

STRATEGIC CAPABILITIES AND EXPORT PERFORMANCE OF MANUFACTURING SME IN MALAYSIA

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Abstract: Research on export performance among SMEs in Malaysia has become more significant nowadays as export is a major source of income for most countries. It is important for SMEs especially those in emerging countries like Malaysia to look into and put their efforts to strategize their capabilities to respond to the global competition and business opportunities in enhancing their export performance. Thus, this study was conducted to examine the current SMEs capabilities before they adopt the best strategic approach to face challenge situations at hand to enhance their export performance. A quantitative approach was employed in this study and a total of 187 responses from manufacturing SME exporters were received and further analysed using Partial Least Square (PLS) technique. The results demonstrated that some strategic capabilities give significant impact but some are not towards the export performance in Malaysia.

Keywords: Export Performance, Strategic Capabilities, Manufacturing SME

Introduction

Malaysian SMEs export performance has continuously become the focus of researchers, practitioners and policymakers given the heightened awareness of the significance of exports as a major source of national income. In the Malaysian context, these developments are intensified by the ASEAN Economic Community (AEC) that strives to develop a stable, prosperous, highly competitive and economically integrated market and production base that can expedite trade and investment (MITI, 2015). AEC make to the markets in ASEAN region becoming a single market, globally diffuse source of invention (Muangkhrot & Ussahawanitchakit, 2015); manufacturing capability and innovation (Teece, 2007) as firms depending on their resources to drive to be more competitive.

The establishment of the AEC in 2015 is a major milestone in the regional economic integration agenda in ASEAN, offering opportunities in the form of a huge market. Among goals of the action plan are to promote, productivity, technology and innovation, increase access to finance, enhance market access and internationalisation, enhance policy and regulatory environment and promote entrepreneurship and human capital development.

Notably, the opportunities afforded in this era of globalization are vehicles for firms to expand their businesses internationally. In embracing this globalization agenda, SMEs are expected to be more aggressive and competitive to venture beyond their backyard and into the international markets. Exporting is seen as an important activity that can ensure growth, profitability and survival in the current dynamic business setting. Exporting is said to be the most cost-effective and less risky mode to penetrate international markets, often occurring at the initial stages of the internationalization process for SMEs.

Regrettably however, despite various support mechanisms and stimulus packages offered to local SMEs, the export contribution of Malaysian SMEs is still considered low especially if compared to its neighbours such as Singapore, Indonesia, Vietnam, Philippines and Thailand (Tambunan et al., 2015). The study revealed that Thailand is the most export-oriented SMEs which contributed 30-40 percent of total SME manufacturing export, Vietnam (20-29%), Philippines (20-26%), Indonesia (20%), Singapore (16%) and Malaysia (15-19%) of total contribution on export performance. In 2019, exports decreased marginally by 1.7% to RM986.4 billion, weighed down by a fall in shipments of manufactured goods and commodities. Growth in the manufacturing sector moderated to 3% in 4Q19 (3Q19: 3.6%) due to a drop in export of manufactured goods, particularly of electrical and electronics (E&E) products to the US, PRC and regional economies (MITI, 2019). Therefore, it is crucial for SMEs to look into their current capabilities in order to helps Malaysia to increase or enhance the country export.

Literature Review

As Malaysia is ranked among the lowest exporters in comparison to other neighbouring countries, coupled with their decreasing export performance trend as reported by MITI 2019, action needs to be taken should Malaysian SMEs wish to achieve the objectives stipulated in the SME Master Plan. It is recognized that one of the challenging issues that affects the manufacturing sector is lack of capabilities such as innovation, technology support, talent or human skills, access to market and finance (RMK 11, 2015)

This study is in recognizant of the importance of SMEs especially in the newer economies, and the critical need to develop their capability development for business creation, to remain competitive and contribute to the national revenue. The reality is that the majority of Malaysian SMEs has been in the comfort zone for too long and is inadequate to compete internationally.

Strategic Capabilities and Export Performance

The relationships between strategic capabilities and performance studied years ago by scholars, are still relevant now. Previous research has widely explored the relationship between capabilities and performance (i.e. DeSarbo et al., 2005; Morgan, 2009; Parnell et. al, 2015; Parnell, 2010). Morgan, Slottergraaf and Vorhies (2009) indicated that marketing capabilities are complementary assets that contribute to superior firm performance. However, there is limited literature on the study of strategic capabilities (i.e. innovation, market linking,

marketing, technological, and management) and export performance of manufacturing SMEs in Malaysia.

The capabilities may be viewed at different levels in the firm, many of which cross different functional areas (i.e. Eisenhardt & Martin, 2000). For instance, a study by Raymond et al., (2014) on strategic capabilities and internationalization revealed that a specific capability profile with regard to innovation, markets, networks, technologies and human resources is associated with a greater level of internationalization for manufacturing SMEs. Moreover, Love and Roper (2015) suggests that SMEs which have prior innovation are more likely to export, more likely to export successfully, and more likely to generate growth from exporting than non-innovating firms. The results revealed that there is a strong positive association between innovation, exporting and performance in terms of productivity and/or growth and innovation and exporting appear to work jointly to improve performance.

H1: Innovation capability has a positive impact on export performance

Market-linking capability also one of important capability that contribute to export performance. According to Yan and He (2016), market linking capability is a very important resource for the success of exporting firms in foreign markets. They posited that when managers develop relationships with other firms, useful information on foreign markets could be obtained and the knowledge of foreign markets could be used to reduce uncertainties and the liability of foreignness which in turn, leads to enhance export performance. Parnell (2011; 2015), and Acquaah (2007) also revealed that market linking capability enable firms to understand their customers, market situation, retain customers and create durable relationships with wholesalers and retailers.

H2: Market-linking capability has a positive impact on export performance

Tooksoon et al., (2012) who examine the role between marketing capability and export success among SMEs in Thailand revealed in their study that among four marketing capabilities dimensions (i.e. product capability, distribution capability, price capability and promotion capability) only price capability has negative significance with export success. Thus, product, distribution and promotion capability give positive impact towards export success. Thus, these findings show the importance of marketing capability to export performance.

H3: Marketing capability has a positive impact on export performance

For technology capability, Malaysia still lags behind the advanced levels of global technology (Ahmad, Othman, & Lazim, 2014). They described the term “Technological Capability” as a set of knowledge, skill, experience, and ability to select technologies, set up, operate, assimilate, sustain, advance, and extend new values to the processes and products in a dynamically changing manufacturing environment. Technological studies conducted in the Malaysian context by Rasiah and Shan, (2015) and Rasiah (2016), stated that Malaysia is lagging behind industrial upgrading and facing negative deindustrialization. He added that positive deindustrialization is associated with continued strong growth in exports and productivity.

H4: Technological capability has a positive impact on export performance

Related to management capability, Makrini (2015) which study on how management perceives export success among managers at Moroccan SMEs found that management export commitment and management customer orientation are the main managerial factors in the export success of Moroccan SMEs. Hence, the technology capability and management capability are important to be focused on as the capabilities contribute to the development of product development and customer orientation management.

H5: Management capability has a positive impact on export performance

Methodology

The primary type of data used in this research is quantitative data obtained from questionnaire. The population of this study includes all manufacturing SMEs in Malaysia listed in the Federation of Malaysian manufacturers (FMM) directory 2016 that active in export activities. Unit of analysis of this study is the owner or manager of manufacturing SMEs and a total of 187 responses from manufacturing SME exporters were received and analyzed. Questionnaires were used to answer the developed hypotheses where the descriptive statistics was analyzed using the Statistical package for Social Science (SPSS) statistic version 23 and Smart PLS 3.0 software statistical method was used for the analysis.

Analysis and Findings

Demographic Profiles

Majority of respondents are owners or managers which directly involved in export activities in their firms and have more than 20 years of experience in business. The respondent's profiles consist of gender, age, and position in the SMEs, number of permanent employees, years' operating and percent of export performance for the last 3 years as depicted in Table 1 and Table 2.

Table 1: Demographic of Owner/Manager

Demographic		Frequency	Percentage
Gender	Male	130	69.5
	Female	57	30.5
Age	25-35	40	21.4
	36-45	118	63.1
	44-55	29	15.5
Position	Director	50	26.7
	Manager	72	38.5
	Assistant manager	26	13.9
	Executives	39	20.9

Table 2: Demographic of SMEs

Demographic		Frequency	Percentage
Permanent employees	10-50	73	39.0
	51-100	71	38.0
	101-150	18	9.6
	151-200	25	13.4
Years' operating	<5 years	18	9.6
	5-10 years	30	16.0
	11-15 years	28	15.0
	16-20 years	39	20.9
	>20years	72	38.5
Percent of export performance last 3 years	<10%	22	11.8
	11-30%	28	15.0
	21-40%	58	31.0
	31-50%	57	30.5
	51-70%	20	10.7
	>70%	2	1.1

Path Analysis and Hypothesis Testing

Path coefficient represents the hypothesized relationships among the constructs (Hair et al., 2014) and the rules of thumb for t-values is where the critical values for significant levels of 5% ($\alpha=0.05$) probability level is 1.645 (one-tailed). In order to get the t-values for the assessment of the significance and relevance of the relationships, bootstrapping technique was used. For this study, 5000 re-sampling was used to estimate the standard errors and the significance of parameter estimates (Ringle et al., 2011; Hair et al., 2014) at significant level of $p<0.05$, one-tailed. The path analysis results showed that only innovation capability and technology capability had significant impact to export performance. Table 3 summarizes the path and hypothesis testing of these direct relationships.

Table 3: Path and Hypothesis Testing for Direct Relationship

Hypothesis	Path	Std Beta	Std Error	t-value	Decision
H1	Innovation Capability->EP	0.365	0.111	3.290*	Supported
H2	Market-linking Capability->EP	0.038	0.104	0.368	Not supported
H3	Marketing Capability->EP	-0.050	0.111	0.449	Not supported
H4	Technology Capability->EP	0.173	0.105	1.646*	Supported
H5	Management Capability->EP	-0.007	0.115	0.063	Not supported

Note:*significant at $p<0.05$, (one-tailed), bootstrapping (n=5000)
EP=Export Performance

Discussion

The relationship between the strategic capability dimensions and export performance were tested. Results discovered that out of five variables, only innovation and technology capability have a positive and significant impact on export performance. The results are consistent with Rosli (2012) who found that SMEs ranked high on product innovation and the application of the latest technologies in process and products, which enable the firms to be more effective in maintaining and enhancing performance. In this respect, the quality of products is enhanced with innovation and subsequently, leading to export growth. Moreover, the aim of innovation capability is to apply a set of appropriate process technologies to produce new products that meet market needs and being able to respond to unexpected technological changes and competitive conditions (Adler & Schender, 1990). The ability to introduce new products quickly and adopt new processes are central to firms' competitive advantage (Guan & Ma, 2003).

As cited by Zulu et al., (2016), the rapid growth in new technologies, intensifying competition, and increasingly diverse and demanding customers have increased the importance of innovativeness in determining firm success (Atalay, Nilgun, & Fulya, 2013; Story, Boso & Cadogan, 2015; Tellis, Prabhu, & Chandy, 2009). Moreover, Teece (1996) argued that firms carrying out innovation are encouraged to penetrate foreign markets as this will result in higher profits or returns on investments. Also, Zulu, Boso and Adeola (2016) posited that the interaction between new product success (innovation) is positively related to firm performance. Similarly, Arumugam et al., (2013) found that firm innovation capabilities have greater influence on business performance. However, the results contradict Lin and Chen's (2007) study that found no significant relationship between innovativeness and firm performance.

Consistent with that, though Malaysia is lagged behind the higher levels of technology (Ahmad, Othman & Lazim, 2014), the SMEs, especially in the manufacturing sector, are making extra effort to produce high quality products. Chisanga et al., (2016) mentioned that the rapid growth in new technologies, intensifying competition, and increasingly diverse and demanding customers have increased the importance of innovativeness to the success of a firm. Thus, the technology capability of SMEs serves as a competitive weapon for SMEs wanting to enter international markets. Moreover, according to Radzi et al., (2015), the basic technology used by SMEs is Information, Communication and Technology (ICT), which is the internet. SMEs involved in export activities use the internet to build larger networks quickly without having to invest in expensive physical assets abroad. This can eliminate the SMEs' disadvantages of size and weaker physical presence among other foreign markets. Moreover, the internet provides opportunities for SMEs to act globally, such as through E-Commerce, which provides wide access to new markets either domestic or international (Rosson, 2004). Using and implementing technology in their business is vital as it helps SMEs to enter new markets, thus also strengthening their competitive position.

Conclusion and Managerial Implications

The rapid environment changes in the current international business scenario have forced firms to look deep into their capabilities. The importance of strategic capabilities especially for small business has been acknowledged in few studies (i.e. Parnell et al., (2015); Samson & Mahmood (2015); Wu (2013); Toksoon et al., (2012); Morgan et al., (2012); Ahmad, Othman & Lazim (2014); Sirmon & Hitt (2009)). While some results are in support of the hypotheses, some results show otherwise. The results conducted for manufacturing SMEs in Malaysia revealed

that only innovation and technology capabilities have a positive and significant impact on export performance, indicating the SMEs' innovation and technology capability contributes to their export performance. However, market-linking, marketing and management capabilities are still lacking and these areas need to be developed support from the government or other parties.

The results of the study may offer some implications for managers, executives, officers and people directly involved in SME exporting activities. The results showed that innovation capability and technology capability have a significant impact on export performance. In order to ensure these capabilities, remain strong, the SME exporters should continuously improve and invest in these two aspects. With the assistance from the government and policy makers through their programs and funding allocation of innovation and technology adoption (RM 236.7 million) (SME Annual Report, 2017), Malaysian SME manufacturing companies could be more competent and capable in growing export performance. Besides, Finally, even though market-linking, marketing and management capabilities were found to have no significant impact, it is not advisable to ignore the importance of these capabilities for the long-term survival of the SMEs. The SMEs should create and expand their networking with international suppliers and customers by participating in exhibitions and product knowledge courses as suggested by He and Wong (2012) who cited the phrase that "knowledge gains from being there". Such networking efforts will also be fruitful if the government and policy makers assist them via market access programs.

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