant differences in all, but one item of the global orientation.



Indifferent emphasis on firm management, marketing and human resource management across the two industries proves that the SME majority had realised the importance of these fundamental competitive strategies for their business. The SMEs in both industries were domestically oriented in their product market. The only questions now are: why did the SMEs in the F&B give higher emphasis on certain R&D elements, i.e. product innovation, process innovation and R&D investment than that of the T&C SMEs? And why did the SMEs in the F&B emphasised more on almost all the global orientation elements as compared to the T&C SMEs? Recent trends show that competition in the food and beverage industry becomes stiffer as many new players entered the small market.

**Table III. Competitive strategies of SMEs by industry**

Dimension	Items	Mean		t-stat
		F&B	T&C	
Firm Management	Profit focus/orientation	5.60	5.61	-0.36
	Safety first (product, employees, workplace)	5.52	5.30	0.88
	Cost reduction drive at all levels of production	5.41	5.44	0.24
	Priority to environment conservation in production	5.40	5.27	1.18
	Ensuring cost/time efficiency in all managerial levels	5.34	5.27	0.02
	Effective utilization of existing production capacity	5.39	5.39	-0.34
	Having systematic outcome-oriented planning	5.28	5.07	1.78
	Using standard accounting procedures	4.97	4.75	1.64
	Aggressive action on risk taking	4.88	4.69	0.71
	Product quality (striving for GMP, ISO etc)	4.76	4.50	1.71
Marketing	Application of innovative marketing and promotional techniques	5.35	4.98	0.80
	Setting competitive price of products	5.31	5.39	-0.31
	Enhancing company reputation and branding	5.15	5.12	0.67
	Product diversification	5.06	5.23	-0.74
	Developing new market (geography and target group)	4.95	4.83	1.12
HRM	Developing niche market	4.92	5.21	-0.81
	Performance-based reward and recognition systems	4.90	4.70	-0.87
	Priority for skill workers in new recruitment	4.60	4.63	-0.07
	Providing in-house training for workers	4.58	4.89	-1.16
	Encouraging active worker's participation in production decision making	4.31	4.40	0.22
	Attending courses/ training by government agencies	4.28	4.08	1.15
	Encouraging workers to attend skill training outside	4.15	4.39	-0.81
Innovation	Attending courses/training by private agencies	3.94	3.64	1.52
	Application of the latest technology in product	4.61	4.25	2.59**
	Introduction of new product	4.58	4.86	-1.70
	Application of the latest technology in production process	4.58	4.28	2.33*
	Materials sourcing from new suppliers/sources	4.21	4.15	0.67
	Using new material combination in production	3.98	4.09	0.05
	Employing the Internet in business	3.76	3.48	0.97
	Investing in research and development (R & D)	3.64	3.23	1.99*
Global Orientation	Striving for international standard (ISO etc)	3.55	3.36	2.32*
	Striving for meeting foreign consumers and distributors	3.26	2.98	2.78**
	More efforts to penetrate export market	3.16	2.93	2.66**
	Export market expansion	2.99	2.79	3.03**
	Production cooperation with foreign counterparts	2.69	2.44	2.33*
	Market networking with foreign counterparts	2.65	2.43	2.08*
	Smart partnership with foreign business counterparts	2.64	2.49	2.64**
	Outward investment (Investing abroad)	2.22	2.00	1.65

Note: F&B, food and beverages (N=119); T&C, textiles and clothing (N=91).

\*Significant at the 0.05 level; \*\* significant at the 0.01 level.

Source: Based on the sample survey.

Those who are familiar with the F&B in Malaysia also realise that this sector is more dynamic than the T&C industry. Given the resource-rich country in food materials, many firms have ventured into higher value-added food processing and fruit-based drinking manufacturing. On the contrary, the T&C provides little opportunities for local firms to improve their capabilities since this industry is heavily dependent on imported raw materials and heavy competition from low cost producers. This partly explains why approved investment in this industry dropped, whereas the food processing industry alone experienced a 56.5% growth in approved investment between 1996 and 2005 (MITI, 2006). With the increased number of food and beverage manufacturers, which have developed their capabilities in the domestic market and venturing into the export market (MITI, 2006), more SMEs in the industry have no choice but to innovate and globalise their business.

While the causes of the differences in strategies need further research, the impact of higher innovation and global orientation is obvious. The F&B along with some other resource-based industries, such as chemicals and plastic products and rubber products turned out to be the key growth driver in the growth of manufacturing value added, which outperformed the overall manufacturing sector since 2005 (Malaysia, 2010b). In contrast, the T&C industry experienced a significant drop in production at the end of the 2000s due to competitive pressure from low cost producers (MOF, 2009), and definitely little innovative and global-oriented domestic SMEs.

### **Conclusion**

Competitive strategies have turned out to be more relevant to firms, irrespective of their size, as the pace of globalisation process accelerating in the last two decades. As the absence of literature on Malaysian SMEs in this area, the questions remain whether or not the sector takes appropriate approach in line with the global development. This question should be tackled immediately since SMEs in advanced countries actively develop their resources and capabilities in order to compete in the globalised world. Acknowledging the flaw and the challenges facing the sector, this paper brought up the issue into the limelight. Based on a survey on 122 samples in the F&B and T&C industries, this paper exhibited that the SMEs were not at all overlooked the importance of competitive strategies. Considerable emphasis on firm management, marketing and human resource management provides evidence that the firms were aware of the role of these fundamental resources and capabilities in modern competition. Opposed to Porter's exclusive competitive strategies, the SMEs mixed their strategies into cost minimisation, product differentiation and market niche at the same time in order to compete in the marketplace.

The globalised world, however, demands firms to move beyond the three fundamental managerial resources. More outward-oriented competitive strategies in terms of innovation and global orientation in business operation are now the precondition for firm's survival and competitiveness. Unfortunately, the Malaysia SMEs in the two industries gave low emphasis on innovation and global orientation. Besides, moderate scores on innovation average, low emphasis on the Internet and R&D investment reflect the present weaknesses of the SMEs. While the Internet is the source of market development, R&D investment is the source of knowledge and innovation in general. How to compete in the present world of business without these sources of innovation? This paper also shows how the SMEs view global orientation in their business. It seems that they are not aware of the importance of this issue, even though they are operating in the domestic market. Some good news is that the SMEs in the F&B are innovative and global oriented than that of their counterparts in the T&C. Despite this, the mean scores of the SMEs on innovation and global orientation remain, reflecting their low emphasis on these important dynamic capabilities.

The findings in this paper provide some indications to policy makers how to help SMEs. It cannot be denied that the Malaysian Government under its various five-year plans has spent a large amount of public fund to support the sector, especially after economic recession in the 1980s. Nevertheless, support programmes provided are too diverse, covering all economic and business areas. Learning from support programmes in the West, the focus of SME support should be more on selective basis, moving towards knowledge, innovation and global orientation. The findings also guide the SMEs what to focus on in the immediate future. They should now realise that competitive advantages derived from the three basic resources and capabilities become less applicable as the SME majority emphasised similar competitive strategies. They should instead shift more focus to improve dynamic capabilities in innovation and global orientation. Because this paper does not show how innovation and global orientation affect firm performance, future studies should look into this area, so that complementary knowledge could be obtained for better understanding of this issue.

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