



Faculty of Technology Management and Technopreneurship

**COMPETITIVE STRATEGY IN ENHANCING MALAYSIAN FIRMS'
PERFORMANCE THROUGH MEDIATING EFFECT OF
LIBERALISATION**

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PERFORMANCE THROUGH MEDIATING EFFECT OF LIBERALISATION**

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**A thesis submitted
in fulfillment of the requirements for the degree of Doctor of Philosophy**

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2020

DECLARATION

I declare that this thesis entitled “Competitive Strategy in Enhancing Malaysian Firms’ Performance Through Mediating Effect of Liberalisation” is the result of my own research except as cited in the references. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

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APPROVAL

I hereby declare that I have read this thesis and in my opinion this thesis is sufficient in terms of scope and quality for the award of Doctor of Philosophy.

Signature :

Supervisor Name :

Date :

DEDICATION

Dedication of this thesis is dedicated to:

Allah S.W.T, my Creator and my Master.

My Great Teacher, the Messenger of Allah S.W.T, our Prophet Rasulullah S.A.W.

My Late Husband, Allahyarham Dr. Raja Roslan Bin Raja Abdul Rahman

May Allah S.W. T. Bless him with Peace to his soul, keep him in the company of the Faithful and Granted the Highest Rank in Jannah. I am truly thankful for having you in my life.

My great parents, especially to my late father, Allahyarham Mohd Darus Bin Selong and Allahyarhamah Sariah Binti Kasim who never stop giving love of themselves in countless ways. My siblings, family members and friends who encourage and support me with the symbol of love, caring and giving. Lastly to all the people in my life who touch my heart.

ABSTRACT

The concept of competitive strategy from strategic management is imperative in the small and medium firms (SMFs) as a result of the impression of free trade known as liberalisation. The competitive strategy is aimed at reducing the negative impact of SMFs activities in the free trade. The issue of liberalisation or free trade has earned attention in academic studies in recent years and the relationship between competitive strategy and firm performance has begun to be discussed in stages but still requires more results that depend on the strategic management in the entrepreneurial field. Hence, the focus of the study is on identifying the root cause of competitive strategy as well as for examining how competitive strategy can enhance the SMFs services sectors performance in Malaysia. This study also examines the current competitive strategy and challenges of liberalisation in the Malaysian SMFs and also the effect of moderators in terms of SMF's capability and competency in achieving firm performance improvement that ultimately build a competitive strategy framework in SMFs performance enhancement in Malaysia. Guided by the theory of competitive strategy such as intellectual capital, innovation and quality, this study develops a framework to address the liberalisation barriers to achieving firm performance improvement. Survey data were collected from SMFs in services sectors in Malaysia using cross sectional study design and stratified random sampling methods. A total of 396 questionnaire forms that can be used were collected using physical collection methods and analysed with 'Covariance-Based SEM' (CB-SEM). A total of six hypotheses relationships are supported. This study found that competitive strategy component of intellectual capital, innovation, quality and firm performance were significantly related. Similarly, liberalisation has also significantly related to performance. While liberalisation pressures mediating the relationship between competitive strategy and firm performance. The effect of moderators, capability and competency of SMFs also spurred the relationship between liberalisation and firm performance. Descriptive results indicate that the implementation of liberalisation among service firms in Malaysia are still low due unawareness and understanding responses from respondents. This study makes some theoretical contributions and provides further insights on drivers and the effects of competitive strategy in Malaysia. In the perspective of strategic management, this study provides a valid framework and can be used for SMFs to provide awareness of the importance of liberalisation in their organisations. The implications of this study to policy makers, academics and industry practitioners are to raise awareness of the long-term benefits and effects of liberalisation towards better performance of the firms, and review policies on competitive strategy and regulations in Malaysia to provide policies that support regulation of free trade, incentives and initiatives that will enhance the performance of SMFs in the Malaysian services industry.

ABSTRAK

Konsep strategi berdaya saing dari sumber strategik keusahawan amat perlu dalam firma kecil sederhana (FKS) akibat dari kesan perdagangan bebas dunia yang dikenali sebagai liberalisasi. Strategi berdaya saing ini bertujuan untuk mengurangkan impak yang negatif dalam aktiviti FKS dalam perdagangan bebas. Isu liberalisasi ini telah mendapat perhatian dalam kajian akademik dalam beberapa tahun kebelakangan ini dan hubungan antara strategi berdaya saing dan prestasi firma telah mula dibincangkan secara berperingkat namun masih memerlukan lebih banyak lagi penghasilan yang bersandarkan kepada sumber pengurusan strategik. Oleh itu, fokus kajian ini lebih tertumpu untuk mengenalpasti strategi berdaya saing dan hubungkaitnya yang dapat meningkatkan prestasi FKS dalam sektor perkhidmatan di Malaysia. Kajian ini juga mengkaji kelebihan daya saing dan cabaran semasa liberalisasi dalam FKS Malaysia dan juga kesan moderator dari segi kepayaan dan kecekapan FKS dalam mencapai peningkatan prestasi syarikat yang akhirnya dapat untuk membina rangka kerja strategi berdaya saing dalam meningkatkan prestasi FKS di Malaysia. Berpandukan teori strategi berdaya saing seperti modal intelektual, inovasi dan kualiti, kajian ini membangunkan rangka kerja pemacu untuk menghadapi liberalisasi untuk mencapai peningkatan prestasi FKS. Data kajian dikutip daripada firma perkhidmatan FKS di Malaysia dengan menggunakan reka bentuk kajian keratan rentas dan kaedah persampelan rawak berstrata. Sejumlah 396 borang soal selidik yang boleh digunakan telah dikumpul menggunakan kaedah kutipan secara fizikal dan dianalisa dengan 'Covariance-Based SEM' (CB-SEM). Kesemua enam hubungan hipotesis disokong. Kajian ini mendapati komponen strategi berdaya saing iaitu intelektual, inovasi dan kualiti bersama tekanan liberalisasi mempengaruhi prestasi firma secara langsung dan juga mempengaruhi peningkatan prestasi. Seterusnya, liberalisasi juga mempengaruhi prestasi firma dengan kuat dan mendedahkan kepentingan kesan mediator. Kesan moderator, keupayaan dan kecekapan FKS juga melonjatkan hubungan antara liberalisasi dan prestasi firma. Keputusan deskriptif menunjukkan pelaksanaan liberalisasi di kalangan FKS di Malaysia masih rendah kerana kurangnya kesedaran, dan kefahaman. Kajian ini menyumbangkan teori dan pandangan lanjut mengenai pemacu dan kesan strategi berdaya saing di Malaysia. Kajian ini menyediakan rangka kerja sah dan boleh digunakan untuk FKS perkhidmatan bagi memberi kesedaran dengan kepentingan kesan liberalisasi dalam firma mereka. Implikasi penting kajian ini adalah kepada pembuat dasar, ahli akademik dan pengamal industri, meningkatkan kesedaran tentang faedah dan kesan jangka panjang dari liberalisasi ke arah pencapaian prestasi firma yang lebih baik, dan semakan semula dasar kelebihan daya saing dan peraturan di Malaysia bagi menyediakan dasar menyokong peraturan perdagangan bebas, insentif dan inisiatif yang akan meningkatkan prestasi firma FKS dalam industri perkhidmatan Malaysia.

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LIST OF ABBREVIATIONS

AMOS	-	Analysis of Moment Structure
cr	-	Critical ratio
<i>df</i>	-	Degree of freedom
EFA	-	Exploratory Factor Analysis
EM	-	Expectation-Maximisation
GDP	-	Gross Domestic Product
MCAR	-	Missing Completely at Random
MIDA	-	Malaysian Investment Development Authority
MITI	-	Ministry of International Trade and Industry
<i>p</i>	-	Significant value
PEMANDU	-	Performance Management and Delivery Unit
RBV	-	Resource Based View
RISM	-	Royal Institution of Surveyors Malaysia
SEM	-	Structural Equation Modeling
Sig	-	Significant
SMEs	-	Small and Medium Enterprises
SMFs	-	Small and Medium Firms
χ^2	-	Chi-square

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CHAPTER 1

INTRODUCTION

1.1 Research background

Over the years, the Malaysian government has undertaken various liberalisation efforts to encourage foreign participation in the small and medium firms of services sector. In the ongoing effort to provide opportunities for foreign service providers, the government is revising existing legislation as well as imposing new regulations, while at the same time attempting not to compromise the integrity and quality of current service delivery. The performance of Malaysian these firms is very much regarded as resting on the decision to liberalise the first 8 sectors covering 27 sub-sectors was undertaken to strengthen the Malaysian economy to face the challenges of globalisation, and to restructure the economy to take advantage of the growth potential in the services sector (MITI, 2017). This proclamation should not detract from the previous successes and contributions of firms to the gross domestic product (GDP) at that time, and from their established role in the wider international marketplace. This autonomous liberalisation started in April 2009 and benefits of attracting foreign investment, encouraging the transfer of specialised expertise and technology, opportunities for joint ventures, injecting competitiveness, creating high-value jobs and providing a wider choice to consumers. These sub-sectors include architectural services, engineering services as well as quantity surveying that represent the population for this study. In addition, up to 100% foreign equity is allowed in selected sub-sectors (MIDA, 2012).

This open door policy that drives to transform and modernise the Malaysian economy has unarguably encouraged foreign investment and improved access to the international market. Malaysian firms have been granted access to the international export market, and more employment opportunities have opened up to Malaysians. Nevertheless, it seems that all the benefits of this liberalisation process have not been fully taken advantage of in Malaysia if competition among SMF (small and medium firms) is taken as a key indicator; Malaysia was ranked 24th in the 2014 global competitiveness index (Schwab et al., 2014). Rapid changes in the existing environment of global business along with the continuance of liberalisation pressures triggered by economic and financial crises have brought about both challenges and opportunities for SMFs in Malaysia (Zakaria et al., 2016). In spite of the policies and assistance provided for the development of the SMF services sector, most Malaysian SMFs find it difficult to compete but instead, merely struggle to survive in this liberalised economic environment. The importance of the SMFs' growth and sustainability has yet to be exaggerated in terms of Malaysia's economic growth and development, especially in relation to the competitive global environment (Ismail et al., 2010b). Furthermore, the rising wage levels at the home country and price resistance from foreign clients who continue to associate with other low-cost outsourcing emerging markets threaten the Malaysian SMFs' profitability (Fairell et al., 2005; Milberg and Winkler, 2013).

Therefore, the need was stressed on shifting the nation's economy to a platform which emphasises on a high level of knowledge, skills, innovation and expertise parallel to other countries such as Korea, Germany, Japan, Taiwan and China; countries which once began their economic progress based on agriculture. Going forward, the government's actions are clearly required to facilitate the growth of the services sector by creating more competitive and vibrant market conditions. These measures are expected to enhance direct foreign investment while at the same time promote a more conducive and competitive