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Moderating Effect of Asean Free Trade Agreement between Total Quality Management and Business Performance

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Abstract

The unprecedented pace of globalisation, trade liberalisation, and capital movement in the later years profoundly changed to pose serious challenges for Malaysian companies to compete in an open market. In today's highly competitive market, the demand for quality is important factor for companies to survive in the ever-expanding global marketplace. The concept of Total Quality Management (TQM) has been developed as a result of intense global competition. ASEAN trade liberalisation through the elimination of intraregional tariffs contributed to improving manufacturing in ASEAN countries to be more efficient and competitive in world markets. However, Asean Free Trade Agreement (AFTA) is a good news for foreign companies as they have competitive advantages, but not for local companies. The examining of AFTA as a moderator is less done in previous work. The purpose of this paper is to propose relationship between TQM practices and business performance with moderator effects of AFTA. The main contribution of this paper is to examine whether AFTA has the effect as a moderator. This proposed conceptual model will help the academicians and industry players to have better understanding on the effect of AFTA in TQM implementation in improving their business performance. The structural equation modeling (SEM) techniques are used to examine the relationships of the practices.

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Keywords: Total Quality Management (TQM), AFTA, Business performance, structural equation modeling (SEM)

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1.0 Introduction

The concept of total quality management (TQM) has been developed as a result of intense global competition (Garvin, 1988). According to Garvin (1988), international competition requires higher levels of quality achievement to meet the customer satisfaction. TQM is a management philosophy that helps manage their organization to improve the effectiveness and performance to achieve world class status for the past two decades (Konecny & Thun, 2011). In this study, institutional theory and contingency theory are applied to examine the moderator. According to institutional theory, organizations create structures to look legitimate to the important stakeholders such as TQM and ISO 9000 (Sila, 2007). Contingency theory proposes that organizations can create congruence between organizational structure and environmental uncertainty will achieve higher performance result (Ellis et al., 2002). Examples for contingencies are the environment, organizational size, and organizational strategy (Miller et al., 1992). In this study, environment is selected for comparative study of the relationships. Author defines environment effects as Asean Free Trade Agreement (AFTA) as context of this study.

2.0 AFTA

ASEAN trade liberalisation through the elimination of intraregional tariffs contributed to improving manufacturing in ASEAN countries to be more efficient and competitive in world markets (see <http://www.miti.gov.my> date, assessed on 14th June 2012). Starting from January 1, 2010, Malaysia and other five countries of ASEAN (Brunei, Indonesia, Philippines, Singapore, and Thailand) have become a complete free-trade area. The import duties have been abolished on all products in the inclusion list and ASEAN Free Trade Area (AFTA) is fully realised within ASEAN (Zakuan et al., 2010). Thus, the manufacturers have an option to purchase raw materials at cheaper prices and better quality from other ASEAN countries. This will lead to the reduction in production costs because raw materials can be purchased at a cheaper price. Consequently, the price of the product will become more competitive and can compete not only within ASEAN but also in the world market (Zadry & Yusof, 2007). Manufacturers also have greater market access to ASEAN countries with population of 580 million. Prior to AFTA, Malaysia's automotive market was protected by the Government with tariffs, refunds schemes, and investment controls. Zakuan et al. (2010) view that AFTA, for automotive industries, in a positive perspective, would drive the regional manufacturing integration and cost competitiveness among ASEAN countries rather being a threat to the industry. However, the unprecedented pace of globalisation, trade liberalisation, and capital movement in the later years profoundly changed to pose serious challenges for local companies to compete in an open market. In contrast, Rosli (2006) views that AFTA is good news for foreign companies as they have competitive advantages in automotive and auto-parts production, but not for local companies. Thus, this study will examine the effect of AFTA to the relationship between TQM and business performance. Based on literature review, environment will alter the relationships, where the companies that face higher effect of AFTA have stronger relationship compared to low effect companies.

Based on our literature review, we focus on the following dimensions of environment effect of AFTA:

1. External environmental and market turbulence - External environment describes competition amongst the industry players. In competition environment, it is important to seek information about customers and to modify the offerings based on customer data. Market turbulence describes the rate of change in customer composition and preferences (Kohli & Jaworski, 1990; Slater & Narver, 1998).
2. Competitive intensity - If market turbulence, competitive intensity, and technological turbulence increase, an organisation must move away from existing customer needs and seek to the new potential needs to maintain a competitive advantage (Slater & Narver, 1998).

3. Technological turbulence - Technological turbulence describes technological change (Kohli & Jaworski, 1990). Technologically advanced organisation can stay ahead through superior product and service.

3.0 Methodology

An extensive literature search was designed to identify and retrieve primary empirical studies relevant to develop the hypotheses. The databases searched were SpringerLink, Emerald, Taylor & Francis, ScienceDirect, Elsevier, ProQuest and Google Scholar. The descriptor TQM and environment effect were used when possible; otherwise, it was searched as a keyword.

4.0 Hypotheses

4.1 Relationship between TQM and Business Performance

There is a strong relationship between TQM and business performance as in previous studies. The benefits of TQM are improved quality, employee participation, teamwork, working relationships, customer satisfaction, employees satisfaction, productivity, communication and market share (Besterfield, 2009). Most previous studies show a positive relationship between TQM practices and business performance (Jun et al., 2006; Bou & Beltrán, 2007; Gunday et al., 2011; Miyagawa & Yoshida, 2010). However, there are also studies that show TQM did not improve the business performance (Corredor & Goñi, 2011; Demirbag et al., 2006). Some of the findings also partially correlated with the business performance (Demirbag et al., 2006; Feng et al., 2006; Arumugam et al., 2008). Therefore, accordingly, it is proposed that:

H1: The TQM practices has a direct, positive effect and leads to better Business performance.

4.2 The impact of AFTA as moderator

Successful organisations select structures and process characteristics that are suitable to the uncertainty of their environment (Duncan, 1972, Miller et al., 1992). According to the contingency theory, environment is one of the contingency factors that influence the selection of management practices (Doty et al., 1993; Gresov & Drazin, 1997). Based on the literature review, it is expected that AFTA will have much stronger relationships between TQM and business performance, as compared to non-direct effect of AFTA (Parast & Adams, 2011). Accordingly, we propose that:

H2: Environment (low and high AFTA environment) has significant effect as moderator between TQM and business performance.

5.0 Conceptual framework model

Structural equation modeling (SEM) techniques are utilized to examine the relationships. Based on a comprehensive review of previous studies, a conceptual model has been proposed to understand the relationships as presented in Figure 1.

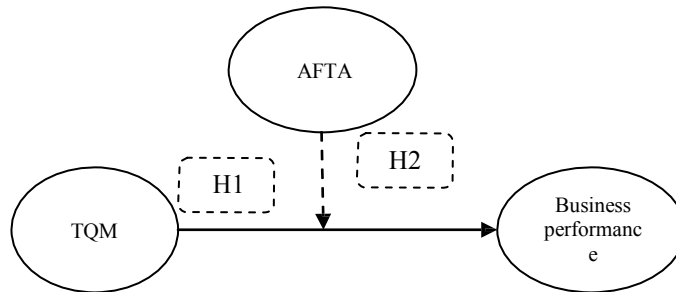


Figure 1: Proposed conceptual model of TQM with mediators of Lean Production, TPM and SPC

6.0 Discussion

AFTA causes changes in external environmental factors, uncertainty, complex issues, and these bring a challenge to Malaysian companies (Wang et al., 2012). Market environment is characterised by technological advancements and rapid economic changes (Konecny & Thun, 2011). These changes force the companies to improve their competitiveness by enhancing their business performance (Wang et al., 2012). Based on hypotheses, AFTA has significant effect as a moderator to the relationship between TQM and business performance (Duncan, 1972; Miller et al., 1992; Wang et al., 2012). In other words, companies which have higher effect of AFTA have higher relationship between TQM and business performance. Thus, the companies that want to compete in global market should improve their effectiveness of TQM towards business performance. Hence, Malaysian companies have to pay attention to improve their business performance through TQM. The effect of environment is an important factor to survive in a competitive global market.

7.0 Conclusion

The main objective of this study is to investigate AFTA effect as a moderator between TQM and business performances as a conceptual framework. Two hypotheses regarding the relations among the variables have been specified and conceptual framework has been proposed for future work.

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