

**A MODEL LINKING STORE ATTRIBUTES, SERVICE  
QUALITY, CUSTOMER EXPERIENCE AND BUSINESS  
PERFORMANCE: A STUDY AMONG COMMUNITY  
PHARMACIES**

**By**

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## ABSTRAK

Tujuan kajian ini adalah untuk: (a) memeriksa kesan langsung kualiti perkhidmatan dan pengalaman pelanggan; (b) memahami kesan langsung sifat stor dan pengalaman pelanggan; (c) mengkaji kesan langsung kualiti perkhidmatan dan prestasi perniagaan; (d) menyiasat kesan langsung sifat stor dan prestasi perniagaan; (e) memahami kesan langsung pengalaman pelanggan dan prestasi perniagaan; dan (f) mengkaji kesan pengantaraan pengalaman pelanggan pada kualiti perkhidmatan, sifat stor dan prestasi perniagaan. Prestasi perniagaan diilhamkan ke dalam satu dimensi tunggal prestasi kewangan. Sifat-sifat stor telah beroperasi kepada dua dimensi iaitu suasana kedai dan kemudahan kedai manakala kualiti perkhidmatan beroperasi kepada lima dimensi iaitu maklumat, keselamatan dan kebolehpercayaan, empati, penampilan dan komitmen masa. Pengantara pengalaman pelanggan digambarkan sebagai dimensi tunggal iaitu pengalaman emosi. Enam hipotesis telah dikemukakan dan diuji dengan sampel sebanyak 97 (pemilik/ahli farmasi/pengurus) dan 194 (pelanggan) farmasi runcit yang mewakili 32.3 peratus kadar sambutan kajian ini. Data dikumpul menggunakan soal selidik yang ditadbir sendiri. PLS pintar dan analisis SPSS dijalankan untuk menguji kesahihan hipotesis yang dicadangkan. Hasil kajian menunjukkan bahawa daripada 22 sub-hipotesis, 6 sub-hipotesis disokong manakala baki sub-hipotesis yang lain tidak disokong. Kesimpulan kajian ini adalah untuk memberi implikasi teori dan praktikal hipotesis yang diuji. Beberapa cadangan juga telah dikemukakan untuk penyelidikan masa depan mengenai industri farmasi runcit di Malaysia.

## ABSTRACT

The aim of this study was to: (a) examine the direct effect of Service Quality and Customer Experience; (b) understand the direct effect of Store Attributes and Customer Experience; (c) examine the direct effect of Service Quality and Business Performance; (d) investigate the direct effect of Store Attributes and Business Performance; (e) understand the direct effect of Customer Experience and Business Performance; and (f) investigate the mediation effect of Customer Experience on Service Quality, Store Attributes and Business Performance. Business Performance was conceptualized into a single dimension of financial performance. Store Attributes were operationalized into two dimensions of store atmosphere and store convenience while Service Quality was operationalized into five dimensions of information, security and reliability, empathy, appearance and time commitment. The mediator of customer experience was illustrated into single dimension of emotion experience. Six broadly hypotheses were postulated and tested using a sample of 97 (owner/pharmacist/manager) and 194 (customer) retail pharmacy representing 32.3 percent response rate in this study. Data were collected using self-administered questionnaires. Smart PLS and SPSS analysis was conducted to test the validity of proposed hypotheses. The result shows that out of the 22 sub-hypotheses, 6 sub-hypotheses were supported while remaining sub-hypotheses were not supported. The conclusion of this study was to provide theoretical and practical implication of the tested hypotheses. There were some suggestions presented for future research study for retail pharmacy industry in Malaysia.

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter consist of the study background, research problems, research questions, research objectives, significance of the study, definitions of key variables and organization of the study.

#### **1.1 Background of study**

Malaysia retailing industry had progress and seen much changes over the years. The industry moved from a traditional retail setting comprising of family-owned retail shops, stand alone individual shops to a current mixture of modern and traditional retail shops. Supermarkets, departmental stores and hypermarkets are classified as modern retail format. In the old days, Malaysians used to shop for different products at different places. Fresh meat, vegetables and fruits were normally bought in the wet market while household groceries such as oil and milk powder were sourced from supermarkets. These days, far more people choose to do their shopping in hypermarkets although wet markets and morning markets still exist in clusters around the neighbourhood.

According to Kearney (2012), retail industry goes through four main phases; opening, peaking, maturing and closing. In the opening phase, curious consumers are willing to explore new retail formats and the local government are keen to participate by relaxing restrictions imposed previously. As the industry developed, consumers are exposed to more global brands and retail shopping districts were formed and developed. Local completion becomes more complex in maturing stage, coupled with the significant expansion of consumer spending. As it progresses further,

competition among foreign and local retailers becomes stiffer and consumers are become more adaptive and used to the modern retail setting.

Modern retail formats has gained a foothold in Malaysia as it is increasingly becoming the more popular choice of shopping destination. In the past, Malaysians are limited to a few selected shopping choices as there was only a handful of stores available besides the traditional retail. As the landscape evolves, consumer diverts their attention to modern retail stores as they seek for a more convenient way to shop. The modern retails fulfil such requirements as huge variety of products and services are being offered to the public. As modern retail formats grow, consumers had accepted and embraced such store formats as the preferred destination for purchasing household products (Chakravarty & Chua, 2012).

The significance of growing modern retail population has impacted Malaysia's economy as retail and wholesale sector are a major contributor of Malaysia Gross National Income (GNI), cementing its position to provide good financial health to the country. Besides, retail is one of the fastest-growing sector in Malaysia's economy; contributing significantly through the provision of job opportunities, foreign direct investment and act as the link between other sectors in the economy (Mokhlis, 2014). In 2009, this industry had contributed RM57 billion to GNI and created an estimated 500,000 jobs for the country (ETP, 2015). World Bank report dated 2013, showed Malaysia's GNI stands at 669.5 billion PPP (purchasing power parity) dollars. In addition, retail sector contributed more than 60% of Gross National Product (GDP) through domestic consumption. As GDP is a function of GNI, policy makers had identified retail industry to be one of key the economic area (NKEA) in order to boost the country's total GNI by RM 156 billion and to provide



an additional 454,190 new jobs by 2020 (ETP, 2015). Besides, retail sector is forecasted to grow at a rate of 5.5% for the current year 2015. (Star, 2015).

The Malaysian government introduced measurements to liberate the retail and wholesale industry as well as to consolidate local retailers to achieve economies of scale and to be more competitive. The key economic area aims to reach its objectives of higher retail expenditure, urbanization and population to ensure the continuous growth of the retail and wholesale sector (ETP, 2015). Two crucial steps were taken to achieve these objectives; increase the number of large format stores and modernization of current retail stores via the Small Retailer Transformation Program. As a result, Malaysia is ranked ninth in Global Retail Development Index (GRDI) in year 2014. GRDI focuses on listing the most successful retail market in developing countries based on market attractiveness, country risk, market saturation and time pressure. These variables were then measured and used to rank the countries for retail investment (Kearney, 2012). Due to the liberation of wholesale and retail industry and a favourable regulation, Malaysia has emerged as a preferable choice for international retailers such as Tesco, IKEA and new international retailers such as Takashimaya to place their investment.

Malaysia has seen a rise in the number of international retailers over the last decade. Modernization of retail landscape especially in urban and city areas has led to a significant and real competition to the traditional retailers. The rapid growth and influx and growing consumerism adds to the already stiff competition among retailers. These international retailers are regarded as a threat to the local small retailers (Roslin & Melewar, 2008). Sensing the potential threat of international retailers to the local retailers, Malaysia government has taken initiatives to monitor and control the expansion of large scale retailers through conditions and guidelines

set by Malaysian Ministry of Domestic Trade and Consumer Affairs (MDTCA). While the government are actively taking steps to ensure the survival of local retailers, independent owners and family owned business retailers need to innovate and modernize their business plan to remain competitive not only among themselves but also among international retailers. Lee, Delene, Bunda, and Kim (2000) suggested traditional retailers must be able to provide services that should minimally meets customers expectation and more so to exceed their expectations in order to survive and to be successful in this hostile environment.

The pharmaceutical industry is a vital component of the whole retail industry where the industry makes significant contribution towards the country's financial health. Pacific Bridge Medical, a consulting firm with expertise in Asian medical market reported Malaysia's pharmaceutical market is worth USD 3.2 billion and is currently growing at a rapid pace of 11 percent per annum. In addition, private over-the-counter (OTC) market is estimated to be worth over RM 68 million where its main contribution is from retail healthcare outlets such as Chinese medical halls, pharmacy and convenience stores. MOPI, a Malaysian pharmaceutical organization forecasted the market worth of traditional medicines, health supplements and health food is around RM 3 billion (MOPI, 2011).

The pharmaceutical industry is a closely regulated industry in Malaysia. While it comes under the jurisdiction of Ministry of Health, Malaysia, all retail pharmacy operations (licensing, regulation and enforcement) are closely monitored by Pharmacy state enforcement department. In 2012, there are a total of 8632 registered pharmacists in various sectors. Out of the total, 5288 pharmacist currently served in the government sector while the balance are in private sector mainly

working in retail, private hospitals, marketing and trading companies, manufacturing companies and higher education institute (Health, 2014)

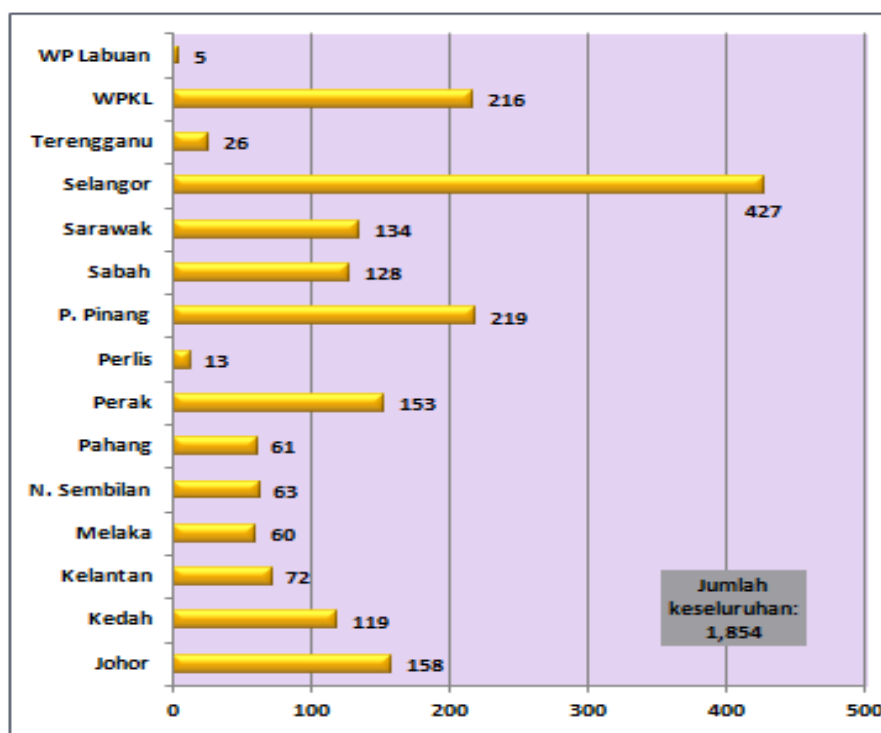
The chronological changes in Malaysia's retail pharmacy landscape started in 1990's. It started with an exponential increase of standalone pharmacies followed by the expansion of chain stores such as Guardian and Georgetown Pharmacy. Subsequently, standalone pharmacies grew and expanded to local chain outlets in the late 1990's. Finally chain pharmacy stores consolidate, continued with the growth of Guardian Pharmacy and emergence of local pharmacy chains (Kareem & Farid, 2013). During this period, the country saw an influx of large foreign based pharmacy retailers invested in this industry including Guardian Pharmacy, one of the largest retail chain pharmacy owned by Hong Kong Dairy Farm Group and Watsons Pharmacy, a subsidiary of Watsons Group, a Hong Kong based company. Major retailers with different specialties too have shown interest to invest in healthcare industry. For example, Aeon Wellness, a healthcare subsidiary of Aeon Corporation which is Asia's largest retailer based in Japan expanded their products and service offering through pharmacy-supermarket concept. Berjaya Group, one of Malaysia's largest conglomerates with diversified interest across various business sectors such as hotels, food and beverages and education expanded their business model to healthcare through the introduction of a chain of retail pharmacies as COSWAY Pharmacy.

As the country produces more pharmacy graduates every year, a correlation of increase in retail pharmacy outlet was seen. The past decade saw an increase of 3965 registered pharmacists for 2005 to 8746 pharmacist in 2011, more than double within the short time frame of six years. Since 2005, new pharmacist registration has been increasing exponentially from 379 to 934 in 2011 (Farmasi, 2011). Ministry of

Health Malaysia aim to achieve an optimum ratio of pharmacist to the population of 1:2000 people by year 2016 as suggested by World Health Organization for a developed nation. As of December 2013, the ratio stands at 1:2949 people (Health, 2014).

Selangor has the highest number of community pharmacist (23%) followed by Penang (11.8%) and Kuala Lumpur (11.65%). Most retail pharmacy outlets concentrate in city areas such as Kuala Lumpur, Selangor, Penang and Johor Bahru, accounts for more than 50 percent of the distribution nationwide shown in Figure 1.1.

Figure 1.1: *Statistics of retail pharmacy outlet in Malaysia*

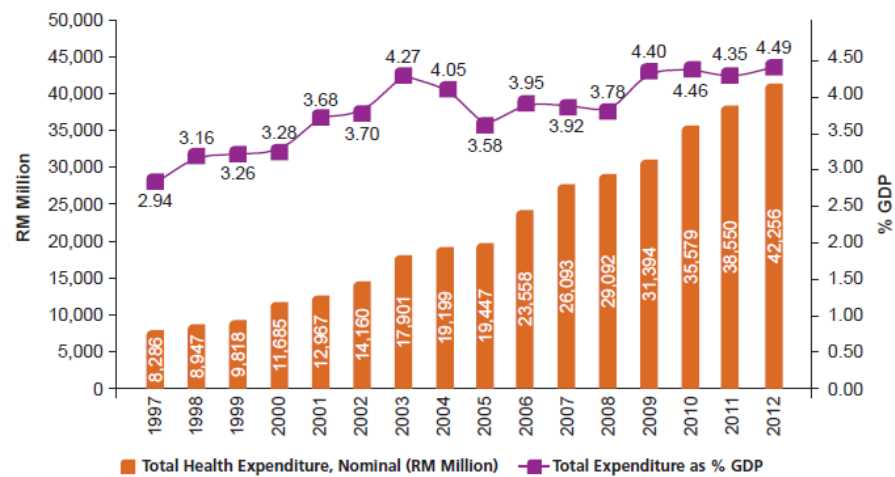


*Source: Pharmaceutical Services Division, Ministry of Health, Malaysia, March 2013*

Traditionally, a retail pharmacy is a place to purchase medicines and healthcare related products. Purchases of medicinal product contribute significantly to the health care budget in developing countries and may account for 50 to 90 percent of non personnel costs (Quick, Jonathan, James, Laing, Dukes & Garnett, 1997). Total Expenditure on Health (TEH) is defined as areas of health spending where it is measured and reported to World Health Organization. In Malaysia, health expenditures from public and private sectors saw an increasing exponential trend since 1997. In 2012, total healthcare expenditure was RM 42.256 billion, dwarfing the amount of RM 8.286 billion spent in 1997. The most recent report by WHO revealed the total expenditure on health per capita stands at USD 938 million as of 2013.

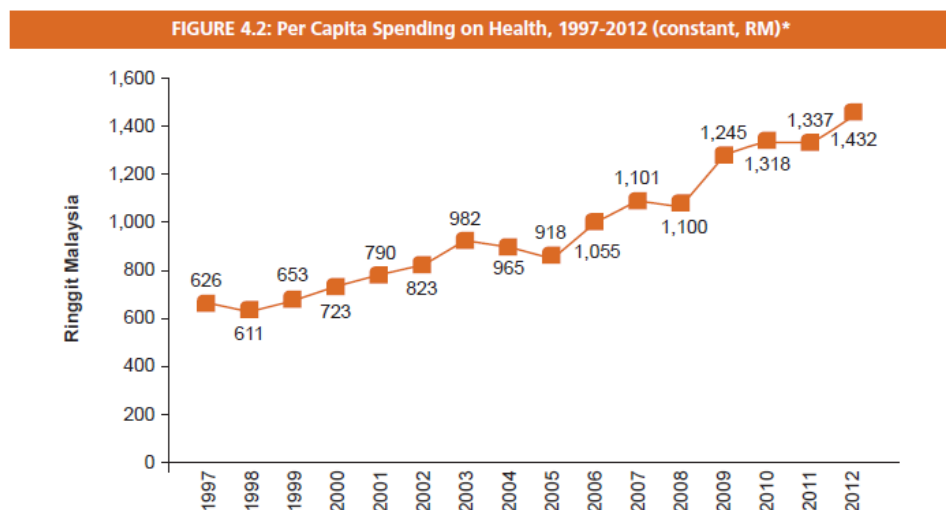
In 2009, retail sales and other providers of medical goods made up 7 percent of total health expenditure in Malaysia, accounting for almost RM 2.4 billion according to World Health Organization. Total health expenditure contributes 4.0 percent of Malaysia's GDP. Per capita spending on health has increased to RM 1432 in 2012, up from RM 626 in 1997 (Health, 2014). As any developing country, Malaysia does not have a national public health insurance to cover for health expenses incurred by citizens. There is an approximately 74% of funding in private Malaysian health sector comes from consumers' out-of-pocket money (WHO, 2007). The nominal total health expenditure and total expenditure express as percentage of GDP is shown in Figure 1.2 and Per capita spending on health is shown in Figure 1.3.

Figure 1.2: *Total Health Expenditure (nominal) and Health Expenditure as % GDP*



Source: MNHA Health Expenditure Report 1997-2012, Malaysian Medical Association

Figure 1.3: *Per Capita Spending in Ringgit Malaysia on Health 1997 -2012*



Source: MNHA Health Expenditure Report 1997-2012, Malaysian Medical Association

## **1.2 Problem Statement**

Retail pharmacies held an important role in Malaysia's healthcare industry. As of 2012, there were more than 1800 registered pharmacy outlet nationwide. The industry could see a much higher figure in the present day. The increasing number of pharmacy outlets in Malaysia has made business becoming more competitive. This was compounded by the fact that as more multinational companies are actively investing and expanding this industry, it become much harder for a standalone retail pharmacy to sustain and to survive. While major chain of the retail pharmacies are able to leverage their business operating system and are able to promote their products through aggressive marketing via major medias, stand alone retail pharmacies may not have the financial power to compete or to do so. The recent introduction of goods sales and service tax (GST) may also slows down economic growth and impact business performance. The external factors are not helping the retail pharmacy sector but burdens business owners even more to a point where independent retail pharmacies are struggling to stay afloat in the market (Perepelkin & Zhang, 2011). Furthermore, Hassali, Siang, Saleem, and Aljadhey (2013) has reported stiff competition among retail pharmacies in Malaysia had pressured owners to continuously lower prices to undercut competitors. The price war situation caused business profits to dwindle and threaten the survival of pharmacy business, therefore arises the concern to focus this study on retail pharmacies amidst of all the uncertainty.

Secondly, internal and external customers form the foundation of a business. Retail pharmacy being both a service and product provider where a professional healthcare provider (pharmacist) attend to the needs of a customer by giving medical advice, counselling and merchandising healthcare products. Their success as a

service provider is very much dependable on the quality of relationship with customers (Panda, 2001). A healthy and quality relationship with customers increases satisfaction, thus creating a continuous uninterrupted care flow (Schommer & Kucukarslan, 1997) and develops a strong positive relationship between the customers (Crosby, Evans, & Cowles, 1990). Multiple research had show that quality of service influences organizational outcome such as superior company performance, upsurge of business profit, customer loyalty and enhanced company image (Cameran, Moizer, & Pettinicchio, 2010; Fisher, 2001; Kish, 2000; Portela & Thanassoulis, 2005). The importance of service quality need to be emphasized and addressed as customers are much better informed today. Equipped with the knowledge and information gathered, retail pharmacy's customer tend to seek the best value for money while purchasing products and services (Gavilan, Avello, & Abril, 2014). As Cameran et al., (2010) researched, integration of service quality is the main differentiation agenda to outcompete business rival. Service quality studies had been carried out in Malaysia and are mainly focused on financial institutes (Kheng, Mahamad, Ramayah, & Mosahab, 2010; Kumar, Kee, & Manshor, 2009; Munusamy, Chelliah, & Mun, 2010; Tahir & Abubakar, 2007), grocery stores (Ahmad, Ihtiyar, & Omar, 2014), apparel specialty stores (Leen, Ramayah, & Ma'ruf, 2004) and hotels (Mey, Akbar, & Fie, 2006). However, service quality issues have not been properly address in healthcare industries and therefore lags comparatively (Borkowski & Gordon, 2006). This study seek to add to the literature knowledge of measuring service quality in healthcare industry focusing on retail pharmacies and to be able to assist in reducing service quality gaps.

Store attributes essentially shape the image of a store and assist in precise marketing strategy formulation (Erdem, Oumlil, & Tuncalp, 1999). Literatures



summarize that store attributes differs according to the type of store format evaluated. In other words, a set of attributes might work for certain retail format may not be applicable for another. For example, Perumal (2005) observed five essential store attributes for supermarkets while Wel, Hussin, Omar, and Nor (2012) observed seven essential attributes for supermarkets. Therefore, store attributes are highly individualized and specific. As retail pharmacy is a unique blend of being a healthcare provider and as a retailer, it is relevant to investigate the influences of store attributes in retail pharmacy as this industry has not been much focused for retail marketing research (Wongsuphasawat, Kittisopee, & Powpaka, 2010). Besides, environmental effects on customers in the service industry were scarce and were not well researched upon (Bonnin & Goudey, 2012). Store attributes had been evaluated for furniture store (Hassan, Muhammad, & Bakar, 2010), major departmental stores (Jantan & Kamaruddin, 1999) and groceries store (Ong & Chuah, 2006) but to my best knowledge, limited research has been studied in a retail pharmacy.

Traditionally, retail pharmacies are more focused on functional aspects such as quality of service through clinical expertise, health and medicine counselling offered to their customers. The service provided are associated with their differentiation and influences customer satisfaction and value perception (Hamilton, 2009). The fact that retail pharmacy exhibits dual role as both retail business and health care provider makes it a challenge to provide customer with a positive experience on top of the basic functional activities (Gavilan et al., 2014). Besides, shopping trips to a retail pharmacy has not yet been perceived to be an enjoyable experience for customers (Nilsson & Ek, 2012). The question remains whether customers who visited a retail pharmacy enjoyed the experience or do they treat it strictly as a professional visit, similar to clinic or hospital visitation. Besides, there

are limited literatures on the research of attributes that can enhance customers shopping experience in a retail pharmacy. Therefore, this research aims to provide additional knowledge and information for such unanswered questions.

### **1.3 Research Questions**

The study aims to answer the following questions:

1. Does service quality influence business performance?
2. Does store attributes influence business performance?
3. Does service quality influence customer experience?
4. Does store attributes influence customer experience?
5. Does customer experience influence business performance?
6. Does customer experience mediate the relationship between service quality and business performance?
7. Does customer experience mediate the relationship between store attributes and business performance?

### **1.4 Research Objectives**

Based on the research questions, the objectives of this study are:

1. To examine whether service quality influence business performance of retail pharmacy.
2. To examine whether store attribute influence business performance of retail pharmacy.
3. To examine whether service quality influence customer experience.
4. To examine whether store attributes influence customer experience.

5. To examine whether customer experience influence business performance.
6. To examine whether customer experience mediates the relationship between service quality and business performance.
7. To examine whether customer experience mediate the relationship between store attributes and business performance.

### **1.5 Significance of study**

This study is expected to provide theoretical foundation and practical evidence to researchers in the research area of service quality, store attributes, customer experience and business performance in retail pharmacy industry literature. Theoretically, this study would contribute to the knowledge on the retail pharmacy business performance in Malaysia. In addition, this study could provide a new dimension to understand business performance holistically by acknowledging the link between store attributes and service quality on business performance with the mediating factor of customer experience supported by Resource Based View Theory. The theory describes key resources of an organization are fully utilized by business owner to gain competitive advantage and to meet the needs and expectations of their customer. In addition, this study incorporates Consumer Behaviour Theory to understand consumer's behaviour during purchasing, evaluation and consumption of products and services. While there are studies of store attributes, service quality and customer experience, it is a noble study to incorporate all three variables to influence business performance. From this perspective, this study hopes to provide a more in-depth understanding of the relationship and the effects of among the three variables thus contributing to the marketing research knowledge.

Practically, the findings of this study will assist retail pharmacy owners to develop strategies to achieve competitive advantage in order to maximize their profit margin and to sustain their businesses. Competition among retail pharmacy has become a major concern for business owners due to increasing market saturation and the close proximity of pharmacy outlets. In addition, customers today are spoiled for choice and options. Owners need to understand that price may not be the only factor in consumer's buying behaviour, but rather a more holistic approach to engage customer through positive experience management, developing and creation of good store environment and receiving service quality that matches expectation may be the key to better business performance.

This study aims to assist pharmacy owners to direct their focus on marketing efforts to increase consumer patronage and profitability. Retail pharmacy outlet are able to differentiate and understand the needs of market segments and the factors that influences consumer's decision to selectively patron certain pharmacies. Equipped with the knowledge and understanding of consumers' behaviour will help owners to model their business strategies through differentiation of products, attributes and service quality offerings. In addition, this study aims to assist retail pharmacy to identify offerings that are valued or not valued by their respective customers.

## **1.6 Definition of Key Variables**

The variables used for the purpose of this study are defined and presented in the following section.

### **1.6.1 Business Performance**

Business performance is defined as a set of metrics used to quantify both the efficiency and effectiveness of actions (Neely, Gregory, & Platts, 2005). In retail

pharmacy, business performance are assessed through its financial performance (Jing, Avery, & Bergsteiner, 2011).

### **1.6.2 Service Quality**

Service quality is defined as an overall judgment of a service provider and the outcome of the comparison between customers' perceptions and expectations (Dadfar & Brege, 2012). In this study, service quality consists of five dimensions adopted from Dadfar and Brege (2012); information, security and reliability, empathy, appearance and time commitment. The five dimensions are collectively known as PHARMA-SERVQUAL. The definition of each dimension are as below:

- i) Information refers to the nature of statement that constitute the dimension and the importance of information to the patients as recommended in Good Pharmacy Practice (GPP) by World Health Organization (WHO) and International Pharmaceutical Federation (FIP) (Dadfar & Brege, 2012).
- ii) Security and Reliability refers to customer satisfaction and trust on retail pharmacy when good service is rendered within an acceptable time accurately. It also refers to the knowledge, courtesy and ability to instil confidence in consumer (Victor, Gheorghe, & Petruscu, 2013).
- iii) Empathy refers to the amount of care and individualized attention provided to the customers (Victor et al., 2013).
- iv) Appearance refers to the physical outlook of the place, equipments and their employees.
- v) Time Commitment refers to the dedication of employees to provide service to customers.

### **1.6.3 Store Attributes**

Store attributes is defined as the complex perception of a store with different attributes shaped in customer's mind (Chang & Luan, 2010). Store attributes consist of two dimensions, namely store convenience and store atmosphere which is defined below:

- i) Store convenience is defined as facilities and services provided by the retail store such as parking facilities, location and credit card payment options (Jin & Kim, 2003).
- ii) Store Atmosphere is defined as the ambient condition, including store layout, design and signage that will evoke emotions among patrons (Babin, Darden, & Griffin, 1994).

### **1.6.4 Customer Emotional Experience**

Customer emotional experience is defined as an actual sensation, feelings, cognition and behavioural response exhibited by customers during the consumption of a service, product or towards a brand (Naina & Borhan, 2014).

## **1.7 Organization of Dissertation**

In general, this dissertation is presented in five chapters. Chapter 1 highlights the background of the study of interest, research problems, research questions, research objectives, significance of study and definition of variable term. Chapter 2 discusses the reviews of literatures from previous studies which involves independent, dependent and mediating variables. The developed theoretical framework and formulated hypotheses were discussed according to the review of the literature. Next, Chapter 3 examines the methodology used for this research

including details of population and sample, questionnaire design, measurements, data collection techniques as well as statistical analysis techniques. Chapter 4 discusses the results of statistical analysis. Lastly, chapter 5 presents the discussion of findings, implications, limitations of the study, recommendations and conclusions.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter illustrates a detailed literature review related to retail pharmacy outlet in Malaysia, store attributes, service quality, customer experience and the business performance.

#### **2.1 Retail Industry in Malaysia**

In most developed countries, retailing represents the largest industry (Burt & Sparks, 1995). Malaysia is the fifth largest retail market size with non-grocery retail accounts for 63.4 percent of the whole market (Bank, 2014). Within the country, it is considered as one of the most dynamic sub-sector for the economy (Mui & Ghafar, 2003). The fundamental structure resembles Singapore, therefore position Malaysia as a more developed retail market compared to neighbouring countries such as Indonesia, Thailand, Vietnam and Philippines (Coe & Bok, 2014) with data shows foreign supermarket had successfully penetrate the market better and hypermarkets achieved greater success compared to their neighbouring countries.

The retail industry is broadly classified into small and large scale establishment (Mui & Ghafar, 2003). Small scale establishment includes sole propriety retail stores whilst large scales establishment includes shopping complex and hypermarkets. Retail operations were broken down further to four main categories; informal, small scale single propriety shop, large scale departmental stores and super regional shopping centres. Malaysia retail first started as traditional grocery stores and mini markets made up of individual business owners, which eventually then grew to department stores and supermarket before the influx of shopping malls and



hypermarkets owned by foreign retailers (Wel et al., 2012). In 2006, it was reported as high as 83 percent of hypermarkets in Malaysia were foreign owned (Chamhuri & Batt, 2009). As hypermarket grew, the market share and exposure for traditional retail shops shrink smaller. Malaysians had embraced and are adapting to the change of retail landscape, given the variety of choices available and the possibility of both traditional and modern retailers to co-exist.

Table 2.1: *Characteristics of Modern Retail Format*

Format	Definition
Hypermarket	Retail stores with sales area ranging from 80,000 to 220,000 square feet with at least 35% of selling space devoted to non-glossary products
Supermarket	Self-sustaining store with sales area averaging 20,000 sqft. Located in key residential markets and mall
Department store	Large store focusing on selling non-food items such as household products and clothing. Some focuses on their own store labels
Convenience store	Retail store under 5000 square feet. Focuses on providing an assortment of food, consumable products. Usually open seven days a week with extended hours
Specialty store	Retail store specializing in particular type of merchandise, single products of durable goods which are characterized by a narrow product line.

*Source: Terano, Yahya, Mohamed, and Saimi (2014)*

The modern retail formats available in Malaysia are defined in Table 2.1 As mentioned by Shamsudin and Selamat (2005), most modern retail formats are located in major urban centres where the population are higher and more affluent. It is estimated that over 70 percent of Malaysians currently live in urban areas (Cottrell & Hoh, 2010) whereas places such as Kuala Lumpur where urbanization had reached 100%, modern retailers are edging out shop house retailers (Mui & Ghafar, 2003).

### 2.1.1 Retail Pharmacy Format

There are three distinct format of retail pharmacy in Malaysia namely independent pharmacy, community chain pharmacy and corporate chain pharmacy (Siang, Kee, Gee, Richard, & Hui, 2008). Independent pharmacy are individually owned; chain pharmacy were owned by a group of pharmacists or owners which carries the same retail branding in respective stores over multiple location while corporate chain pharmacies are operated by multinational companies. The emergence of chain pharmacy (community and corporate) stimulates business competition, prompting independent retail pharmacy to improve the quality of their stores and services to protect their existing customers (Lowe & Montagu, 2009). The decision to remain as an independent pharmacy or to join larger chain pharmacies lies with individual considering the benefits and drawbacks summarized below.

Table 2.2: *Benefits and Drawbacks of chain retail pharmacies*

Benefits of chain retail pharmacy	Drawbacks of chain retail pharmacy
Uniform and Standardized Quality Improve efficiencies Encourages effective competition Increased accessibility Expansion of new services Lower costs to consumers Increase in pharmacies and pharmacists	Focuses on business Profit driven Less personalized service leads to a decrease in quality of care Decrease in pharmacist accountability Additional investment in infrastructure required Potential loss of services in rural areas

*Source: Lowe and Montagu (2009)*

### 2.1.2 Community Pharmacy

The organization of community pharmacy varies across countries and is not replicated elsewhere. Each pharmacy organization play a different and unique role as required by their respective country's health organization. Jacobs, Ashcroft, and Hassell, (2011) showed that community pharmacy in United Kingdom deliver their

services under the contract of National Health Service (NHS), a government agency while Spain's licensed pharmacists are allowed to own only one pharmacy store. In Australia, pharmacy stores are legally required to be owned by one registered pharmacist, however person responsible for the outlet operation need not be a qualified pharmacist (Jing et al., 2011). In Malaysia, a person or a business organization are allowed to own one or more pharmacy stores with the legal requirement of having one or more registered pharmacist attached to the particular outlet. In other words, retail pharmacy in Malaysia does not exclusively belong to a pharmacist; rather any person can own a pharmacy similarly to any normal retail outlet business. It is different from Spain or Australia whereby only the pharmacist can be an owner. The different legislation opened up opportunities for non-pharmacist person to invest in this retail business. It is evident from the increasing number of pharmacy stores nationwide in these past few years. As more pharmacy stores enter the market, the more competitive the market will be for the retailers.

Bryant (2010) postulates retail pharmacies are going through a choppy time due to heighten surrounding competition. On one hand, pharmacist has a role of medicines counselling but on the other hand, they are also businessman responsible to secure their survival and sustainability (Wieringa, Reber, Lee, & Wright, 2015). While it is necessary to provide the best healthcare service to the end users, owners will have to consider the effects on business profits and while retail business is about making profits, the role as a healthcare provider can't be ignored or neglected as well (Jacobs et al., 2011). The retail pharmacies will also need to react in situations where customers' high expectations on having easy accessibility to medicines and healthcare advice (Taylor, Mrazek, & Mossialos, 2004). The effects of rapid development and increasing degree of competition cannot be underestimated.

Schmidt and Pioch (2005) reported competition pressure has caused almost twenty percent of retail pharmacy business in UK to be on the brink of closing down. Many choose to venture into other business to generate revenues due to decreasing income sources and also to remain competitive among their competitors (McGee, Love, & Festervand, 2000).

Retail pharmacy provides healthcare through a wide range of products offerings such as toiletries, cosmetics, groceries and medicines in this highly regulated industry. In addition, owners have to juggle between adhering to healthcare policy and to the core nature of business environment. Situation demands retail pharmacies to learn and develop professional marketing competencies to assist retail pharmacies in gaining competitive advantage. Wieringa et al., (2015) suggested retail pharmacies to evolve their current business model to a more commercial based model for sustainability during such competitive and financial pressurizing periods.

Consultation and medicinal supplies in public hospitals and clinics are heavily subsidized by the government. In recent years however, public healthcare providers had been reported to request patients to buy their own medicine in private clinics and retail pharmacy outlet (Netto, 1999; Sangaralingam & Raman, 2005). In Malaysia, price of medicines sold in private sector are not controlled by the government but is determined by manufacturers, distributors and retailers respectively. Thus, medicine price floats freely in the market following the price deregulation system. A survey done shows 37% of patients obtain their medicine supplies from private hospitals or clinics while 42% obtained it from retail pharmacies (Babar & Ibrahim, 2003).

### **2.1.3 Role of Pharmacist in Healthcare system**

The main role of pharmacist in the healthcare system is to collaborate with other healthcare providers, with the goal of optimizing customers' quality of life and to achieve the best clinical outcome for them (Khudair & Raza, 2013). As retail pharmacist, they are to ensure safe and effective supply of drugs and medicines to the general public (Anderson, 2002). In early days, pharmacist role is limited to monitor drugs usage among patients and consumers. As healthcare industry advances, their role are further developed to include prescription medicine management, minor ailments counselling, chronic disease management support, promoting health awareness and as a drug knowledge reference person (Jacobs et al., 2011). This places the pharmacist in a unique multi-role of safeguarding the interest of patients through quality use of medicine and as a provider of health service towards a healthy society. Pharmacist are often considered as the connecting point between consumers and doctors and pharmaceutical companies where they are the first contact point for consumer and last touch point in pharmaceutical supply chain (Dadfar & Brege, 2012). The business operation of a retail pharmacy has grown together with healthcare industry, expanding beyond medication supplies and towards a holistically patient-centred and care service approach.

WHO and International Pharmaceutical Federation (FIP) sets the guideline of good pharmacy practice and standards for quality of pharmacy service (IPF, 2011). The expectation of society on pharmacist is high and they are required to carry the responsibility of preparing, obtaining, distributing administering and disposal of medicinal products, provides effective medication therapy management, maintain and improve professional performance and contributes to improve effectiveness of the health-care system and public health.

## **2.2 Organizational Performance**

Organizational performance can be evaluated through a multi-dimensional approach (Macinati, 2008) utilizing business performance, financial performance, quality performance, innovation performance, firm performance, quality performance to measure the achievement of adopted quality management initiatives (Khaidir, Habidin, Ali, Shazali, & Jamaludin, 2013). Business performance and its measurement work as a tool for business practitioners, managers and owners to achieve their objectives as well as their desired strategies (Simmons, 2000). It is the extent in which a firm increases sales, profits and return on equity (Bonner, Kim, & Cavusgil, 2005; Petersen, Handfield, & Ragatz, 2005). Customer performance is interpreted through understanding the need of customers which gives benefit to an organization to produce high quality products and services (Habidin, 2012). Financial performance shows the financial status of an organization (Revere, Black, & Love, 2007) and is considered as a tangible outcome in every organization (Grigoroudis, Orfanoudaki, & Zopounidis, 2012).

Morgan (2012) explains that competitive advantage and its outcome performance are examined through a structure-conduct-performance (SCP) paradigm. The performance among firms are viewed through its ability to find, create and exploit market imperfection that leads to reduced business rivalry and price competition. Fundamentally, organizational performance is driven by the degree of competition within a marketplace which in turn is a function of structural characteristics of those marketplaces (McGahan & Porter, 1997). This approach was largely supported by resource-based view (RBV) theory. where the approach identifies key resources and the deployment of those firm specific resources in markets where the greatest rent earning potential exist (Amit & Schoemaker, 1993).