

# **An Examination of Malay Business Growth Strategies Using Miles and Snow's Strategic Typology**

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## **Abstract**

Although there are many similar typologies for explaining various aspects of organisational behaviour, Miles and Snow's (1978) strategic typology stands out as it examines relationships between the strategy, structure, and process of the entire organisation. It could also be described as an integrated framework of interaction with the business environment or context. This study has utilized Miles and Snow's strategic typology, aided by the framework's evolution and the contribution of other researchers to examine the manner in which five successful Malay entrepreneurs have responded to business opportunities, adjusted their growth orientation, and shaped their business strategies in the pursuit of growth. This study was carried out using a qualitative, idiographic case study approach whereby depth interviews were conducted with five Malay entrepreneurs. The data has been supported with secondary sources using an interpretive combination of Miles and Snow's typology and the Resource Based View of the organisation. Utilising Miles and Snow's typology, this study has found that two of the entrepreneurs have demonstrated characteristics of the prospector strategic type, whilst the remaining three demonstrate characteristics of the analyzer strategic type. In addition, RBV theory has been interpretatively utilised with Miles and Snow's strategic typology. Finally, this study has revisited Miles and Snow's Strategic Typology in relation to the Malaysian business context.

**Key words:** *growth strategy; case study; Malay entrepreneur; Miles and Snow's strategic typology; Resource-Based View theory*

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## **1. Introduction**

Research has employed various models to interpret a company's strategic behaviours (for example, see Mintzberg 1973; Miles & Snow 1978; Porter 1980). Although there are many similar typologies for various aspects of organisational behaviour, Miles and Snow's (1978) strategic typology describes relationships between the strategy, structure, and processes of the entire organisation. It could also be described as an integrated framework of interaction with the business environment or context.

It is arguable that not all strategic models fit SMEs (Massa & Testa 2009). For example, Rugman and Verbeke (1987) claimed that Porter's generic model is difficult to apply to small firms for two main reasons. First, the choice of a generic strategy is not an issue for small

firms because in industries where large firms also exist, these will be the only ones capable of successfully implementing either of the first two generic strategies. The absence of large firms in other industries indicates that potential to obtain economies of scale or overall differentiation advantages may not exist. Hence, successful small firms pursue focus strategies. Second, as stated by Chandler (1962) structure (of large firms) follows strategy. Thus, choices regarding a firm's generic strategy can be made independently by the strategic planners and that the structural characteristics of the organisation and its decision processes will automatically adjust to this choice.

Accordingly, Rugman and Verbeke (1987) proposed Miles and Snow's (1978) strategic typology to be more suitable for SMEs. This typology model has been employed further in the context of small firms (Aragon & Sanchez 2005; Gimenez 1999; Massa & Testa 2009; O'Regan & Ghobadian 2006). Miles and Snow's (1978) strategic typology has been widely embraced by researchers in both the management and marketing strategy fields (for example, see Conant et al. 1990; Hambrick 1983; McDaniel & Kolari 1987; Slater & Narver 1993).

Despite the accepted nature of Miles and Snow's (1978) framework, some researchers argue for further empirical validation and testing of its underlying assumptions (Conant et al. 1990; Oosthuizen 1997). They note that Miles and Snow's (1978) research was limited to certain industries and capabilities. In view of that, they added new attributes such as strategic capabilities, distinctive competence, and intellectual capital that should be examined in addition to the adaptive cycle as advocated by Miles and Snow (1978) (see Boulianne 2007; Conant et al., 1990; Desarbo et al. 2005; Hambrick 1983; Massa & Testa 2009; Snow & Hrebiniak 1980). Based on the above arguments, this study utilises Miles and Snow's (1978) strategic typology enriched by the works of later researchers (Desarbo et al. 2005; Massa & Testa 2009; Snow & Hrebiniak 1980) to enable a deeper understanding of how Malaysian entrepreneurs respond to their environment, and enable business growth. This strategic typology is utilised as an interpretive instrument for the RBV theory.

## **2. Miles and Snow's Strategic Typology**

Miles and Snow (1978) postulated four strategic types, namely: (1) prospectors, (2) defenders, (3) analysers, and (4) reactors. These strategic types are differentiated by the manner in which three major problems in management are solved. They are entrepreneurial, engineering, and administrative problems. According to Miles and Snow (1978), organisations act to create their own environments through a series of choices regarding markets, products, technologies, desired scale of operations, etc. Miles and Snow (1978) further elaborated on what the concepts of prospectors, defenders, analysers, and reactors actually mean.

According to Miles and Snow (1978), prospectors perceive that the environment is dynamic and uncertain and for this reason they remain flexible so they can combat environmental change. They tend to possess a loose structure, a low division of labour, and little formalisation and centralisation. Prospectors emphasise new product development and continually search for market opportunities and tend to be creators of change in the industry. Prospectors perceive distinctive competence in general management, production, market research, product research and development, and basic engineering (Snow & Hrebiniak 1980). According to Desarbo et al. (2005), the prospectors have balanced marketing, technology, IT, and management capabilities. In terms of intellectual capital (IC), Massa and Testa (2009) find that prospectors are mainly focused on developing and nourishing their rich systems of networks (relational capital).

Defenders are almost the direct opposite of prospectors. They perceive the environment to be stable and certain, and thus seek stability and control in their operations to achieve maximum efficiency. They incorporate an extensive division of labour, high formal structure and equally high centralisation. Defenders often concentrate on narrow product-market domains and tend not to search outside their domains for new opportunities. Defenders perceive distinctive competence in general management, production, applied engineering, and financial management (Snow & Hrebiniak 1980). According to Desarbo et al. (2005), the defenders require strategic capabilities in marketing and market linking for optimum performance. In terms of intellectual capital, Massa and Testa (2009) found that defenders are mainly focused on effectively exploiting and capturing knowledge (structural relational capital).

On the other hand, analysers appeared to blend aspects of both prospectors and defenders into a single strategy. They avoid prospectors' large investment in product and market research by imitating only the most successful innovations developed by key prospectors in the industry. Further, they are often almost as adept as defenders in producing their established products. Tight control is exerted over existing operations while loose control is exerted in regard to new undertakings. Analysers perceive distinctive competence in general management, production, applied engineering, and marketing/selling (Snow & Hrebiniak 1980). According to Desarbo et al. (2005), the analysers have balanced marketing, technology, IT, and management capabilities. In terms of intellectual capital, Massa and Testa (2009) found that analysers rely on a complex mix of prospector and defender IC.

The last type of strategist - reactors - lacks a consistent strategy and simply responds to environmental pressures when forced to do so. They often show weakness in general management and this prevents them from developing other distinctive competencies. Reactors have no consistent patterns in their perceptions of distinctive competence (Snow & Hrebiniak 1980). According to Desarbo et al. (2005), the reactors require strategic capabilities in marketing and market linking for optimum performance. The reactor strategy is not viable in the long run. Miles and Snow (1978) suggested that any of the above strategic types would perform (output performance) equally well in any industry, provided that the strategy is well implemented. Table 1 illustrates dimensions of the adaptive cycle and strategic type characteristics of each strategist. A brief summary of these four strategic typologies is described in Table 2.

**Table 1: Dimensions of the adaptive cycle and strategic type characteristics**

ADAPTIVE CYCLE COMPONENTS	DIMENSIONS	STRATEGIC TYPES			
		Defenders	Prospectors	Analysers	Reactors
<b>Entrepreneurial problems and solutions</b>	Product-market domain	Narrow and carefully focused	Broad and continuously expanding	Segmented and carefully adjusted	Uneven and transient
	Success posture	Prominence in 'their' product market(s)	Active initiation of change	Calculated followers of change	Opportunistic thrusts and coping postures
	Surveillance	Domain dominated and cautious/strong organisational monitoring	Market and environmentally oriented/aggressive search	Competitive oriented and thorough	Sporadic and issue dominated
	Growth	Cautious penetration and advances in productivity	Enacting product market development and diversification	Assertive penetration and careful product market development	Hasty change
<b>Engineering problems and solutions</b>	Technological goal	Cost- efficiencies	Flexibility and innovation	Technological synergism	Project development and completion
	Technological breadth	Focal, core technology/basic expertise	Multiple technologies/'pushing the edge'	Interrelated technologies/ 'at the cutting edge'	Shifting technological applications/fluidity
	Technological buffers	Standardisation, maintenance programs	Technical personnel skills/diversity	Incrementalism and synergism	Ability to experiment and 'rig solutions'
<b>Administrative problems and solutions</b>	Dominant coalition	Finance and production	Marketing and R&D	Planning staff	Trouble-shooters
	Planning	Inside/out..control dominated	Problem and opportunity finding/campaign (program) perspective	Comprehensive with incremental changes	Crisis oriented and disjointed
	Structure	Functional/line authority	Product and/or market centered	Staff dominated/matrix	Tight formal authority/loose

				oriented	operating design
	Control	Centralised and formal/financially anchored	Market performance/sales volumes	Multiple methods/careful risk calculations..sales contributions	Avoid problems/handle problems, remain solvent

*Source: Adapted from Conant et al. (1990)*

**Table 2: Summary of Miles and Snow's strategic typology**

<b>STRATEGIC ORIENTATION</b>	<b>MAIN FOCUS</b>	<b>TRAITS</b>
<b>Prospector</b>	Entrepreneurial, innovative and new opportunity oriented	External orientation, environment scanning, maximising new opportunities. Innovative to meet market needs. Flexibility and freedom from constraining company rules and regulations. Welcomes change and sees the environment as "uncertain".
<b>Defender</b>	Defends existing market (often a niche market)	Narrow range of products/services. Internal orientation based on efficiency measures and avoiding unnecessary risks. Centralised control and a functional structure are common.
<b>Analyser</b>	Hybrid of prospector and defender types	Operates well in both stable and dynamic markets. Uses efficiency and increased production in stable markets and innovates in dynamic markets.
<b>Reactor</b>	Reacts to change	Short-term planning, reacts to others' actions. Change inevitably presents some difficulties.

*Source: Adapted from O'Regan & Ghobadian (2005)*

### 3. Research Method

This study attempts to utilise Miles and Snow's (1978) strategic typology as it has evolved through the work of other researchers to explain how five successful Malay entrepreneurs respond to business opportunities, adjust their growth orientation, and shape their business strategy in the pursuit of growth. This growth phenomenon can be examined by observing how entrepreneurs solve their entrepreneurial, engineering, and administrative problems in their adaptive cycle. Furthermore, this can also be examined by analysing their distinctive competencies, strategic capabilities, and intellectual capabilities in growing their company. All these are critical resources for companies to succeed as postulated in the Resource-Based View (RBV) theory (Penrose 1959/2009; Wernerfelt 1984).

According to Slater and Narver (1993), as soon as an entrepreneur determines his/her product-market strategy (the entrepreneurial problem), he/she must create a system for producing and distributing the products (the engineering problem) and must develop and implement organisational structures and processes that support entrepreneurial and engineering solutions (the administrative problem). Depth interviews were conducted with five Malay entrepreneurs and the data they provided was further evaluated through the use of secondary sources such as articles, newspapers and company reports. For purposes of maintaining anonymity, these entrepreneurs have been identified only as E1, E2, E3, E4 and E5.

The interviewees were selected using a purposive sampling method. The main criteria for sample selection were Malay nationality, demonstrable success as an entrepreneur, readily available for research purposes, and willingness to participate by providing time for depth interviews as well as providing access to corroborating data. In this manner each study has become an idiographic case study, seeking depth of information as opposed to informational breadth such as would be found in a nomothetic case study. This research has been designed with the purpose of seeking and finding explanations for the success of each entrepreneur as opposed to finding an overall explanation for entrepreneurial success. Miles and Snow's evolved typology facilitated a method of categorisation and interpretation.

### 4. Findings and Discussion

#### *4.1 Malay Entrepreneurs' Growth Strategy from Miles and Snow's Strategic Typology*

Malaysia is a rapidly developing Asian country. Malaysia has transformed itself since the 1970s from an economy dependent on agriculture and primary commodities to a manufacturing-based, export-driven economy spurred on by technologically advanced, knowledge-based and capital intensive industries (EPU 2010a). According to the Small and Medium Enterprises (SMEs) Annual Report 2009/2010, the Census of Establishment conducted by the Department of Statistics - from a total of 552,849 SMEs in Malaysia - reported that there are 40,793 SMEs involved in the manufacturing sector (NSDC, 2010). On the other hand, most SMEs are involved in the services sector which consists of 477,525 SMEs (NSDC 2010). The manufacturing sector has been selected as the field of study in this study.

The National SME Development Council (NSDC) defined SMEs in the manufacturing, manufacturing-related services and agri-based industries as enterprises with full-time

employees not exceeding 150 or with annual sales turnover not exceeding RM25 million (NSDC, 2005). SMEs in the manufacturing sector are mainly involved in converting basic raw materials into useful products. This includes bakeries, sawmills, toy factories, shoe factories, clothing manufacturing factory, furniture manufacturing plants, job printing shops, wood processing, soft drink bottling, food processing, small machine shops, ironworks, ready-mixed concrete plants, fertilizer plants, rubber gloves plant, plastic bags and paper boxes, and electrical and electronics appliances and components (NSDC 2010). According to the SME Annual Report 2009/2010, the manufacturing sector recorded positive growth due to high external demand for products such as electronics, crude oil, and natural gas (NSDC 2010).

As previously asserted, this study employs Miles and Snow's (1978) strategic typology to examine how five Malay entrepreneurs strategise for business growth. The following sub-sections discuss each entrepreneur's strategic approach so that their adaptive cycle to business growth can be understood. This will also address how the five entrepreneurs note their distinctive competencies, strategic capabilities, and intellectual capabilities for growing their respective companies.

#### ***4.2 E1's Strategic Type – Prospector***

E1's business concept began as a trading company exporting Malaysian commodities such as palm oil products, E1 saw an ample market demand for quality palm oil products. He defined his entrepreneurial problem as how to capitalise on this global demand. In locating and developing new opportunities, he developed a good rapport with R&D agencies in order to profit from the latest innovative products that could be commercialised. Over the years, E1 maintained a focus on improving his company's manufacturing processes, upgrading product quality and range, and finally marketing his products. In dealing with engineering problems, he invested heavily in building a factory to manufacture innovative products. The factory is flexible in that it can use different packaging materials such as nylon pouch bags, tubs, cans, jerry cans, pet bottles, carton boxes, drums, and flexi tanks. The range of versatile packing sizes has enabled E1 to accommodate a broader market where customers' demands can range widely.

He claimed that 80 per cent of business deals were closed over the phone and by email, which means he never meets most of his customers. Therefore, it is pivotal for his business to have a good relationship with customers by accommodating and satisfying their demands in a manner suited to their needs. For example, E1 mentioned the different demands of his customers:

*The Africans prefer to have different packaging compared to the Malaysians. European countries demand high end products and some other countries demand low end products. The Europeans wanted to have softer margarine. So, we customised their products based on their requests. The ingredients might not be similar but the application is still the same.*

Flowing from a dynamic environment and using flexible technologies, E1 now focuses on retaining his employees. Prior to this, he faced problem of high turn-over and therefore he now provides employee development funding for employee training and to develop employee skills. Training is an effective strategy for retaining employees. E1 also asserted the importance of delegation since his company is focuses on downstream industries as well as its own niche market. Therefore, a quick, flexible decision-making structure is crucial and this can only occur through trusted employees. Pech (2009)

postulated that in addition to managerial passion for work, effective recruitment, and managerial concern for employee welfare; employee sense of trust and control is important to provide employee engagement which in turn will sustain strategic capability. This certainly seems to be the case for E1.

This study demonstrates that E1's strategic approach is that of the prospector typology, judging by the way he solved the three main strategic problems in his company as well as how he perceives his distinctive competences, strategic capability, and management of intellectual capital.

#### ***4.3 E2's Strategic Type - Analyser***

Contrary to E1, E2 seemed to demonstrate a combination of the defender and prospector strategy for resolving the three main strategic problems. He defined his entrepreneurial problem as how to solve the problem of not having sufficient *halal* gelatine in the marketplace. Out of 330 thousand tonnes of gelatine produced worldwide, only two per cent is *halal* gelatine (GME 2009).

Initially, E2 started his company by operating as an original equipment manufacturer (OEM) or in other words he traded and distributed other companies' products under his company's brand name. This enabled him to position his company's brand name prominently in the market place. Having such an advantage and being able to solve engineering problems, he further invested in building up his own factory to manufacture *halal* gelatine. He believed that this strategy is workable because his company has already secured a stable market. This is a defender characteristic; a carefully focused and segmented niche market. In E2's case, the *halal* gelatine is in high demand by customers, especially Muslim consumers. Hence, E2 made the most of opportunities by carefully conducting product market development:

*We created the market, created the brand, and once we have our market and volume, we built up our factory.*

He also opened a marketing office near the capital city of Malaysia to distribute the products as efficiently as possible. Here he integrated production, distribution, sale, after sales service, and communication as efficiently as possible. Feedback from customers and his marketing team were analysed and extended further to the R&D team so that improvements could be made and innovative products could be manufactured.

E2 solved his administrative problems by structuring the company into a less formal and decentralised business. As mentioned by the General Marketing Officer, E2 asked him to "act like the owner" and hence the employees feel a sense of responsibility when pursuing the company's business. It was observed that E2 is a softly spoken person and therefore he employed a General Marketing Officer to represent him, particularly in a more vocal role. Indeed, his strategy was successful as many people do not recognise him as the real owner of the company. This could be regarded as a deception strategy as depicted by Pech and Stamboulidis (2010). For example, in their research, deception strategy might be designed by an entrepreneur by giving the impression of a very small firm, when in reality it is not; or by hiding him/herself as an owner of the company. "Within a strategic context, strategies of deception can provide a legitimate and clever means for achieving competitive advantage" (Pech & Stamboulidis 2010, p. 37). From the above evidence, E2 seemed to exhibit an analyser strategy.

#### ***4.4 E3's Strategic Type - Analyser***

Similar to E2, E3's strategy for relating to his chosen market also falls within the analyser typology based on the manner in which he solved the three main strategic problems - a combination of the prospector and defender strategies. He was involved in the food and beverages industry which is typical of many Malay small businesses. His company produces soy sauce and is gradually adding more products such as chilli sauce and cordials.

E3 defined his entrepreneurial problem as how to locate and exploit new products and create market opportunities that had been lost during a failed business relationship with a former manufacturing partner. The failed business relationship created an on going challenge for him to overcome, but once conquered, it proved to be a turning point, kick-starting his business growth. Having loyal staff and increasing the number of customers allowed him to produce his own unique product and brand in order to grow.

It could be claimed that the engineering problem was solved when he made a tectonic change in his company by investing in automated machinery when prior to this, production was done manually. In terms of the administrative problem, he encouraged innovative behaviours that made it possible to locate and exploit new opportunities. E3 believed in providing opportunities for his staff to act independently which will in turn create good results for the company. This could be seen to be a prospector strategy where the entrepreneur has decentralised certain aspects of the company. E3 has imitated successful strategies deployed by international MNCs. He adapted those strategies according to the needs of a small scale operation. He asserted:

*One of the elements to be successful in business is we must have a business plan. We follow role models from international MNCs but we do it on a small scale. For example, Nestlé has 300 products but only one factory. Therefore, it does not need to open more factories in order to expand the number of products. Malaysia can achieve development in 30 years because we replicate how the developed countries run their economies.*

E3 emphasised the importance of not blindly imitating other businesses, which some authors believe is a common occurrence among Malay business owners, especially those with very small businesses (Mahathir 2008; Shukor 2006). Despite this 'copy-cat' scenario, E3 saw competition as an 'ideas generator' that produced a better strategy and resulted in a win-win situation. The evidence suggests that E3 is an analyser in regards to business growth.

#### **4.5 E4's Strategic Type - Prospector**

Similar to E1, E4 also seems to demonstrate a prospector strategy. As the representative of the third generation in his family business, he defined his entrepreneurial problem as how to locate and develop his family business's products in a manner designed to capture a larger market. Prior to becoming involved with the family business, E4 had a construction company. He decided to join the family business when the 1997 economic crisis hit Asian countries including Malaysia, forcing his own company to close.

The family business began by supplying soy sauce for family and relatives' consumption. Later, the company produced more products such as chilli and tomato sauce. After E4 took over the company, he knew that the market possibilities had to be further explored. Hence, he decided to shift to Kuala Lumpur from Kota Bharu. He planned to expand the

market as well as to upgrade the company's production from a small-scale to a mass-production concern. In doing so, E4 invested heavily in machinery and modern technology to produce quality products. At the same time, the engineering problem had been solved.

In terms of administrative problems, E4 decided to separate the production and marketing departments. The marketing department operated in Kuala Lumpur, whilst the warehouse production is still located in Kota Bharu. This separation was designed to improve cost-effectiveness. E4 asserted that it was a practical strategy and enabled the company to survive:

*I believed that this [separating the two main departments] is one reason why we are sustainable. This is because marketing is not an easy job to do. You have to mainly focus on this particular task.*

E4 also collaborated with R&D agencies such as Malaysian Agriculture Research and Development Institute (MARDI) for product innovations. The company is moving forward by commercialising tapioca chips - a kind of village snacks - to the marketplace. This product has received excellent feedback from the international market. E4 is also involved in a business consortium so that other small businesses can collaborate. This strategy is a valuable one for small business operators like E4 so that they can penetrate the wider international market. Based on the above evidence, this study suggests that E4 demonstrated a prospector type in his business strategy.

#### **4.6 E5's Strategic Type - Analyser**

Similar to E2 and E3, E5's strategy is that of an analyser since he seems to be a combination of the prospector and defender types. In fact, this strategy attempts to minimise risk while maximising the opportunity for profit-making by combining the strengths of both the prospector and the defender. Starting as a *kuih*-supplier, E5 turned to making home-made cookies. She defined her entrepreneurial problem as how to locate and exploit new product and market opportunities while simultaneously maintaining a firm core of traditional products and customers. She realised the importance of producing her own product after having experienced lazy attitudes exhibited by her suppliers. She needed to act proactively to ensure her products remained viable in the marketplace. The company has soundly positioned its products among customers following a successful penetration of the home-made festive cookies market, which is a defender characteristic.

E5 began her company's operation in the back-yard of her home. She once signed up her neighbours in helping her fulfil market demands. However, increasing demand for her cookies enabled her to invest in a factory and modern machinery. She now employs full-time employees to accommodate market demands. At the same time, she capitalises on new opportunities through a partnership with a business operation in Kazakhstan who subsequently built another four factories. Following this, she penetrated the Russian market which she had never thought was possible. This has also limited the level of investment risk by pursuing a partnership. Thus, her engineering problem was solved.

E5's company, through a joint venture with an international counterpart, solved the problem of technological flexibility, not by investing in technology but by investing in organisational solutions. E5's administrative problem was to differentiate the company's structure and processes so that both stable and dynamic areas of operation could be accommodated. She employs family members in her business. Three of her four children

are involved in the business's operations. Judging by the above descriptions, E5 used the analyser approach in regard to her business growth strategy.

Based on Miles and Snow's (1978) strategic typology, Table 3 illustrated the strategic approach developed by these five Malay entrepreneurs in this study.

**Table 3: Strategic Approach Developed by the Malay Entrepreneurs**

<b>STRATEGIC APPROACH</b>	<b>E1</b>	<b>E2</b>	<b>E3</b>	<b>E4</b>	<b>E5</b>
<b>Entrepreneurial problem</b>	Identified global market demand for edible palm oil	Identified the need for <i>halal</i> gelatine in the marketplace	Identified the need to produce own product after betrayal by former contract manufacturer	Identified the need to expand his family business product to a wider market	Recognised the importance of producing own product due to the lackadaisical attitudes of suppliers
<b>Engineering problem</b>	Built a factory with modern machinery to produce high-quality and customised products (flexible packaging machine for custom-made products)	Built a factory with technology specified for producing high-quality products after a few years of trading and distributing other companies' products	Decided to change from manual production to automation – purchase machinery	Upgraded production from small-scale to mass-production by investing in modern machinery to produce quality products	Built a factory with modern machinery after having operated as a backyard industry for several years
<b>Administrative problem</b>	Developed R&D team for product innovation, provide employees with training to develop skills and improve employee retention	Collaborated with R&D agencies for product innovation	Adopted family atmosphere in workplace to encourage proactive attitudes	Separated production and marketing departments into two different entities; collaborates with R&D agencies for product innovation	Involved family members to work in the business

<b>Strategic capabilities, Distinctive competences, Intellectual capital</b>	Strength in product R&D by developing a good rapport with R&D agencies (MPOB, MPOC), gathering knowledge and using it effectively	Strength in product R&D with universities, strong industrial background	Gathering knowledge from observation of rivals' strategy	Solid market research by forming a business consortium (KOMITA), decentralisation in management, develop a good rapport with R&D agency (MARDI)	Develop a good rapport with business networks and research agencies
<b>Strategic type</b>	Prospector	Analysers	Analysers	Prospector	Analysers

#### ***4.7 Miles & Snow's Strategic Typology - An Interpretive Instrument to the RBV Theory***

This study utilised an adapted version of Miles and Snow's (1978) strategic typology to understand how the five Malay entrepreneurs responded to their environment, adjusted their rationales and shaped them to meet the demands of business growth. In utilising this strategic typology, this study has examined how these entrepreneurs described their strategic capabilities, distinctive competences, and their intellectual capital in strategising for business growth (Desarbo et al. 2005; Massa & Testa 2009; Snow & Hrebiniak 1980).

The Resource-Based View (RBV) theory posits that a firm's success is largely driven from resources that possess certain special characteristics. The RBV theory was built on the theory that a firm's success is largely determined by the resources it owns and controls (Wernerfelt 1984). According to Penrose (2009, p. 66), resources are grouped under a few headings – for example, land, labour and capital, but the sub-division of resources may proceed as far as is useful for the problem at hand. Hofer and Schendel (1978, p. 145) suggested that a resource profile combines the following resources and features: (1) Financial resources (e.g. cash flow, debt capacity, new equipment availability); (2) Physical resources (e.g. plant and equipment, inventories); (3) Human resources (e.g. scientists, production supervisors, sales personnel); (4) Organisational resources (e.g. quality control systems, corporate culture, relationships); (5) Technological capabilities (e.g. high quality production, low cost plants). Grant (1991) suggested a sixth type of resource and this is intangible resources (e.g. reputation, brand recognition, goodwill).

Based on the RBV theory, Chandler and Hanks (1994) suggested that businesses should select their strategies to generate rents based on resource capabilities. As such, those resources discussed in the previous section are strategic resources determined by these entrepreneurs and may therefore be related to the concept addressed by RBV theory. Therefore, these entrepreneurs' experiences may also be described as part of RBV theory, using Miles and Snow's strategic typology. Ultimately, in the context of this study, the Miles and Snow's strategic typology has been used as an interpretive instrument to support RBV theory.

#### ***4.8 Miles and Snow's (1978) Strategic Typology Revisited – The Malaysian Context***

Miles and Snow (1978) argued that organisations act to create their environments. In other words, organisations respond to their surroundings and adjust their rationales for meet market and other environmental variables. In a similar vein, entrepreneurs recognise opportunities in their environment, search for information, acquire resources, and strategise for their business in response to emerging or newly created opportunities.

The previous section has utilised the adaptive process and organisational typology to illustrate growth strategies undertaken by five Malay. Miles and Snow (1978) argued that their strategy is a way of adjusting the relationship between an organisation and its environment, and that a business's internal structure must fit the strategy in order to be successful. As claimed by Miles and Snow (1978) the growth strategy undertaken will work best when it is aligned with process, structure and the environment.

Generally, the validity of Miles and Snow's strategic typology has been demonstrated by the five Malay entrepreneurs. However, the relationship between the nature of the external environment and its impact on choosing the most appropriate strategy is a contentious issue (Hambrick, 1983, p. 7). Miles and Snow (1978) observed that any one of the three stable strategic types (prospector, defender and analyser) is equally likely to perform well in any industry. However, Zahra and Pearce's (1990) findings contradicted Miles and Snow's propositions as they indicate that "there is a lack of an overall association between the characteristics of the industry and the representation of different strategic types" (p. 760). This contention, therefore, must be evaluated in a much broader context and across industries (Namiki, 1989). Thus, this study extended Miles and Snow's (1978) strategic typology to the Malaysian context, in particular within the Malay entrepreneurs of SMEs in the manufacturing sector.

There are some consistent relationships between business environment dimensions and business strategy (Miller 1988). Dynamic aspects (unpredictability of customers and competitors, rates of change in market trends, industry innovation and R&D), hostility (degree of competition and number of competitors, restrictive legislation), and heterogeneity (differences in marketing and production requirements of different market segments) have often been used to characterise the environment (see Mintzberg 1979; Miller & Friesen 1984).

As mentioned previously, business strategy is closely linked to the environment in which it operates (Hambrick 1983; Namiki 1989). Hambrick (1983) found that defenders and prospectors differed in their performance depending on the environment and performance measures used. For example, in innovative industries, defenders outperformed prospectors in terms of current profitability and cash flow, whilst prospectors outperformed defenders in terms of market share gains (Hambrick 1983).

In a comparative industry growth environments study, Chaganti (1987) concluded that environment has a contingent role concerning strategy formulation. On the other hand, the study proposed that in growth industries, the most profitable strategies were: low cost production, low cost product innovation frequency; less use of patents; and a higher percentage of sales in local markets. Mature industries advocated competitive pricing as a good strategy. In stagnant industries, strategies focused on broader product lines, higher firm image, and higher expenses involving sales and management. Gimenez's (2000) study also supported the proposition that strategic types may vary according to the dynamics of the business environment. He found no prospector companies in the supermarket sector, and no defenders were identified in the computer services industry.

According to Porter (1980), a strategy of innovative differentiation is most likely to be pursued in dynamic and uncertain environments and correlates with using technocrats and liaison devices. The strategy of cost leadership is associated with stable and predictable environments and correlates with the use of controls. Unfocused strategies make much use of liaison devices. Miller (1988) pursued Porter's (1980) generic strategy to investigate the relationship of structure and environment of undiversified firms. He argues that strategies must be matched with both environment and structure to promote success in business performance.

According to Murray (1984), an entrepreneurial strategy is frequently a response to an actual misfit between organisation and environment, revealed in terms of deteriorating performance, crisis and a threatened survival. Furthermore, it has been argued that the entrepreneurial strategy is the creation or recreation of a fundamental set of relationships characterising an organisation's behaviour: its environmental, internal and input-output

parameters (Murray 1984, p.3). Merz and Sauber (1995) concluded that small firms' managerial and structural characteristics are consistent with their environments.

Porter (1980) claimed that a strategy of innovation is positively associated with environmental uncertainty and requires technocrats - well-trained experts such as scientists and engineers - to design innovations. In today's business environment, R&D agencies are needed to provide centres of innovation that entrepreneurs can exploit (Kafourous et al. 2009; Winch & Bianchi 2007). In Malaysia, there are many R&Ds working for or with government agencies that have been well funded to conduct research and development projects. This is one of the strategic thrusts in Malaysia's economic development plans. In the latest Tenth Malaysia Plan (2011-2015), the government supports the development of knowledge SMEs (K-SMEs) by providing access to special financial schemes, improving research and innovation capabilities as well as providing specialised skills and training (EPU 2010b).

For instance, the Malaysian Palm Oil Board (MPOB) has been established to conduct research on palm oil so that enterprises such as E1's company can produce innovative and higher quality products. In terms of food processing, MARDI has been helping small businesses produce good quality products for consumption. In this study, MARDI has helped E3 and E4 in their business production. Research universities also play their roles in facilitating enterprises to produce innovative products. In E2's case, he has been involved with local universities to help his company achieve more growth.

As outlined in the Third Industrial Master Plan (IMP3) (MITI 2006), Malaysia is attempting to become a global *halal* hub for Islamic *halal* food by 2010. The IMP3 places significant emphasis on an integrated approach towards industrial development. In a similar vein, E2's involvement in *halal* gelatine manufacturing is crucial in supporting the government's effort to promote Malaysia as a global *halal* hub. In fact, all five Malay entrepreneurs in this study were involved in *halal* food manufacturing. With the government being committed by offering support and assistance, the business environment for them is very promising and encouraging.

In the context of business uncertainty such as currently being experienced in Malaysia, the strategy of marketing differentiation through advertising, prestige pricing and market segmentation is necessary for creating a unique image for a product (Miller 1988). The strategy requires entrepreneurs having a good understanding of customer preferences and products that inspire customer loyalty and reduce price elasticity (Porter 1980). This strategy has been implemented by all five Malay entrepreneurs because they have realised the importance of being 'exclusive' to their customers. The first entrepreneur, E1, believed that his customised product strategy is essential so that his customers recognise and embrace the brand names of his products. His strategy has succeeded because to date his company has successfully exported to 76 countries through product customisation.

E2 claimed that his endeavours to educate Muslim customers through *halal* gelatine products has allowed his company to achieve great prosperity. Today, it seemed that every Malaysian knows his product, whether by purchasing or just by name. Moreover, there are currently 1.6 billion Muslims worldwide (Islamic Food and Nutrition Council of America (IFANCA) 2010). According to the *Halal Journal* (2010), the global *halal* market is worth more than USD\$2 trillion. One reason for the rise of the *halal* economy is that the world's 1.6 billion Muslims are younger and in some places are richer than ever (Power, 2009). Besides fulfilling a religious obligation, E2 called attention to the importance of *halalness* in Muslims' consumption. A survey conducted in Kelantan, a state of east Malaysia, found that Muslim consumers were cautious about *halal* products,

particularly ingredients, ownership and marketing factors (Wan Marhaini et al. 2008). It is vital that Malay entrepreneurs have this knowledge in strategising their *halal* products.

As an individual who has much pride in his Malaysian identity, E4 stressed the importance of a marketing campaign when buying local products. His strategic approach of promoting Malaysian products overseas was one way to convince the locals that Malaysian products are marketable and of high quality. At the same time, E4 collaborated with fellow entrepreneurs in a business consortium called Konsortium Makanan dan Industri Asas Tani (KOMITA) (Consortium of Food and Agriculture Based Industry) which was founded for small businesses to easily penetrate potential markets abroad. Besides promoting Malaysian products, this business consortium has provided a platform for him to learn about business deals especially with international and larger corporate identities.

## 5. Conclusion

From the above findings and discussion, it is clearly demonstrated that the Malaysian business environment is conducive to Malay entrepreneurs who wish to generate growth in their markets and their production outputs. With regards to Miles and Snow's strategic typology, these entrepreneurs responded accordingly to the environment by recognising opportunities, searching for information, acquiring resources, and strategising to ensure business growth. Following the discussion in the above sections, E1 and E4 seemed to describe a prospector's strategy whilst E2, E3 and E5 seemed to portray an analyser's strategy. This could be explained by the fact that the prospector strategy is particularly suited to a dynamic and rapidly changing environment as is currently occurring in Malaysia. At the same time, the analyser combines the prospector and defender strategy to develop a suitable growth strategy in response to the Malaysian business environment. This study also demonstrates that Malaysia has a favourable environment which enables entrepreneurs to prosper provided that these entrepreneurs respond accordingly to the environment by recognising opportunities, searching for necessary information, acquiring appropriate resources, and strategising to achieve business growth.

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