Determining Factors for Competitive Performance among Malaysian Frozen Food Manufacturing

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ABSTRACT

Background: The food manufacturing sector in Malaysia has escalated its contribution to the national economy. In particular, the frozen food sector was expected to double its market size by the 2010 over a span of 5 years. As such, the competition in this particular sector is expected to be challenging. Hence, since performance is a crucial indicator of success strategies need to be identified in order to ensure a competitive performance. By that token, using the identified strategic determinants, this study discusses their roles towards competitive performance of frozen food manufacturing companies. Objective: To discuss a model that relates strategic determinants, competitive performance, frozen food, manufacturing and Malaysian food industry. Expected Results and Conclusion: The proposed model will be able to identify the relationship between identified strategic determinants and performance in the frozen food industry; strategic determinants will contribute significantly on performance while corporate strength is found to mediate the relationship between strategic determinants and performance.

INTRODUCTION

Frozen food products in Malaysia are increasing in demand (MIDA, 2010). This includes chilled and frozen food, home meal replacements, ready-to-cook and ready-to-drink meals. According to The Malaysian Agricultural Research and Development Institute (MARDI), the market size for chilled and frozen food is projected at RM3 billion in 2005 and RM5.5 billion in 2010 (MIDA & MITI, 2007). The Malaysian Prime Minister and Minister of Finance, YAB Dato’ Sri Mohd Najib Tun Abdul Razak in his 2012 Budget Speech has mentioned that due to the rising of food prices, the government is addressing this matter by undertaking short term and long term measures which includes the production of main food commodities such as rice, meat, vegetables and fruits. This shows that there is a need to ensure a sufficient supply of food that can be provided continuously (Ministry of Finance, 2011). This could be enhanced through the provisions of frozen foods inclusive of meat, vegetables and fruits. Equivocally, processed and preserved frozen food products can significantly boost the food supply chain by prolonging and extending the availability and demand of foods especially the seasonal types. This was again reiterated by the Prime Minister in his Budget 2013 which had allocated an amount of RM75 million to increase the output of food and health products (Ministry of Finance, 2013). This indicates that the government is seriously focused on boosting the production of food supply as well as promoting healthy living in Malaysia. While the demand for frozen food in Malaysia is increasing, it is imperative to maintain the consistent quality of service operationally (Kandampully, 2000).

Food in nature is biodegradable and easily decayed. This especially matters of frozen foods whereby the products are prepared and then froze before distributed into the markets. That is why it is vital to have the appropriate knowledge and control of the processes operatively throughout the day where frozen foods are being produced to make sure that the quality of foods are consistent and maintained. At the same time, the customers’ expectations as well as satisfaction can be achieved. Significantly, the company’s profits will be increased for producing consistent quality food products.
Consequently, the company can eliminate loses and wastages. Hence, there is really a need for every company to have a good control in ensuring that quality of the manufactured frozen food products are achieved. Studies by Chin & Pun (2000, and Pun (2005) suggested that the keys for successful manufacturing companies lie within the corporate, marketing, technology and operational strengths per se (Chin & Pun, 2000; Pun, 2005).

In a managers’ standpoint, an efficient manufacturing process which emphasizes on quality of products would add value from the company to the consumers’ end. According to Chin & Pun (2000), manufacturing enterprises have to determine their own development paths, and formulate their product development strategies in line with corporate, business, and functional objectives. Further to that, Flynn, Schroeder & Sakakibara (1995 (as cited in Islam and Karim, 2011) stated that as the importance of high-quality production in establishing and maintaining a global competitive position is realised, there has been an increasing interest in manufacturing practices that lead to improved performance such as in the dairy sector (Carew & Florkowski, 2010). Therefore, there are needs for strategies to overcome the inconsistencies in the production of quality frozen food products since the market for processed foods are growing globally and the government is encouraging manufacturers to improve and develop their performances in order to become better competitors in the global markets (MIDA, 2006). Nowadays, competition among companies extends beyond national boundaries and to be the best or a world-class company, something unique is required (Psomas& Fotopoulos, 2009). This concludes that there is a critical need to look into the strategic determinants for the Malaysian food manufacturing sector to increase the performance of frozen food companies in order to become the market leader for quality frozen food products.

**Literature Review:**

As a result, of the stronger Malaysian economic background, there was an increase of 2.4% in the production of food from January to July 2010 (Ministry of Finance, 2011). At the same time, as the manufacturing sector is expected to be involved with higher value-added activities, the government is encouraging manufacturers to move forward by giving further tax and non-tax incentives to aid them to climb up the value chain thus, making the sector more resilient (Ministry of Finance, 2011). Thus, in order to capture markets in a business environment, the concept of strategy has evolved over time. For instance, Chandler (1962) (as cited in Pun, 2005) defines strategy as “the determination of the basic long-term goals and objectives of an enterprise, the adoption of course of action and the allocation of resources necessary for carrying out these goals”. Given a variety of legal constraints and the existence of competitors, Evered (as cited in Pun, 2005) suggests that strategy is “a process for generating viable directions that lead to satisfactory performance in market place”.

According to McDonald (as cited in Pun, 2005) strategy encompasses the following elements:

- a focus on long-term direction of the organisation;
- defining what business the organisation should engage in;
- matching the activities of the business to the environment in order to minimize the threats and maximise opportunities; and
- matching the organisation’s activities to the resources available.

Chin and Pun (2000) stated that for a company to survive and support their growth gradually, it should be competitive and highly equipped with strategy formulation procedures which connect with corporate objectives and business considerations, manufacturing practices and technical strengths of the companies. Hence, it is important to employ, establish and practice the strategy formulation where proactive and reactive approaches are concerned to ensure the best outcome for a company’s competitive performance.

The proactive strategy stresses the initiatives of new product development with outstanding technical features that satisfy strong marketing needs. For the adoption of proactive approach, a firm attempts to explicitly allocate resources to identify and seize opportunities. It would concentrate on technology, research and development (R&D), and consumer marketing. The approach pre-empts competition by being the first to the market with innovative products that competitors have difficulty in matching (e.g. Sony). On the other hand, the reactive approach relies largely on imitating the success of leading companies and their products in markets (Chin and Pun, 2000). A firm waits until its competitors successfully introduce their products and attempts to imitate them or develops similar products with modifications accordingly. Further to that Chin and Pun (2000) highlighted that the adoption of reactive and proactive manufacturing strategies significantly depends on the identification of key strategy determinants.

**Corporate Strengths:**

The definition of corporate strengths reflects three dimensions including a company’s resources and capabilities, its strategic decisions and mission, and the strength of its relationships with the employees and other parties such as clients, unions, and government (Pun, 2005; Lamb, Hair and McDaniel, 2013). Chin and Pun (2000) also mentioned that financial strength has an influence on the composition of a company’s long-term financing of debt, preferred stocks and common stockholders’ equity. The success of a company comes from a good
leader who makes the right decision suitable for the organization and company. This is added by Isik, Arditi, Dikmen, and Birgoul (2009) which stated that leadership involves developing and communicating mission, vision, and values to the members of an organization. Top managers, for example, need to articulate the context and develop the organizational structures and reward systems that encourage middle managers to think strategically (Elbanna, 2009). Nonetheless, the decision making and action taken requires leadership in an organization which demanded good corporate strengths as the backbone.

**Marketing Strengths:**
Marketing strategy refers to an organization’s integrated pattern of decisions that specify its crucial choices concerning products, markets, marketing activities and marketing resources in the creation, communication and/or delivery of products that offer value to customers in exchanges with the organization and thereby enables the organization to achieve specific objectives (Varadarajan, 2010). Furthermore, Musa, Hassan, Yusof and Daud (2010) pointed out that to gain market accessibility, a great amount of effort, time and money has to be devoted to fully understand the market. A company’s reputation is important for a successful business. The image of lasting quality gives consumers trust and loyalty to the brand name (Gehilhar, Regmi, Stefanou, and Zoumas, 2009). Urde and Koch (2014) argued that positioning is the management process that seeks to establish a new position in markets and minds or modifies (fortify or change) an existing one. Lamb, Hair and McDaniel (2013) added that “if a firm’s communications program entices the consumer to try a product or service, the product or service must then be consistent with the consumer’s expectations of the quality” (p. 462). This shows that it is important to be consistent in providing quality product and service for customers to feel satisfied. During the strategy formulation process, the company’s reputation, product and service quality, accessibility to markets, and market positioning are influential markets determinants (Pun, 2005). These objectives are the bullets that can lead to increase in performances. Thus, marketing strengths can be part of a strategy formation and with proper execution can facilitate frozen food companies’ performances.

**Technology Strengths:**
The steps to achieve technology strengths or determinants are the process of taking new technology to the market. Managers should monitor technology developments in the related industry, select appropriate technologies, acquire the technologies and integrate the technologies into their products, so that the improved product performs better than the previous product and competitors’ product (Dhewanto and Sohal, 2014). The Internet is proving to be a valuable tool for competitive intelligence activities as well. Organizations can collect information about their competitors by directly observing product, pricing, and promotion decisions executed by key competitors at their web sites (Lamb, Hair & McDaniel, 2013). Dorling, Scott and Deakins (2006) reported that while technology takes part in the food industry importantly, it does not affect the food products to become superseded overnight but present an opening for new products, process productivity and supply chain initiatives. The challenges of technology in food industry depend on the manufacturer’s organization viewpoint (Rogders, 2008). Although the fast changing of technological development has shown to give food manufacturers a competitive advantage (Orava and Wiklund, 2004), there are a lot of reasons as to why manufacturers chose to be innovative being it positive reasons which gives them advantages or just because the government demand and quality standards which requires them to do so in order to operate (Bigliardi and Dormio, 2009). Nonetheless, innovation has taught companies to be more up to date and organized (Bigliardi and Dormio, 2009).

**Operational Strengths:**
Tatikonda, Terjesen, Patel and Parida (2013) mentioned that new ventures have a better chance of surviving and growing if they adopt an appropriate operations strategy. They added that these operational capabilities can always be useful, but specifically beneficial to particular operational capabilities in specific phases. The competitiveness of many businesses has been eroded by such factors as escalating production and operations costs, lack of a competent workforce, and unfavourable industrial infrastructure. Therefore, operational strengths (in particular production and operations costs, and workforce skills and abilities) are important to companies (Pun, 2005). Companies’ locations must be strategically located on an area where the security is good, developed and in a good environment such as the industrialized park. However, Slack, Chambers and Johnston (2007) argued that “not all operations can logically justify their location. Some are where they are for historical reasons”. As for costs of production and operations, to improve food safety and other regulations in a company will take time and involves money. However, if the company owns plenty of resources and capabilities, it will be an advantage to the manufacturer (Orava and Wiklund, 2004). Lapointe and Cimon (2009) studied that in order to be at the frontier of the industry, a manufacturer has to own a series of distinctive or not easy to duplicate abilities, experiences that the competitors require. This workforce skills and abilities can be obtained through education and competency of the organizational processes and routines (Lapointe and Cimon, 2009).
Data Analysis & Results:
Annual Turnover:
Most of the participating companies were small and medium type of companies, are having less than RM10 million for their annual turnover with 41.7%. This is followed by 37.5% with an annual turnover of RM10 million or equal to RM25 million while another 20.8% have an annual turnover of more than 25 million. This shows that these companies are mostly SMEs which are growing rapidly towards better performance and increasing their revenue every year.

Majority Market:
Almost 70% of the total respondents’ major market is the local market, followed by 41.7% which is the Asia Pacific market. From the total respondents, 87.5% still did not send their products to Europe, while 83.3% failed to export to America/USA and Middle East. Therefore, it could be seen that a majority of the companies marketed their products only locally and the Asia Pacific regions which are construed to be high on demand for frozen foods and favors suppliers from Malaysia perhaps because they had successfully met the stringent product specifications and requirements of quality and thus consumers find them trustworthy and strategic in terms of location.

Company Size:
In total, the respondent companies’ sizes in terms of percentage were found to be: 60% from the medium-scale industry, followed by small-scale industry at 31.9% and large-scale industry at 9.7%. The results indicated that by majority, the medium-scale companies were leading towards better options and opportunities to grow and venturing into challenging businesses which indicated that the frozen food industry were getting more competitive and eager to improve their performances.

Number of Employees:
Almost 40% companies had employees total of 50 and below, while 33.3% had between 51 to 150 employees followed by 27.8% companies having a total of 151 and above employees. The majority of the companies had a total of 50 or less number of employees because they were small-scale companies which do not require many man powers to run a business.

The Theoretical Framework for this Study:
Bootstrapping is a computationally intensive method that involves repeatedly sampling from the data set and estimating the indirect effect in each resampled data set (Preacher & Hayes, 2008). In other words, Bootstrapping is actually used to assess and compare indirect effects in multiple mediator models. MacKinnon et. al (2002, 2004) recommended the use of the distribution of the product approach or bootstrapping over the Sobel test or causal steps approach, on the grounds that the former have higher power while maintaining reasonable control over the Type I error rate. Even though it is the most commonly used method, the causal steps strategy cannot be recommended except in large samples. According to Stevens (1996), large sample size is when 100 or more participants are involved (as cited in Pallant, 2010).

This findings (Figure 1) point out that those strategic determinants may lead to better performance under the condition of greater corporate strength of a company. This finding that suggests corporate strengths mediates the relationship between strategic determinants and performance and is inconsistent with Kit Fai Pun’s theory from hypothesis 2 (2005) which stated marketing strengths as the leading strategy determinants.

At the general level, the findings of this study appear to support the notion that the organizational structure has mediating effect on the strategic determinants-performance relationship in a company. In other words, these findings appear to suggest that the relationship between strategic determinants and performance of companies vary with organizational structure. These findings point out those strategic determinants may lead to better performance. These findings appear to add support to the theoretical argument that matches organizational structure to the appropriate competitive strategic determinants in a firm is crucial in effective strategy implementation.

At the same time, these findings indicate that companies should be concerned with the implementation of strategic determinants based upon their appropriate organizational structure. It is likely that when the strategic determinants matches or fits the organizational structure, the strategic determinants will become effective and hence improve organizational performance.

Based on these findings and previous research findings pertaining to the relationship of strategic determinants and the outcome variables, this present model proposes: there will be a relationship between strategic determinants and performance; strategic determinants will contribute to performance and corporate strengths will affect the relationship between strategic determinants and performance as depicted in Figure 1.

Conclusion:
Figure 1 proposes that 1) strategic determinants are related to performance; 2) strategic determinants play key roles in influencing organizational performance and 3) corporate strength serves as an important role in mediating the relationship between strategic determinants and performance.
A new Theoretical Framework suggested for the Frozen Food manufacturing sector:

![Diagram](image)

**Fig. 1:** A proposed theoretical framework from the outcome of this study.

**Theoretical implications:**
This study has come out with a new paradigm in determining strategic planning and its strengths by the support given by the corporate level in terms of financial and other appropriate funds, mission and commitment. It looked at how corporate support has an impact on the execution of task completion, leading to competitive performances. Indeed, this study has added further knowledge of the significance of strategic determinants and performance in a company that runs competitively. Next, within the Malaysian context, this study enhances and provides understanding to the managers on the role of corporate level in a food manufacturing company mainly the frozen sector.

**Practical implications:**
This study suggests two important practical implications. Firstly, on the basis of the results of this study, managers of companies must realize that the measuring of firm’s performance involves many dimensions. As a result, managers should be aware that a different strategic determinant has a different impact on the performance of companies, depending on which components of performance are considered. Secondly, managers need to be aware of the mediating effect of organizational structure on the strategic determinants-performance relationship. In order to ensure that their firms would continue to survive and being at the top, managers of companies need to be concerned with whole process by getting the corporate insights into the actual environment that are vital to their company’s competitive performance, connect with the company’s corporate strengths and the goal towards competitive performanc. The implementation of the above strategies is necessary to achieve effectiveness and high performance in the food manufacturing industry mainly the frozen food sector.

**REFERENCES**


