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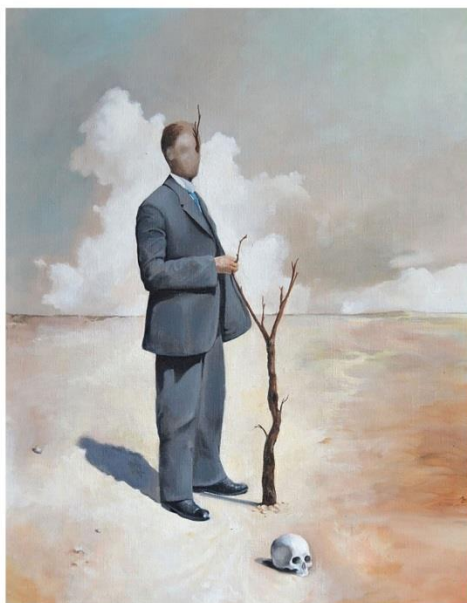
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Competitive Capabilities, Operational Capabilities and Business Performance: A Study of Malaysia SMEs

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Abstract

The purpose of this paper is to investigate systematically the capabilities within SMEs in Terengganu, Malaysia. A survey was conducted among SMEs by using a questionnaire that was mailed to the owner. The empirical findings provide evidence that there is a relationship between competitive capabilities and business

performance. However, there was no support for the hypothesis that operational capabilities have an impact on business performance. In conclusion, this examination of the level of competitive and operational capabilities among SMEs in Terengganu, Malaysia provides both researchers and managers with a greater understanding of these factors and their importance to business performance.

Keywords: Resource-based; Competitiveness; Operations; Enterprises; Terengganu

Capacidades competitivas, capacidades operativas y rendimiento empresarial: un estudio de las PYME de Malasia

Resumen

El propósito de este documento es investigar sistemáticamente las capacidades dentro de las PYME en Terengganu, Malasia. Se realizó una encuesta entre las PYME mediante el uso de un cuestionario que se envió por correo al propietario. Los resultados empíricos proporcionan evidencia de que existe una relación entre las capacidades competitivas y el desempeño comercial. Sin embargo, no se apoyó la hipótesis de que las capacidades operativas tienen un impacto en el rendimiento del negocio. En conclusión, este examen del nivel de capacidades competitivas y operativas entre las PYME en Terengganu, Malasia, proporciona a los investigadores y gerentes una mayor comprensión de estos factores y su importancia para el rendimiento empresarial.

Palabras clave: Basado en recursos; Competitividad; Operaciones; Empresas; Terengganu

1. INTRODUCTION

Nowadays, small and medium-sized enterprises (SMEs) in the manufacturing sector compete in a complex and volatile environment characterized by growing global competition, unstable markets, and the increasing sophistication of technology. The winning of orders depends on competitive advantage, which includes the ability to realize a set of capabilities that manifest the relative strength of the individual SME over its competitors. The SME is increasingly recognized as a key driver of economic development in developed and developing countries, including Malaysia. It has been an important generator of employment, innovation and technological advancement. Indeed, in recent years, the level of economic dependence on SMEs has increased dramatically in many countries. Therefore, SMEs have become the major backbone of many an economy, including that of Malaysia (ZULKIFFLI, 2011).

However, SMEs have encountered uncertainties in their growth path due to the presence of several problems and obstructions. According to TAMBUNAN (2007), the development of SMEs, regardless of country, is usually threatened by the same pattern of infrastructure, institutional and economic problems, as well as marketing and labor-productivity issues. As an important generator of their respective country's economic prosperity, SMEs must react with vigor to overcome the issues that inhibit their growth by focusing on rationalization and reorganization in order to become more dynamic in the global marketplace. The National SME Development Council of

Malaysia suggests that to remain relevant, Malaysian SMEs must be equipped with a range of requisite capabilities; specifically, skills, technical expertise and best practices. It is also important that SMEs recognize and know how to exploit the capabilities that exist in their organization.

To address the above gap in knowledge, this study aims to determine the level of competitive and operational capabilities among SMEs in the state of Terengganu in Malaysia and seeks to ascertain whether there is a relationship between these capabilities and business performance. As part of the East Coast Economic Region, Terengganu has great potential to improve the socio-economic status of its people. Terengganu is home to the country's highest concentration of Bumiputera SMEs, accounting for 87.5 percent of the national total. In fact, Terengganu's SMEs are ranked as the eighth-largest contributor among all SMEs in all states to Malaysia's gross domestic product. Terengganu is also chosen for this study, as most of the SME entrepreneurs in this state focus on manufacturing traditional products and apply conventional business practices.

2. LITERATURE REVIEW

In a fast-changing and turbulent competitive environment, firms have to deal with external factors such as technology, innovation and market globalization as well as ever-increasing customer expectations. These pressures have increased firms' interest in identifying and

developing their competitive and operational capabilities (PHUSAVAT & KANCHANA, 2007). It has been suggested that firms need to build core capabilities in order to maintain a long-term competitive advantage and that they should do so by focusing on their strategies (PORTER, 1996) and by achieving the highest level of performance.

2.1 Resource-based View Theory

The current dominant view with respect to business strategy is the resource-based theory or resource-based view (RBV) theory. The theory focuses on competitive heterogeneity as a way to sustain competitive advantage, which essentially refers to the ways in which close competitors differ in their resources and capabilities. The theory suggests that competitive advantage and business performance are the outcomes of a firm's resources and capabilities. For a firm to be sustainable and differ from others in terms of a competitive advantage its products/services need to be rare, imperfectly imitable, valuable and non-substitutable.

For this occur, two assumptions need to be fulfilled: (i) firms within an industry (also known as a strategic group) are heterogeneous with regards to the bundle of resources that they control and (ii) the resources used to implement business strategies are not perfectly mobile across firms, some of the resources cannot be traded and some are difficult to accumulate and imitate (PETERAF & BARNEY, 2003).

2.2 Competitive Capabilities

Competitiveness has an impact on economic and non-economic factors that affect shareholders, employees, customers and the wider community. Competitiveness refers to the ability of a firm to grow and prosper among other firms in the marketplace. It could also be referred to as the ability to sustain the market position, and requires the achievement of several simultaneous targets. Yet, it is argued that a firm must focus on its customers as its highest priority (CHOPRA & MEINDL, 2007). For a firm to have competitive capabilities it needs to meet customers' expectations more effectively than its competitors. In order to win customers, a company must undertake research to identify customers' needs and wants so that it can surpass its competitors.

Nowadays, competition among firms is very tight. Firms are trying very hard to enhance their competitive capabilities so that they can provide extra value to their customers in order to gain a more prominent position than their competitors. Every firm tries to concentrate on at least one capability, and most of them focus on becoming more competitive in the marketplace. This act of seeking to be competitive may in itself provide a competitive advantage that may lead to improved business performance. Indeed, it has been shown that firms must play an active role in the market and be more consistent in order to gain and maintain a competitive advantage (ZULKIFFLI & AHMAD, 2014).

In light of the above, this study measures four competitive capabilities factors – cost leadership, differentiation, innovative

marketing and customer service – and their relationship with business performance. The result should provide useful guidance to businesses that would like to develop an optimal mix of competencies to improve their competitiveness.

2.3 Operational Capabilities

Driven by their business strategies, firms set goals and objectives, and then implement action plans to achieve these goals. Once these action plans are implemented, firms develop the operational capabilities that then enable them to compete in the business environment (KOUFTEROS, X., VONDEREMBSE, M. & DOLL, 2002). Hence, from a firm's perspective, the implementation of an operational strategy, including the development of operational capabilities and activities is crucial in today's business environment (ZULKIFFLI, 2010). This strategy significantly depends on the product development, delivery speed and punctuality factors of business rivals and the way in which sustained competitive advantage is created.

Based on the above, operational capabilities are firm-specific, emerge gradually over time, are tacit, and can be validated through their application to the problems faced by a particular firm. These attributes support RBV theory, in which it is claimed that operational capabilities make a significant contribution to a firm's success and to maintaining its competitive advantage.

2.4 Business Performance of Small and Medium-sized Enterprises

As discussed earlier, the literature has long argued that there is a linkage between competitive capabilities and business performance. Moreover, performance is a predominant construct of interest in research on SMEs. However, when exploring performance many empirical studies rely only on accounting measures of profitability such as return on investment, return on assets, earnings per share and turnover or a number of customers (ZULKIFFLI, 2010). Scholars have often criticized the use of such accounting measures, as they primarily focus on the economic dimension and ignore other aspects of a firm's performance (VENKATRAMAN & RAMANUJAM, 1986).

There are many obstacles that prevent or deter SMEs from sharing their actual financial performance in the public domain. For instance, it is relatively difficult, particularly for small firms, to gather objective financial data. Either the data is unavailable, or it is obscured or manipulated by managers who are eager to protect their firm's reputation or avoid personal or corporate taxes (DESS & ROBINSON, 1984).

In light of the issues raised above, this study investigates business performance by using financial and non-financial subjective measures of market share growth, sales turnover, supplier delivery performance, product-quality development, and resolution of customer complaints. The study also focuses on firms within the same industry (in this case, manufacturing).

3. METHODOLOGY

For this study, a number of SMEs in the manufacturing sector were randomly selected from a list compiled by the Yayasan Pembangunan Usahawan Terengganu (Terengganu Entrepreneur Development Foundation) in 2016. The manufacturing firms were sampled from seven Terengganu districts to ensure that the sample accurately reflected the Terengganu business environment. The primary data collection method for this research was quantitative and utilized a survey questionnaire that was designed to meet the standards of the SME sector in Malaysia. The process of questionnaire development began with an extensive analysis of the related literature. Most of the scales that were used in this research were adapted from previous studies. However, most of the previous research is based on the Western context and only a few studies focus on the Eastern context, especially in respect of the SME perspective.

After the pilot study evaluation, the final version of the questionnaire was sent to one of the top managers in each of the 350 manufacturing SMEs in Terengganu. In this study, a seven-point Likert scale was developed based on the extant literature. Thus there were seven responses which ranged from 1 = 'extremely low' to 7 = 'extremely high' for the statements on competitive capabilities and operational capabilities, and from 1 = 'worst in the industry' to 7 = 'best in the industry' for the statements on business performance.

The data collection yielded 120 questionnaires. However, 15 of these questionnaires were eliminated, as 10 respondents did not

complete the questionnaire successfully and five respondents did not pass the confidence assessment for determining their appropriateness as a key respondent. Thus, the final sample consisted of 105 usable questionnaires, representing a response rate of 30 percent, which is considered relatively high in the field of research on SMEs in Malaysia.

4. DATA ANALYSIS AND FINDINGS

Table 1 depicts the profile of the SMEs analyzed in this study. The results of the descriptive analysis indicated that most firms (90.5 percent) have between five and 74 employees, while the remaining 9.5 percent have from 75 to 200 employees. So, following the Malaysian definition of manufacturing sector SMEs, these firms can be categorized as small enterprises and medium-sized enterprises, respectively. The vast majority of these SMEs have been in business for some time: five to nine years (32.4 percent), 10 to 15 years (29.5 percent) and more than 15 years (28.6 percent). Only 9.5 percent of the SMEs are new companies that have operated for less than five years. This shows that the SMEs in the sample represents both small and medium and new and established firms. Most of the firms fall into four specific sub-sectors of manufacturing: food and beverages (28.6 percent), furniture (16.2 percent), building materials (9.5 percent) and household appliances (1.9 percent). Finally, all these firms operate only at the domestic level; none focus on the international market.

A normality test was conducted to determine whether the data was parametric or non-parametric. The result of the skewness and kurtosis analyses indicated that all the values were in the range of -2 and +2.

Table 1: Profile of SMEs in Terengganu

Item	Category	Frequency	Percentage
Number of Employees	1-4	0	0
	5-74	95	90.5
	75-200	10	9.5
	More than 200	0	0
Years in Business	Less than 5 years	10	9.5
	5-9 years	34	32.4
	10-15 years	31	29.5
	More than 15 years	30	28.6
Sub-sector by Industry	Food and beverages	30	28.6
	Furniture	17	16.2
	Building materials (hardware)	10	9.5
	Household appliances	2	1.9
	Others	46	43.8
Scope of Business	International	0	0
	Domestic	105	105

A Kaiser-Meyer-Olkin (KMO) test and Bartlett’s test of sphericity were also conducted to determine whether it would be appropriate to conduct factor analysis on the data collected, as 105 respondents are considered as quite a small sample size. From Table 2, it can be seen that the value of the KMO measure of sampling adequacy for both variables – competitive capabilities and operational capabilities – is more than .60 and Bartlett’s test result is significant (p

= .000). Therefore, the sample of this study was deemed suitable for further analysis.

Table 2: Measure of Sampling Adequacy

Variable	Kaiser-Meyer-Olkin Measure of Sampling Adequacy	Bartlett's Test of Sphericity		
		Approx. Chi-Square	df	Sig.
Competitive Capabilities	.609	645.670	435	.000
Operational Capabilities	.685	474.019	231	.000

Table 3 shows that competitive capabilities, operational capabilities and business performance have good internal consistency, as the Cronbach's alpha coefficient is more than .70 for each of these three variables.

Table 3: Reliability Statistics

Variable	Cronbach's Alpha	No. of Items
Competitive Capabilities	.722	29
Operational Capabilities	.732	21
Business Performance	.761	11

This study classified business performance as the dependent variable, while competitive capabilities and operational capabilities were classed as the independent variables. Tables 4 and 5 summarise the results of the multiple regression analysis that was performed to test the impact of these independent variables on business

performance. From the simultaneous estimation, the overall model was found to have statistical significance ($p < .05$), indicating an acceptable model fit. The beta coefficient was used to assess each independent variable’s relative explanatory power on the dependent variable.

Table 4: Summary of the Study Model

Model	R	R ²	Adjusted R ²	SE of the Estimate
1	.288 ^a	.083	.065	.620
a. Predictors: (Constant), OC_Mean, CC_Mean				
b. Dependent Variable: BP_Mean				

Multicollinearity was assessed by the variance inflation factor (VIF) value of each independent variable. As shown in Table 5, both of the independent variables have a VIF value that is far lower than the recommended threshold of 10, thus each variable has sufficient variability that is not explained by the other (COHEN, COHEN, WEST, & AIKEN, 2003).

Table 5: Results of Multiple Regression Analysis

Variable	Unstandardized Coefficient		Standardized Coefficient	<i>t</i>	<i>Sig.</i>	Collinearity	
	<i>B</i>	<i>SE</i>	<i>Beta</i>			<i>Tolerance</i>	<i>VIF</i>
(Constant)	2.940	.823		3.571	.001		
CC_Mean	.517	.206	.317	2.50	.014	.563	1.775

					9			
	OC_Mean	-.065	.174	-.047	-.375	.708	.563	1.775

The two independent variables together have an explanatory power (R^2) of 8.3 percent for the variance in the business performance of Terengganu SMEs. As predicted in Hypothesis 1, competitive capabilities have a positive and significant effect on business performance ($\beta = .317, p < .05$). Therefore, Hypothesis 1 is supported. However, the results show that operational capabilities have a negative and non-significant effect on business performance ($\beta = - .047, p > .05$). Therefore, Hypothesis 2 is rejected. The non-significant beta coefficient indicates that operational capabilities do not always have a huge impact on the business performance of SMEs in Terengganu.

5. CONCLUSION

Terengganu manufacturing SMEs are more vulnerable to changes in the business environment due to the fact that the majority of SMEs in the state are categorized as small enterprises (between 5 and 74 employees). The non-significance of the relationship identified by this study may be related to the fact that SMEs in Terengganu are often constrained in terms of finding the appropriate resources to develop their capabilities internally. Since the focus of this study is on SMEs in a developing country, namely Malaysia, these findings are

consistent with the previous findings for this context (TAMBUNAN, 2007; ZULKIFFLI, 2010) and may shed some light on the relationship between these two variables and deepen understanding of this particular issue.

In conclusion, this examination of the level of competitive and operational capabilities among SMEs in Terengganu, Malaysia provides both researchers and managers with a greater understanding of these factors and their importance to business performance, and thus may improve the awareness and development of these capabilities among SMEs in Terengganu specifically, and in Malaysia in general. Also, focusing the future research agenda on both types of capability would extend the existing body of literature and result in a more thorough and comprehensive examination of this most important issue, which would enable SMEs in Malaysia to build a stronger and more sustainable competitive advantage.

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