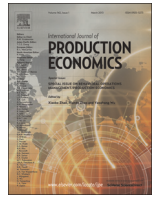




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# Differentiated service consumption and low cost production: Striking a balance for a sustainable competitive advantage in Malaysia

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## ABSTRACT

This paper addresses the challenges faced by third party logistics (3PL) with the fast dismantling of economic barriers, fierce global competition, unyielding economic uncertainties and delicate balancing of a sustainable differentiated consumption and low cost production. These challenges seek answers to strategic choices and operational directions of a firm for survival. Given these circumstances, the objective of this paper is to reveal strategic and sustainable pathways. It precisely targets two major research questions of 3PL. They are: Would market environment or firm competences affect strategic emphasis to implement sustainable consumption and production (SCP)? Would SCP also affect firm sustainable competitiveness? A composite strategic research model supported by MBV and RBV theories provides affirmative answers to these questions. The questionnaires attracted 163 valid responses and the comprehensive and rigorous data analysis show MBV has six and RBV four strategic sustainable pathways through the firm's SCP, 3PL firms are agile in exercising SCP, and IT is capable of directly influencing SCP performance. Theoretically, this research widens MBV and RBV simultaneously to include SCP issues in a novel way, and practically recommends survival pathways for 3PL in Malaysia.

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## 1. Introduction

With the fast dismantling of economic barriers, global competition and its global effects are unavoidable and felt globally. The 2007 financial crisis has lingered on until today and the occasional optimistic recovery are frequently and disappointingly truncated. Against this scenario, the rapid development of trade liberalization and the uncertainties of the global economy would invariably have firms ask of the strategic and operational directions for survival. This paper precisely targets two major research questions for 3PL. They are: Would market environment or firm competences affect strategic emphasis to implement SCP? Would SCP also affect firm sustainable competitiveness? These two questions are important as firms have to deal with the changing and difficult global economic landscape to sustain competitiveness. This difficulty is compounded by the divergent nature of SCP (Vonderembse et al., 2006; Porter, 1996a) and pressured by the continued deterioration of the global environment which is the unsustainable pattern of consumption and production of industrialized countries (Tseng, 2013)

In order to achieve the aims of this paper, this research uses the theoretical lenses of the Market-Based View (MBV) and the

Resource-Based View (RBV) to determine if external environmental factors and firm's internal competences respectively would influence sustainable competitiveness through strategic emphasis and SCP. The MBV involves extended rivalry and bargaining power (Porter 1980, 1996b) while RBV involves functional deployment (Huo et al., 2008) and IT capability (Sum et al., 2001). Strategic emphasis involves low cost and differentiation (Porter, 1980, 1996a), SCP comprises differentiated service as the metric for consumption and lower cost as the metric for production (Demsetz, 1983), and sustainable competitive advantage (Porter, 1980, 1996b; Barney, 1986; Hill, 1988) consists of financial performance. These market forces, firm competences, strategic emphasis and SCP metrics are aligned to determine if they influence the firm's sustainable competitiveness (Coyne, 1986) (see Fig. 1 – the annotated conceptual framework). Both the strategic emphases and SCP are “factors for increasing a firm's effectiveness and for better realizing sustainable organizational goals to enhance competitiveness, achieve better customer service and increase profitability,” (Tseng et al., 2015).

This paper contributes to theory and practice in several ways. First, it widens the concept of SCP to include differentiated service as the metric for consumption and lower cost as the metric for production (Demsetz, 1983). This paper converges the theories of MBV (Porter, 1980, 1996a), RBV (Barney, 1986; Day et al., 2015), the economic theory of the firm, the economic view of SCP (Gunasekaran and Spalanzani, 2012), and the strategic theory of the firm (Rumelt, 1984; Foss, 1997) on a single conceptual research framework. The findings provide the

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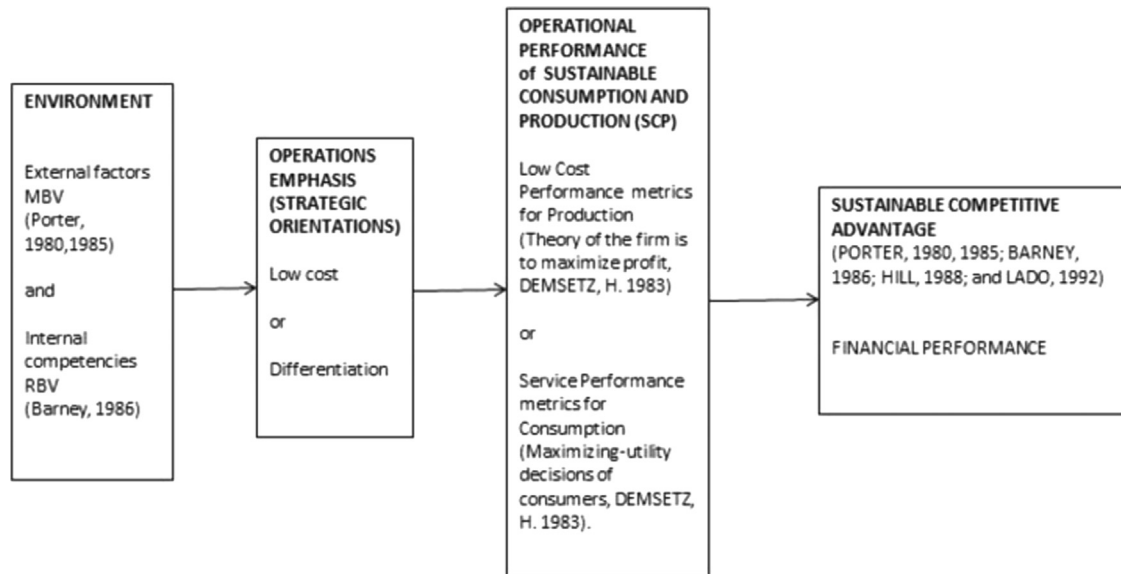


Fig. 1. The annotated conceptual framework.

important and practical strategic pathways to manage SCP for a firm's sustainable competitive advantage amid an uncertain global economy. The findings of this research rest on its comprehensive and robust research methodology, the research questionnaires which are validated through pre-test and pilot tests, a properly selected national 3PL directory consisting of a relevant pool of respondents, and a rigorous data purification process before data analysis.

The rest of the paper is organized as follows. Section 2 describes the economic uncertainties and strategic theories. Section 3 consists of literature review and lays the theoretical foundations for the hypotheses development in Section 4. Methodology is explained in Section 5. The results, discussion and conclusion are found respectively in Sections 6, 7, and 8.

## 2. Economic uncertainties and sustainability

Economic uncertainties have its bearing on strategies and these uncertainties could easily invite quick moves by competitors which are unexpected and unconventional (Esper et al., 2007) making the environment more competitive (WTO, 2013). Therefore, the future success of logistics service providers (LSP) will be determined even more by their adaptability to the frequent challenges of their industry environment (Kumar, 2013; Arvis et al., 2012; Daugherty et al., 2011). Noting these challenges, disruptions are equally likely to occur (Macdonald and Corsi, 2013; Craighead et al., 2007). The failure to prevent disruptions will lead to financial losses, lost sales and negative impact on shareholder wealth, and operating and financial performance (Srinivas et al., 2013).

In relation to the above scenario, the sustainability of LSP in Malaysia warrants attention. Malaysia has effectively positioned itself strategically in the service-based economy as the service sector contributed to 54.6% of the Malaysian Gross Domestic Product (GDP) in 2012 (MITI, 2006, 2012; Malaysia, 2013). In addition, Malaysia improved its ranking to become the 24th and 25th largest exporter and importer respectively in world trade in 2012 (WTO, 2013).

Despite the positive growth in trade, Malaysia was ranked a mere 29th place on the Logistics Performance Index (LPI) scores obtaining only 79.8% as compared to Singapore, the best performer in the world (Arvis et al., 2012). The comparatively poor performance could be due to the relatively higher logistics costs which greatly constrained the competitiveness of the Malaysia economy. The logistics costs of Malaysia relative to its GDP (13%) is higher

than Singapore (8%) (Liu, 2012). This has put pressure on LSP to balance the conflicting challenge of low cost production and better services for consumption to remain competitive in managing the complex international and domestic supply chain (MITI, 2006).

## 3. Theoretical foundation

This section describes the two major theories that support the conceptual model.

### 3.1. Internal resources – RBV

The RBV is a useful approach to identify internal resources (Warren, 2002) and capabilities (Day, 1994) that are crucial determinants of competitive advantage leading to firm performance (Teng and Cummings, 2002). Only by meeting the four resource criteria (valuable, rare, non-substitutable and inimitable) would the resources be potentially capable of contributing to the attainment of competitive advantage to achieve performance (Newbert, 2008). Normally, such resources are a complex bundle of distinctive resources exercised through organizational processes that ensure coordination of functional activities (Day, 1994). Newbert (2008) aptly describes this capability as resource-capability.

Functional involvement and IT capability are valuable and are theorized respectively by Huo et al. (2008) and Sum et al. (2001). Both functional involvement and IT capability also fulfil the RBV attributes of rare (Bharadwaj, 2000), non-substitutability (Barney, 1991) and inimitability which also requires a combination of the three resource characteristics of unique historical conditions, causal ambiguity and social complexity (Wade and Hulland, 2004). The fulfilment of these attributes qualifies functional involvement and IT capability as variables for RBV.

### 3.2. External environment – MBV

The firm's market powers are essentially derived from structural market factors and provide a valuable base to the firm in a competitive evolving environment to gain competitive advantage (Makhija, 2003). The three sources of market power frequently highlighted are barriers to entry, bargaining power and monopoly (Grant, 1991). These follow from Porter (1980) who develops MBV focusing on firm-specific strategies and recommendations. It focuses on industry

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