The Initial Study of Malaysian Firm Competitiveness

SHUHAIMI JAAFAR
Kolej Universiti Islam Antarabangsa Selangor
shuhaimi@kuis.edu.my

NOR SUHAILY BAKAR
Kolej Universiti Islam Antarabangsa Selangor
norsuhaily@kuis.edu.my

NURZA MOHAMED YUSOF
Kolej Universiti Islam Antarabangsa Selangor
nurza@kuis.edu.my

ABSTRACT

Firm competitiveness is the crucial element for a firm survival. Firms have to operate with determination to maintain their best performance in order to be competitive. Firm competitiveness determine firm's performance in long term rather than short term. The long term performance portrays the guarantee of the firm ability and sustainability. Recently, the importance of firm competitiveness become extremely apparent as firms are facing global socio-economic turbulence.

Keywords: Firm Competitiveness, Performance, Malaysia

INTRODUCTION

Previous global economics turbulence has put many firms in difficult situation. Over 2008 to 2009, the world suffered among the worst financial and economic crisis. The global financial crisis which erupted in August 2007 following the collapse of United States (US) sub-prime mortgage initially had impacted firm performance worldwide. According to US Government Accountability Office (GAO), the crisis had cost USD22.2 trillion. The crisis is not only reduce sales revenue and profit but also impacted share price to plunged, lower dividends, credit impairment by customers, benefit reductions, employee lay-off and bankcruptcy. Malaysia also had impacted from the major economic turbulence in 1998 and 2008. During the economics turbulent many firms have affected badly and had to go through intense competition in order to survive. The intense competition in global and local markets requires firms to improve their competitiveness (Liargovas and Skandalis, 2004).

RESEARCH PROBLEM

Presently in 2018, many firms suffered again due to uncertain economic condition. This time the turbulence is the result of oil price declining, political stability and trade war between United States (US) and China. Malaysian firms particularly also affected as they depends on the export market demand globally. Due to unhealthy atmosphere, competitiveness has become more important than ever for firm's survival and success (Akben-Selcuk, 2016). This was supported by Ambastha and Momaya (2004) stated that firm's survival and success in such turbulent times increasingly depend on competitiveness. Hence, firms need to ensure that they are competitive in order to guarantee their sustainability and to maintain in the market. However, majority of researches and studies relating to competitiveness do not focus on firm competitiveness, but rather take a macro-economic perspective and concentrate on the competitiveness of national economies or countries, regions or other territorial units. According to Oral (2009), measuring competitiveness of firms and benchmarking with other companies are negligible in the literature. This is surprising since measurement of competitiveness of nations has well developed with respected benchmarking studies available. Cetindamar and Kilitcioglu (2013) stated that existing studies concentrate on the measurement of national competitiveness while neglecting firm competitiveness. The purpose of this study is to fill this gap by examining a study on elements and measurement to understand firm competitiveness. Therefore, this study may add the issues on the small number of firm competitiveness literatures.

LITERATURE REVIEW

Competitiveness originated from the latin word “competer”, which means involvement in a business rivalry for markets. The concept of competitiveness is used in many different ways by different stakeholders: politicians, practitioners and in academics. Competitiveness is a complex subject that has been analysed by many scholars using different conceptual approaches. At the beginning, some authors view competitiveness of the firm in terms of productivity. McKee and Sessions-Robinson (1989) pointed out that the company, industry, or nation with the highest productivity could be seen as the most competitive. Porter (1990) defined competitiveness at the organisational level as productivity growth that is reflected in either lower costs or differentiated products that command premium prices.

The other group of authors focus on the association of competitiveness with organisational performance. For example, Scott (1989) defines competitiveness as the ability to raise incomes as rapidly as competitors and to make the investments necessary to keep up with them in the future. Pace and Stephan (1996) offer a more comprehensive definition ± competitiveness is `` ... the ability of the organisation to stay in business and to protect the organisation's investments, to earn a return on those investments, and to ensure jobs for the future". To be able to stay in business, the company must adapt to the changing business environment by developing the proper adjustment measures. (Orozco et al., 2011) stated that competitiveness, in essence, is firms’ ability to win in the business competition, relating to having better capabilities than competitors.

Presently, the definition of firm competitiveness is not only looking into financial and non financial performance but also to firm sustainability. Firm competitiveness pictured the firm long term performance rather than short term. Chikan (2008) stated that the firm competitiveness is a capability of a firm sustainable to fulfil its double purpose: meeting customer requirements at profit. There are other researchers that relate firm competitiveness with firms sustainability (Clarkson et al 2011, Orlitzky et al 2003). Lu et al., (2008) added that competitiveness reflects the improvement potential of performance which traditional economic indicators such as profitability are inadequate to indicate

Competitiveness Background

Competitiveness has been always an interesting topic. Researchers have come up with their own definition of competitiveness depends on the disciplines, interest and context of the research. Earlier, Carpinetti et al, (2000) stated that competitive company is mostly dependent on its ability to perform well in dimensions such as cost, quality, delivery, dependability and speed, innovation and flexibility to adapt itself to variations in demand.

Cetindamar and Kilitcioglu (2013) stated that firm competitiveness is a capability and its potential has to be realized in a firm’s everyday operation. This capability is realized through offering on the market goods and services which customer value higher than those offered by the competitors. Firm competitiveness, in essence, is firms' ability to win in the business competition, relating to having better capabilities than competitors Orozco et al., (2011) . Competitiveness of a firm can be taken as it's ability to do better than comparable firms in sales, market share or profitability Lall (2001). Firm competitiveness pictured the firm long term performance and profitability. Clarkson et al (2011) and Orlitzky et al (2003) relate firm competitiveness with firms sustainability.

Economic literatures examines competitiveness along two different levels: competitiveness of national economies (macroeconomic level) and competitivenes of firms/industries (microeconomic level). This study will concentrate on microeconomic level of competitiveness or firm level competitiveness.

Studies on Firm Competitivenes

Firm competitiveness has been studied in the interdisciplinary fields of strategy, operations and economic (Ambastha and Momaya, 2004). In general, the existence of good financial performance suggests that the firm is doing better in terms of competitiveness since profitable opportunities result in higher production and sales. Liargovas and Skandalis (2010) investigated financial and non-financial determinants of firm competitiveness using a data set of 102 companies listed on Athens Stock Exchange during the period between 1997 and 2004. The results showed that leverage, centrality of the location, firm size, export activity, liquidity and management competence have a significant impact on firm competitiveness. The firm competitiveness was measured using three variables including return on assets (ROA), return on equity (ROE) and return on sales (ROS). Lalinsky (2013) designed a survey and used a firm level dynamic panel data model to investigate the factors affecting firm competitiveness. Using annual data for the period 2001-2009, it showed that the long term profitability of the companies, measured by return on assets is affected by their market share, perceived energy costs, exchange rate stability, the quality of suppliers, and the use of communication technology. The competitiveness study in banking sector are conducted by Abdul Majid et .al (2007), Al Muharrami et al (2006), Turk-Ariss (2010) and Hamza and Katchouli (2014).

The linkage between competitiveness and sustainability from the environmental perspective is embodied in the literature on environmental and financial performance (Clarkson et al 2011, Orlitzky et al 2003). The result suggest that a firm which works actively to improve its environmental performance also achieves positive financial performance over time. Bacallan (2000) found that green supply chain leads to significant value of firm competitiveness and economic performance. These research findings suggest that if they green their supply chains not only would firm achieve substantial cost savings but they would also enhance sales, market share, and exploit new market opportunities to lead to greater profit margins, all of which contribute to the economic performance of the firm. Buckley, Pass, and Prescott (1998) consider competitiveness to be synonymous with a firm's long-run profit performance, its ability to compensate employees and generate superior returns for shareholders.

CONCLUSION

The conventional concept of competitiveness from the business field strategy is one in which a firm becomes "competitive" when its financial returns over time are above the average returns for its industry. It was supported by Chikan (2008) which defined firm competitiveness is a capability of a firm to fulfil its double purpose: meeting customer requirements at profit. Gór (2013) added that competitiveness involves long-term growth, development, the increase or maintenance of the given scale of operations. Current view on firm competitiveness has double focus which the main focus is on technical (profit and productivity) and the other focus is on social (customer welfare and environment).

References

Abdul Majid, Muhamed Zulkhibri and Sufian, Fadzlan (2007): *Market Structure and Competition in Emerging Market: Evidence from Malaysian Islamic Banking Industry*. Published in: Journal of Economic Cooperation , Vol. 2, No. 28 (2007): pp. 99-121

Ambastha, A. and Momaya, K. (2004), "Competitiveness of firms: review of theory, frameworks, and models", Singapore Management Review, Vol. 26 No. 1, pp. 45-61.

Al-Muharrami, S., Matthews, K. and Khabari, Y., "Market structure and competitive conditions in the Arab GCC banking system" , Journal of Banking and Finance (2006), in press.

Bacallan, J.J., 2000. Greening the supply chain. Business and Environment 6 (5), 11–12

Chikan, A. (2008), "National and firm competitiveness: a general research model", Competitiveness Review, Vol. 18 Nos 1/2, pp. 20-8.

Clarkson, P., Li, Y., Richardson, G., & Vasvari, F. (2011). Does it really pay to be green? Determinants and consequences of proactive environmental strategies. Journal of Accounting and Public Policy, 30(2), 122e144.

D, Cetindamar and H, Kilitcioglu. (2013), " Measuring the Competitiveness for a Firm for an Award System", Competitiveness Review, Vol 23, Issue 1, pp7-22.

Elif Akben-Selcuk (2016), "Factors Affecting Firm Competitiveness: Evidence from an Emerging Market", International Journal of Financial Studies, 4(2), 9.

Hamza, H., Katchouli, S., 2014. Competitive conditions and market power of Islamic and conventional commercial banks. J. Islam. Account. Bus. Res. 5, 29–46.

M.E. Porter. *The Competitive Advantage of Nations*. New York, NY, USA: Free Press, 1990.

McKee, K. and Sessions-Robinson, C. (1989), ``Manufacturing productivity and competitiveness'', Journal of Manufacturing,No. 3, pp. 35-9.

P.J. Buckley, C.L. Pass, and K. Prescott. "Measures of international competitiveness: A critical survey." *J. Mark. Manag.* 4 (1988): 175–200

P. Liargovas, and K. Skandalis. "Factors affecting firm competitiveness: The case of Greek industry." *Eur. Inst. J.* 2 (2010): 184–197.

Pace, R.W. and Stephan, E.G. (1996), ``Paradigms of competitiveness'', Competitiveness Review, Vol. 6 No.1, pp. 8-13.

S. Lall. *Competitiveness, Technology and Skills*. Cheltenham, UK: Edward Elgar Publishing, 2001.

Scott, B. (1989), ``Competitiveness: self-help for a worsening problem'', Harvard Business Review, No. 6,pp. 115-21.

T. Lalinsky. "Firm Competitiveness Determinants: Results of a Panel Data Analysis." 2013

Turk-Ariss, R., 2010a. Competitive conditions in Islamic and conventional banking: A global perspective. Rev. Financ. Econ. 19, 101–108. doi:10.1016/j.rfe.2010.03.002