Competitive Strategies, Mediating and Moderating Effects on Small and Medium Firms (Smfs) Performance in Malaysia

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Experiencing competitive strategies growth, the services industry has gained an important role in the worldwide trade involvement. The competitive strategies were aimed at increasing the positive impact of a firm's activities in the global liberalised market. The focus of the study was investigating the causal relationship of competitive strategies, as well as examining how it can enhance the small and medium firms' in services sectors performances in Malaysia. The stratified random sampling methods were used in collecting survey data from services firms in Malaysia using a cross sectional study design. The physical data collection method was analysed with 'Covariance-Based SEM' (CB-SEM), where 196 samples were used to run EFA analysis using principal component analysis (PCA), extraction and varimax rotation, while the remaining samples of 200 were treated as validation data for confirmatory factor analysis (CFA). The results show that the competitive strategies consist of intellectual capital, innovation and quality, which are significantly related to a firm's performance. The relationship of competency as the moderator, also significantly related between liberalisation and a firm's performance. The study concluded that competitive strategies were necessary for a country's growth through the development of a valid

framework that can be used to aid the competitive strategies awareness at its importance in SMFs in the services sectors.

Key words: *Competitive strategies, liberalisation, competency, firm performance.*

Introduction

Small and medium firms (SMFs) are continuously grown into the source of employment, which contributes to the economic improvement and transformation towards the developed nation (Lasuin, Omar, & Ramayah, 2017). In Malaysia, the services sector leads SMEs with 90 per cent of business establishment, followed by manufacturing (5.9%) and construction (3.0%) (SME Annual Report 2014/15, 2015). The current market liberalisation interference would increase the competitiveness (Bernama, 2017) that impedes the SMEs growth when its focused on the elimination of tariffs and upholding the economic development, innovation, efficiency, and competitiveness (Northam, 2016;Harun, 2017). This becomes the grounds for local SMEs to develop growth in a larger market access the stimulation of services and offers while creating vigorous competition for an international market through trade liberalisation (Lasuin et al., 2017). The businesses should continue with the competitive strategies in order to capture the largest market internationally for sustainability and growth even in the uncertainty of the world's economy.

Many of the previous studies in competitive strategies were matched with the firm's performance. In the recent studies, the external environment forces of liberalisation have not been researched in Malaysia's context. But yet, shifting the firm into competitive offerings has become more challenging globally, especially in addressing liberalisation climate change. For instance, the withdrawal of US from TPP signifies a loss for Malaysia as the country has lost the growth and export chances in terms of trade and enormous foreign direct investment (FDI) in flows with US over the long-term period (Chua, 2017). Nevertheless, SMFs should see that they can enhance the services offers in the international market in order to outperform the rivals in getting a greater share of the existing market. However, in response to this, it requires competitive strategies for the firms to be conceded.

Competitive strategies are the firms planning for SMFs in facing the rapid competitive market. In addition, the business environment presently has witnessed extreme competitive challenges among firms, and this has urged the business firms to reconsider their approaches of operation in order to sustain the activities in the market place (Onditi, 2018). Nevertheless, competitive strategy supports the business environmental challenges over rivals in attaining positive firm performance, both quantitatively and qualitatively strategies and firm performance regardless, the precise strategy works the best (Pearce & Robinson, 2007). While strategy is the direction and scope of a firm over the long term which enables them to

accomplish an advantage in altering environment through its arrangement of resources and competencies with the objective of the stakeholder's expectations (Johnson, Christiensen, & Kagerman, 2008). Resources were the components that were built for the competitive strategy and competencies that are to measure which elements of those that be suitable for the firm's performance improvement. Firm's profit target is supported by the competitive strategy due to the competencies which significantly influence the firms' performance (Maznah, Isa, Saman, & Preece, 2015).

Since Malaysia greatly benefits from trade liberalisation, whereby accessing into the large international market, liberalisation interference on competitiveness possibly may draw a different view of contribution view in this research. Moreover, the economic growth through foreign direct investment and improvement of overall trade efficiency are the benefits are derived from liberalisation (Hamid & Hung, 2015). Definitely, the mediating effect of liberalisation landscapes on the competitive strategy will give insights into the firm's performance. Hence competitive strategy means being different when performing activities when compared to rivals and providing distinctive features. Obviously, this will divert the focus on the SMFs of professional services in Malaysia and this shifting the attention for the industry as a whole.

Literature Review
Porter's Generic Theory

The porter's generic strategies theory model and its discipline value were applied to describe the competitive strategy options that are available to business firms, together with the qualitative and quantitative measures of firm performance. The Porter's generic strategies model is one of the most used models in the area of competitive strategy research. Porter, (1980) generic strategies model differentiation formed the focus of this study. The differentiation strategy requires a firm to develop service offers based on unique features, that are valuable by customers and perceived outstanding differentiation from the competitors. The uniqueness of value supplemented sanction for premium price and hold the higher prices that firm that the cost be borne by the customers and difficult for substitutions (Onditi, 2018). Porter (1985), stated that the differentiation strategy can be based on technology, design or innovation. Porter (1980) argues that competitive concentration in the market is an important determinant of firm profitability in a given industry and good performance as the above average rate of return sustained over a period of years. Therefore, the principal developments in strategy analysis that focused upon the link between competitive strategies and the external environment of liberalisation as the extension has gained increasing interest for this study. Porter (1998) contends that for long term profits, those competition strategies of a firm will influence its performance. Therefore, in competitive strategy and firm performance, leaders

of firms develop competitive strategies which enable them to acquire and maintain a competitive edge in the market (Porter, 1985).

Competitive Strategies

Competitive strategies comprise of intellectual capital, innovation and quality, which are all the sources that serve as a source of firms' competitive advantage. The knowledge attainment through nurturing a competitive strategy that in turn impacts the performance of the action in the foreign unit and this will gain competitive advantage and leads to superior performance (Pehrsson, 2019; Malika and James 2016). Competitive strategy enables the development of intellectual capital, which consecutively accelerates the innovation of an organisation (Chahal & Bakshi, 2015), as well as attaining a competitive advantage that is generated by quality (Attiany, 2014). The consensus of several authors grasped that intellectual capital is a strategic resource for organisations that leads to competitive advantages (Isabel, 2017). Competitive strategies are the heart of success or failure of a firm, where in today's firms largely benefit from them. Obviously, the competitive strategies are important as it offers firms with a competitive advantage that can make an impact on the firms' performance.

Competitive Strategies and Firm Performance

The domestic and international markets, such as liberalisation, has altered the consumers demand patterns. The unexceptional factors of competitive strategies have contributed largely to the firm's performance growth. Therefore, the competitive strategies of intellectual capital, innovation and quality are persuasive in bringing the firm towards competitive advantage. The intellectual components that can improve business performance which consist of human capital, structural capital and relational capital (Karimi, 2012). Besides, innovation is the most important dynamic that enables SMFs to be highly competitive at the national and international market (Minna Saunila, 2016). It develops the extensive for SME economic performance all over the world (Beyza, Ta, & Apak, 2014). Likewise, quality is a firm's top priority in order to differentiate their services in a highly competitive environment (Satapathy, 2014), which is essential for the success and survival of firms that recognise the importance of generating and retaining their customers (Owusu-Frimpong & Nwankwo, 2012). The three components of competitive strategies are therefore, effects are hypothesized as shown as below.

H1: Competitive strategies are significantly related to firm performance.

Competitive Strategies and Liberalisation

Competitive firms must be able to get into the open market such as liberalisation, therefore competitive strategies are predictable to give some insights of their relationship with

liberalisation. Firms that are considering the intellectual capital into the financial statement are more competitive and are found to be more successful (Chiucchi M.S., 2008; Steven, 2011; Youndt, Subramaniam, & Snell, 2004). In support, it was proven that measuring intellectual capital and analysing its potential growth would allow for the better performance of competitive forces (Teece et al., 1997b; Shamsudin et al., 2013), including the free trade. Likewise, innovation is the most important for vibrant SMEs to be highly competitive at in the global market, which are organised and structured to support liberalisation activities. Innovation and global orientation are adopted by firms as it has become crucial for firms to compete with their rivals in the open economy (Mohd Rosli, 2012). In addition, firms are at an advantage when the trade liberalisation permits firms for inputs upgrading at a low cost with upgraded quality of their exported products (Bas & Strauss-Kahn, 2013). Therefore, the liberalisation of international trade does facilitate the enlargement and reciprocated integration of market edges through the exclusion of trade barriers (Hamid & Hung, 2015). Liberalisation consents for firms to heighten their network configuration and pricing strategy initiatives (Oum, Zhang, & Fu, 2016). Firm This results in the firm having becomes better survival, and increased revenue and growth, which translates into optimise an optimisation of performance. Thus, competitive strategies must be properly strategies strategized in fronting dealing with the liberalisation challenges. Therefore, the aforementioned effects are hypothesized as shown as below: -

H2: Competitive strategies are significantly related to liberalisation.

Liberalisation and Performance

Liberalisation appears to be an issue for services offered in the open market globally as compared to the products of physical goods. The growth of businesses in the host country are lagging behind, because these businesses are mostly subject to the local requirements that may have a different process from their home country. However, the positive side of liberalisation is the ability to expand the number of goods produced and exported that increase the firm and export performance (Goldberg et al., 2016). Hence, the competitive strategies features are important in improving the firm's competitiveness in the liberalisation market. In support, intellectual capital has been examined profoundly in the global context (Ozkan, Ayaz, & Baran, 2018) and significantly related to liberalisation that has emerged as a key trend as the monitoring of financial statements or balance sheets (Ilič, Bernjak, & Rus, 2016) that reflect the firm's performance. While, the intellectual capital investment is prepared for more innovative firms, better responding to market changes, capable for customisation and learn fast in adapting to routine and strategies (Olaleye Faloye, 2015) in the liberalisation environment. Consistency strategies gets enhanced in quality consciousness and high level of customer satisfaction (Gautam & Singh, 2012). High quality services resulting in the increase in marginal costs but reduced in tariff that beneficial to performance

of export markets (Bas & Strauss-Kahn, 2013). Thus, the aforementioned effects are hypothesized as shown as below: -

H3: Through the competitive strategies, liberalisation has a positive relationship with firms' performance.
H4: Liberalisation mediates the relationship competitive strategies and firms' performance.

Competency

Competency is a unique adaptability with value, rareness, and imperfect imitability, that allows for the development of environments that create a strong organisation derived from the competitive advantage (Genç, 2013). Besides, the optimisation of competitive strategy through competency may potentially gain a company competitive advantage and in turn lead to superior performance (Malika James, 2016; Barringer and Ireland, 2012). The introduction of competency ability measures its role on the competitive strategy elements, which at present have not been integrated as moderator in the past research. Therefore, the intellectual capital improvement of values in competitive strategy operationalised by qualified, adequate with continues services which handled effectively and efficiently will raise the overall performance (Ozkan et al., 2018) and it is necessitating that competency which leads to the competitive advantage and brings about a business's success (Ahmad, Rahman, Amran, & Taghizadeh, 2015). Meanwhile, innovation offers competitive strategy attainment when the firms are able to differentiate themselves in multiple market areas and enhancing the global export performance (Lecerf & Omrani, 2019). In identifying high quality opportunities in competitive strategy, the long-term advantages and business performance success depend largely on the role competency as moderator that driven entrepreneurs' actions and decisions for more lucrative outcomes (Ahmad et al., 2015). Henceforward, the competency role was the moderator between the independent variables of competitive strategies in improving firms' performance through mediating effect of liberalisation. Therefore, the aforementioned effects are hypothesized as shown as below: -

H5: The effect of competitive strategies on firms' performance is moderated by competency.

Conceptual Framework

In the light of the specified study objective, prior reviewing the pertinent literatures, Figure 1 below presents a simplified conceptual framework underlying the empirical work in this paper.

Figure 1. Conceptual Framework
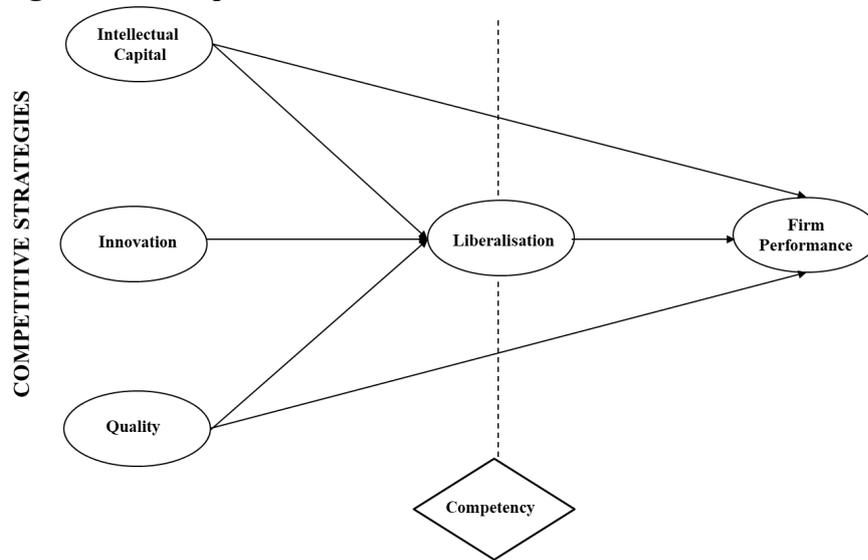
Methodology

The population of all professional firms in this study is 4,658, as acquired from the MOF's database on 23 October 2017. However, the population of the surveying disciplines of SMFs for all over Malaysia is 857, which are located in the central region and southern region. These locations were considered because both states house the largest number of surveying firms in Malaysia. Compared to the professional surveying firms in other states, this sample population is the most appropriate and relevant for the study's purpose of statistical analysis. The sample size for this study was determined based on Krecjie and Morgan's (1970) table that suggested a range of 354 to 357. In order to reduce the non-response bias problem, the sample size was increased to 500 (Hair, Anderson, Tatham, & Black, 1998).

Measurement

A total number of 396 samples were collected, a number which exceeds the minimum sample size necessary for Structural Equation Modelling (SEM) analysis. The sampling technique used in this study is probability sampling. This study was based on large-scale data collection. Structured interviews in the form of questionnaires were utilised for data collection. The structured interview began with the demographic variables which were categorised under the headings of age of business establishment, status of business entity, sales turnover/number of employees, position, duration of holding position and the number of registered professionals in the firms, together with the understanding and awareness about liberalisation. This followed by the independent variables, moderator, mediation and also the dependent variables. The structured interview was a seven-point Likert-scale ranging from 1 (Strongly Disagree) to 7 (Strongly Agree).

Data Analysis

The demographic profile of the respondents analysed with IBM SPSS statistics software version 2.1. Then, the underlying items of each factor were identified in exploratory factor analysis (EFA). The principal components analysis (PCA) and orthogonal model with varimax rotation was used to perform the EFA. The orthogonal rotation can generate a higher generalisability and replicability power when compared to the oblique rotation, and it is less complicated because the factors are uncorrelated with each other (Tabachnick & Fidell, 2001). After conducting the EFA, the measurement of the relationship between competitive strategies factors and firm performance were the identified dimensions and were checked using the confirmatory factor analysis (CFA) and subsequent SEM analysis (O'Loughlin & Coenders, 2004). The Kaiser-Meyer-Olkin (KMO) and Bartlett's test of sphericity was also conducted to measure of sampling adequacy was checked. According to the rule, the value of KMO should be greater than 0.70. A multiple-fit index should be used to assess the goodness-of fit (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014; Rex B. Kline, 2011).

Result and Discussion
Exploratory factor analysis

The exploratory factor analysis (EFA) was carried out by evaluating the calibration sample of the 196 surveys. The principal components analysis (PCA) and orthogonal model with varimax rotation was used by the researcher in this study. The orthogonal rotation is able to generate a higher generalisability and replicability power compared to the oblique rotation and it is less complicated because the factors are uncorrelated with each other (Tabachnick & Fidell, 2001). The results of the final EFA based on the structure matrix with the Bartlett test $\chi2$ (df = 918, n = 196) = 1446.8, p < .005. All factor loadings were generally high, with the lowest loading equal to .68. Three items under quality and two items under innovation were deleted.

Confirmatory Factor Analysis

The confirmatory factor analysis (CFA) and subsequent SEM analysis (O'Loughlin & Coenders, 2004) were checked for the identified dimensions. This study measures the relationship between competitive strategy and firm performance. The pooled-CFA procedure is whereby all of the procedures are performed simultaneously. As the combined increase the degree of freedom for the model, the constructs that had less than four items were excluded from the model (Awang, 2016). The measurement model that combines all constructs validated through CFA procedures, that consist of both exogenous and endogenous variables. The model fit was achieved after several procedures on the modification indices and

covariance between variables. The model was refined and items with low factor loadings were removed in order to achieve the model fit where the goodness-of-fit for all constructs were accepted with CMIN/DF= 1.632, CFI = .914, TLI=.908, and RMSEA = .05.

Reliability and Validity of Constructs

Table 1: Reliability tests

Construct	Composite Reliability (CR)	Average Variance Extracted (AVE)
Competitive strategies	0.77	0.53
Liberalisation	0.67	0.61
Capability	0.71	0.67
Competency	0.76	0.73
Performance	0.65	0.59

Indicator reliability was examined by the construct loadings. All loadings are significant at the 0.01 level and are above the recommended level of 0.6 or higher for factor loadings of the established items (Awang, 2016), and 0.7 parameter value (R. B. Kline, 1998). Construct reliability and validity were tested using two indices: the composite reliability (CR), and the average variance extracted (AVE). All of the estimated indices were above the threshold value (Bagozzi & Yi, 1988) of 0.6 for CR and 0.5 for AVE, which were calculated using the formulas below (Awang, 2016). The convergent validity was achieved as shown in Table 1.

Structural Model

The validation of 200 samples were represented by the competitive strategies that consist of the constructs. For the full measurement model fit, all constructs were examined simultaneously for the construct validation and refinement purposes. The data did not fit well for all factors: $\chi2$ (df = 1203, n = 200) = 3203, p = .000. Modification indices with high values were examined and deleted prior to conducting the standardised residual covariance procedure. A total of five items were deleted together, with twelve items that had an unacceptably high value and high modification indices. The data fit the model well with CMIN/DF= 1.556, CFI = .933, TLI=.928, and RMSEA = .053.

Mediating Effects of Liberalisation

In reference to Table 2, the standardised value of direct effect (β) = 0.214 > the indirect effect (β) = 0.248, which means that mediation had occurred. The indirect path (competitive

strategies to liberalisation) was significant; the indirect path from liberalisation to performance was also significant. In this aspect, liberalisation has partial mediation on the relationship between competitive strategies and firm performance and the direct effect was significant after the mediator entered the model.

Table 2: Testing the Liberalisation Mediator in the Relationship Between Competitive Strategies and firm Performance.

Relationship		Standardised (β)	P-Value	Result
Competitive Strategies ►	Liberalisation (a)	0.411	0.000	Significant
Liberalisation ►	Performance (b)	0.604	0.000	Significant
Competitive Strategies ►	Performance (c)	0.214	0.004	Significant
a*b		0.248	**Partial Mediation**	
a*b>c		Mediation Occurs		

Notes: p-value < 0.05

Moderating Effects of Competency

The multi-group CFA was adopted for assessing the effects of moderator variables, which were included in the model, with identifying the path of interest to be assessed. The model termed as the constrained model with particular path with parameter = 1. Two models termed as the constrained model and unconstrained model separately were involved in this procedure (Awang, 2016). The unconstrained approach relies on the changing of chi-square value as bias free through manually calculating the chi-square differences. The significance of the moderation test is based on the chi-Square value with 1 degree of freedom at 3.84. The test results are as presented in Tables 3. The result of hypotheses testing for moderating the highest and lowest effects of competency on the relationship between competitive strategy, liberalisation and firm performance is significant since the Chi-Square difference between the constrained and unstrained model is greater than 3.84. The chi-square differences (df) scores for the three variables ranged from 26.846 – 80.695, competency moderates competitive strategies, liberalisation and firm performance, thus providing acceptable values which exceed the value of 3.84. The analysis results help the researcher to draw a conclusion that the hypothesis, which states that competency, moderates the relationship between competitive strategies, liberalisation and firm performance.

Table 3: Testing of the moderating effects of highest and lowest competency on the relationship between competitive strategies, liberalisation and firm performance.

Exogenous	Constrain Types	Model	NPAR	CMIN	DF	P	CMIN /DF
Highest Effect							
Competitive Strategies	*Constrained Model*	Default Model	78	1655.632	588	0.000	2.815
		Saturated Model	666	0.000			
		Independence Model	36	5667.183		0.000	8.996
	Unconstrained Model	Default Model	79	1606.741	587	0.000	2.737
		Saturated Model	666	0.000	0		
		Independence Model	36	5667.183	630	0.000	8.996
Liberalisation	*Constrained Model*	Default Model	78	1633.587	588	0.000	2.778
		Saturated Model	666	0.000	0		
		Independence Model	36	5667.183	630	0.000	8.996
	Unconstrained Model	Default Model	79	1606.741	587	0.000	2.737
		Saturated Model	666	0.000	0		
		Independence Model	36	5667.183	630	0.000	8.996
Lowest Effect							
Competitive Strategies	*Constrained Model*	Default Model	78	1761.374	588	0.000	2.996
		Saturated Model	666	0.000	0		
		Independence Model	36	5404.207	630	0.000	8.578
	Unconstrained Model	Default Model	79	1680.679	587	0.000	2.863
		Saturated Model	666	0.000	0		
		Independence Model	36	5404.207	630	0.000	8.578
	Constrained Model	Default Model	78	1730.548	588	0.000	2.943
		Saturated Model	666	0.000	0		

Liberalisation		Independence Model	36	5404.207	630	0.000	8.578
	Unconstrained Model	Default Model	79	1680.679	587	0.000	2.863
		Saturated Model	666	0.000	0		
		Independence Model	36	5404.207	630	0.000	8.578

Hypotheses Result

The overall results show that the competitive strategies were significantly related to firm performance. The competitive strategies were also related to liberalisation, and through competitive strategies, liberalisation was significantly related to firm performance. Similarly, it was found that a firms' competency moderates the competitive strategy, and liberalisation into the firm performance. The hypotheses results presented as in table 4 below: -

Table 4: Summary of Hypotheses Result.

Research Hypotheses		Result	β		*p*-value	
H1	Competitive strategy is significantly related to firm performance.	Supported	0.171		0.004	
H2	Competitive strategy is significantly related to liberalisation.	Supported	0.430		0.000	
H3	Through the competitive strategy, liberalisation has a positive relationship with firm performance.	Supported	0.462		0.000	
			Direct Effect		**Indirect Effect**	
H4	Liberalisation mediates the relationship between intellectual capital and firm performance.	Supported	0.214		0.248	
			Partial Mediation			
			Mediation Occurs			
			Chi-Square		**Differences (DF)**	
H5	The effect of competitive strategies on firm performance is moderated by competency.	Supported *(Greater than 3.84)*	Highest Effect		26.846 48.891	
			Lowest Effect		80.695 49.869	

Conclusion

Competitive strategy was proven able to support firms in achieving competition in the worldwide services business environment. The development of a framework shows that competitive strategy should be viewed as the vigorous strategy in small and medium business services providers' environments. While at the same time, liberalising the services sector is challenging issue in Malaysia. The role of liberalisation is thoroughly clarified and would be the mechanism in achieving the competitive advantage for the firms' performance in increasing their dominant role in the international services market. Nevertheless, in order to aid for more business growth, firms have to be more knowledgeable of the liberalisation process. In addition, competency as moderator in this study has proven as able in increasing the performance of the firms. Hence, SMFs should put more emphasis on strategies in order to gain competitive strategy and survive the challenges in the services industry. Emphasis on competitive strategies acknowledgment is necessary for the survival of SMFs in the services sector and in achieving the vision of becoming a developed country. Future studies may also examine the best elements of a firm's performance further in strengthen the findings of this study in a different context.

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