

## The roles of managerial competencies on the relationship between organisational capabilities and competitive advantage

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### Abstract

This study aims to determine the influence of organisational capabilities on competitive advantage. In addition, this study also tests the moderating effect of managerial competencies on the relationship between organisational capabilities and competitive advantage. A total of 330 SMEs in processed food industry has participated in this study. A structural equation modelling using AMOS was applied in analysing the direct and moderating effects hypotheses. Fitness indexes statistics confirmed that the overall model fit and all of the paths in the model were statistically significant. Results support the hypothesised influence of organisational capabilities on competitive advantage. The organisational capabilities explain 93 percent of the variance in competitive advantage. Managerial competencies were also found to fully moderate the influence of organisational capabilities on competitive advantage. In brief, this study contributes to competitive advantage studies through a comprehensive empirical research. While most of the previous studies explore the effects of organisational capabilities on competitive advantage using theory building, this study was completing the existing theory.

**Keywords:** competitive advantage; organisational capabilities; managerial competencies; SMEs

### 1. Introduction

Studies on the competitive advantage in SMEs were carried out predominantly in the Southeast Asia such as Singapore [1, 2], Thailand [3], Indonesia [4, 5] and Malaysia [6-11]. This is because, compared with their Western counterparts, SMEs in these aforementioned countries, including Malaysia are facing more challenges such as intense competition, lack of strategic marketing activities, incompetent entrepreneurs, and increasing pressure to compete and innovate [12]. Therefore, it is not surprising when the Companies Commission of Malaysia reported that from 36,000 entrepreneurs who are setting up businesses in Malaysia every year, only less than 10% grow to be successful [8].

Additionally, according to Perbadanan Usahawan Nasional Berhad (PUNB), at least 13% of entrepreneurs in Malaysia failed in business every year [8]. This data includes the SMEs in the industry in Malaysia. Realising the contribution of SMEs to the development of a country [8, 9, 13] causing SMEs getting attention from researchers because of the data showing the difficulties of SMEs to survive in the market is too alarming to be ignored. According to Ministry of Domestic Trade, Cooperatives and Consumerism (2014), most of the SMEs in the food industry did not gain a competitive advantage in marketing their products in hypermarkets. This is due to the low quality of products, lack of networking and lack of financial resources management. This reflects the lack of competitive advantage of SMEs to meet the standards set by the hypermarkets and international markets [12]. Theoretically, all these factors (innovation, networking, and financial capabilities) are normally considered by scholars as aspects of organisational capabilities which are often be associated with competitive advantage. Empirically, some research has shown the association between individual construct i.e. innovations

capability [14], networking capability [6], financial capability [4] and SMEs competitive advantage.

Although several studies have examined the effects of these individual elements of organisational capabilities on competitive advantage, people understanding of how the pooled elements of organisational capabilities could affect competitive advantage is still very limited. This is in line with the study done by Nam (2010) who suggest that industrial networking, external financing and R & D intensity may have a strong correlation with competitiveness. Therefore, this study measures how the organisational capabilities may affect competitive advantage in the context of SMEs in Malaysia. This argument is underpinned by the Theory of Resource-Based View (RBV). This theory proposes that any resources that are controlled by an organisation will enable the firm to conceive of and implement strategies to gain competitive advantage. Therefore, this study considers the organisational capabilities as one of the strategies under the RBV Theory that can be used to gain a competitive advantage. In addition, most of the previous studies only measured a linear relationship between resources and competitive advantage [14].

Previous studies, however, have provided indirect support for explaining that there is a need to have some other variable that may moderate the relationship between organisational capabilities and competitive advantage. Previous researchers suggested that there is a need for SMEs to have skills and knowledge to involve in innovations [5], to build quality relationship with external parties [6], and to manage financial resources efficiently [8], which resulted SMEs to remain competitive in the global market [16]. Thus, this study expects that managerial competencies may help SMEs in formulating strategies - related to innovation, networking and financial - to be more competitive in the future.

This study expects that the competent management with the certain level of knowledge and skills may strengthen or weaken the influence of organisational capabilities on competitive advantage. This proposition is underpinned by the Theory of Dynamic Capability View (DCV). This theory supports the managerial competencies (i.e. knowledge and skills) as a suitable variable to be used as a moderator certainly for its inclusion of the way to "renew, reconfigure and restructure" the internal resources to achieve competitive advantage<sup>[17]</sup>. Therefore, this study proposes managerial competencies as a moderating variable between organisational capabilities and competitive advantage. This argument is also underpinned by the Theory of Knowledge-Based View (KBV). This theory proposes that knowledge as the most important strategic resources for the firm because it is complex and difficult to imitate, and it became a key determinant of competitive advantage of a company.

In short, this study applies the RBV theory to propose the direct relationship between organisational capabilities and competitive advantage. This theory is also used in the studies of competitive advantage conducted by Hassan *et al.* (2014), and Ismail *et al.* (2014). Applying this theory, as well as supported by the DCV and KBV theories, this study bridges the aforementioned gaps by proposing managerial competencies as a moderator that may strengthen the relationship between organisational capabilities and competitive advantage. Investigating the moderating effect of managerial competencies may advance understanding of how the relationship between organisational capabilities and competitive advantage can occur. In sum, this study focuses on the theories of RBV, DCV and KBV in an effort to place the relationships between organisational capabilities, competitive advantage and the moderating effects of managerial competencies in a theoretical context. Therefore, this study on the factors influencing the competitive advantage of SMEs may shed light on finding answers of how the SMEs may gain a competitive advantage in marketing their product in hypermarkets and further may penetrate the international market.

## 2. Literature Review

According to the summary of the SME Masterplan 2012-2020<sup>[18]</sup>, many SMEs in Malaysia could not stay in the market for more than five years of establishment of their organisation<sup>[19]</sup>. Jebna and Baharudin (2013) suggested that it is important to conduct research to understand the factors leading to the success of the SMEs since their failure rate is not trivial in Malaysia. Although many studies related to competitive advantage were conducted among the SMEs in Malaysia<sup>[6, 7, 10, 11, 20, 21]</sup>, a study on the food processing SMEs has yet to be conducted.

The Ministry of Domestic Trade, Cooperatives and Consumerism (2014) have identified several weaknesses of the SMEs in Malaysia specifically in processed food manufacturing industry. They are product quality, unstable financial and ineffective management. Regarding quality, products by the SMEs usually have a short life span and do not meet the condition (a life span of 6 months to 1 year) set by hypermarkets. Products by entrepreneurs which also are similar to their competitors resulted in hypermarkets not to choose their products. This is due to the limited space for displaying similar kinds of products in the hypermarkets.

Issues related to the ineffective management occur when entrepreneurs produce too many products, causing them not to focus on a particular product and thus thwart the promotional efforts. Unstable financial problems also interfere with the promotion and marketing planning. In addition, the delay by the hypermarkets in making payments to the SMEs also makes it difficult for them to reinvest their capital because of financial instability of the company. It exacerbated if the SMEs do not have a good relationship with the government agencies such as Ministry of Agricultural, The Federal Land Development Authority (FELDA), Majlis Amanah Rakyat (MARA), and Rubber Industry Smallholders Development Authority (RISDA) and etc. This is because these agencies often organised various training and also provide financial support to the SMEs. Some SMEs who have penetrated hypermarkets also are facing problems such as unable to meet the quantity demanded by the hypermarkets and deliver the product promptly. This resulted in the hypermarkets not to extend the contract with them<sup>[22]</sup>. In short, the problems faced by food processing SMEs in Malaysia theoretically involve three main factors, namely innovation, networking and financial capabilities.

Most of the previous studies measured the relationship between these three-dimensional capabilities (i.e. innovation, networks and financial) with competitive advantage on an individual basis. In other words, previous studies separately measured the impacts of innovation, networks and financial on a competitive advantage. However, the current study considers that these three-dimensional capabilities (i.e. innovation, networks and financial) as the combination of problems faced by the SMEs particularly involved in food processing in Malaysia. Thus, this study differs from previous studies because the researcher measured the relationship between the three dimensions of organisational capabilities and competitive advantage collectively.

In addition, most studies only measured the direct relationship between the determinant factors and competitive advantage<sup>[14]</sup>. Previous researchers suggested that there is a need for the SMEs to have skills and knowledge to involve in innovations<sup>[5]</sup>, build quality relationship with external parties<sup>[3, 6, 23]</sup> and manage financial resources efficiently<sup>[8]</sup> which resulted in the SMEs to remain competitive in the marketplace. This argument is underpinned by the theory of Knowledge-Based View (KBV). The KBV theory proposes knowledge as the most important strategic resources for the firm because it is complex and difficult to imitate, and becomes a key determinant of competitive advantage of a company. Previous studies, however, less integrated the KBV theory in examining the moderating effects of managerial competencies on the relationship between organisational capabilities and competitive advantage.

In practice, many SMEs often ignore the efforts to increase the value of their knowledge and skills and even employees. This happens either because they do not want to bear the additional cost of training or miss out information related to training organised by the government agencies. Since there is a lack of research on how the dimension of managerial competencies may moderate the effect of organisational capabilities on competitive advantage, this study attempts to bridge the research gap. In short, this study bridges the gaps above by proposing managerial competencies (as represented by the knowledge and skills) as a moderator that may strengthen the

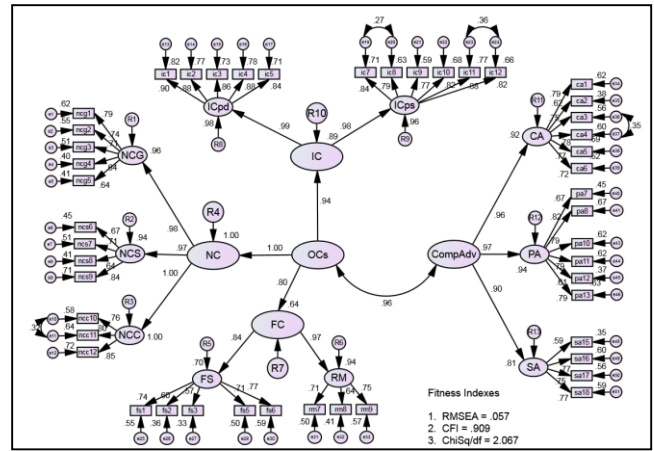
relationship between organisational capabilities and competitive advantage. This model suggests the importance of knowledge and skills in achieving competitive advantage among the food processing SMEs in Malaysia.

**3. Research Method**

This study is a correlational study that is to examine the effects of the organisational capabilities as an exogenous construct on the competitive advantage as an endogenous construct. This study also examines the moderating effect of the managerial competencies on the relationship between the organisational capabilities and competitive advantage. A survey was administrated to a random selection of Malaysian SMEs based on the following three criteria: (1) Small and medium-sized enterprises (SMEs) that employ from 5 to less than 200 employees; (2) Manufacturing SMEs in the processed food industry in Malaysia; and (3) SMEs companies who never marketed their products in any hypermarkets in Malaysia. In sum, the population of interest for this study was the Malaysian SMEs in processed food industry which have never marketed their products in any hypermarkets in Malaysia.

**4. Results and Analysis**

**4.1 Confirmatory Factor Analysis**



**Fig 1:** The Fitness Indexes after Deletion of Low Factor Loading Items

After removing four items, the new fitness indexes are as shown in Figure 1 with RMSEA =.057, CFI=.909, and ChiSq/df = 2.067. The three Fitness Indexes of RMSEA, CFI, and Chisq/Df achieved the required fitness level. The results from testing the confirmatory factor analysis (CFA) of the measurement models in this research are summarised in Table 1. Thus, uni-dimensionality was achieved.

**Table 1:** The Summary of Fitness Indices of Overall Measurement Models

	Name of Index	Design range of values for a good fit	Index Value	Comments
Absolute fit	RMSEA	< 0.08	0.057	Fitness level is achieved
Incremental fit	CFI	> 0.90	0.909	Fitness level is achieved
Parsimonious fit	ChiSq/df	< 3.00	2.067	Fitness level is achieved

**4.2 Structural Equation Modelling**

The following analysis was conducted to answer the first following research hypothesis:

**Hypothesis 1:** There is significant effect of organisational capabilities on competitive advantage

The coefficient of determination (R<sup>2</sup>) was 0.93 (Table 2), which indicates that 93% of the competitive advantage (CompAdv) can be estimated by the exogenous construct namely organisational capabilities (OCs).

**Table 2:** The Regression Path Coefficients and its Significance

	Hypothesis Path			Estimate	S.E.	C.R.	P	Label
H1	CompAdv	<---	OCs	.820	.056	14.772	***	Significant

Note: \*\*\* p < 0.001, N = 330, CompAdv = Competitive Advantage, OCs = Organisational Capabilities.

Table 2 shows the regression path coefficient of Organisational Capabilities and Competitive Advantage. The interpretation would be when OCs goes up by 1 CompAdv goes up by 0.82 units. The regression weight estimate, .820, has a standard error of about .056. Dividing the regression weight estimate by the estimate of its standard error gives  $z = .820 / .056 = 14.772$ . In other words, the regression weight estimate is 14.772 standard errors above zero. The probability of getting a critical ratio as large as 14.772 in absolute value is less than 0.001. In other words, the regression weight for OCs in the prediction of Comp Adv is significantly different from zero at the 0.001 level (two-tailed). In other words, the hypothesis 1 is supported. The result shows that there is a significant influence of organisational capabilities on competitive advantage, which

supports the hypothesis H1 (Table 2). This result indicates that the core influence of organisational capabilities on competitive advantage is significantly positive ( $\beta = .820, p < .001$ ) with R<sup>2</sup> value is 0.93.

**Hypothesis 2:** Managerial competencies moderate the effects of organisational capabilities on competitive advantage. In order to test the moderating effects of managerial competencies, the data was split into two groups and saved in two different files renamed as “high competence group” and “low competence group”. For the purpose of this study, the high competence group is defined as SMEs with the managerial competencies mean of 4.00 and above. Whereas, the low competence group is defined as SMEs with managerial competence mean less than 4.00.

**Table 3:** The Chi-Square Value and DF for Constrained Model

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	109	1558.127	1019	.000	1.529
Saturated model	1128	.000	0		
Independence model	47	2189.656	1081	.000	2.026

**Table 4:** The Chi-Square Value and DF for Unconstrained Model

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	110	1555.649	1018	.000	1.528
Saturated model	1128	.000	0		
Independence model	47	2189.656	1081	.000	2.026

**Table 5:** The Moderating Testing for High Competence Group Data on Organisational Capabilities

	Constrained Model	Unconstrained Model	Chi-Square Difference	Result on Moderation	Result on Hypothesis
Chi-Square	1558.127	1555.649	2.478	Not Significant	Not Supported
DF	1019	1018	1		

Table 3 and Table 4 shows the chi-square and degree of freedom values for constrained and unconstrained model, respectively for high competence group. The difference in Chi-Square value is 2.478 (1558.127 – 1555.649). Meanwhile, the

difference in the degree of freedom is 1019 – 1018 = 1 (Table 5). For the test to be significant, the difference in Chi-Square value must be higher than the value of Chi-Square with 1 degree of freedom, which is 3.84.

**Table 6:** The Chi-Square Value and DF for Constrained Model

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	108	2038.705	1020	.000	1.999
Saturated model	1128	.000	0		
Independence model	47	4374.234	1081	.000	4.046

**Table 7:** The Chi-Square Value and DF for Unconstrained Model

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	109	2012.246	1019	.000	1.975
Saturated model	1128	.000	0		
Independence model	47	4374.234	1081	.000	4.046

**Table 8:** The Moderating Testing for Low Competence Group Data on Organisational Capability

	Constrained Model	Unconstrained Model	Chi-Square Difference	Result on Moderation	Result on Hypothesis
Chi-Square	2038.705	2012.246	26.459	Significant	Supported
DF	1020	1019	1		

Table 6 and Table 7 shows the chi-square and degree of freedom values for constrained and unconstrained model, respectively for low competence group. The difference in Chi-Square value is 26.459 (2038.705 – 2012.246). Meanwhile, the difference in the degree of freedom is 1020 - 1019 = 1 (Table 8). For the test to be significant, the difference in Chi-Square value must be higher than the value of Chi-Square with 1 degree of freedom, which is 3.84. Since the moderating testing result for high competence group is not significant, while the

moderating testing result for low competence group is significant, and then full moderation occurs. Since the moderation effect is established in the non-parametric testing as full moderation, the study was interested in determining in which group (high competence or low competence group) the relationship between organisational capabilities and competitive advantage is more pronounced using parametric testing.

**Table 9:** The Effect of OCs on CompAdv is Not Significant for High Competence Group

			Estimate	S.E.	C.R.	P	Result
CompAdv	<---	OCs	.411	.254	1.617	.106	Not Significant

**Table 10:** The Effect of OCs on CompAdv is Significant for Low Competence Group

			Estimate	S.E.	C.R.	P	Result
CompAdv	<---	OCs	3.712	1.195	3.106	.002	Significant

Table 9 shows that the standardised parameter estimate for “high competence group” is 0.411 (P = .106), meanwhile, Table

10 shows the same estimate for “low competence group” is 3.712 (P = .002). The results conclude that the effect of OCs

(Organisational Capabilities) on CompAdv (Competitive Advantage) is more pronounced in “low competence group” compare to “high competence group”. Since the standardised estimates for high competence group is not significant, and the standardised estimates for low competence group are significant. Thus, the type of moderation is full moderation. In other words, the hypothesis 2 is supported.

## 5. Discussion

The first finding of this study is that there is a strongly significant and positive effect of organisational capabilities on competitive advantage. This indicates that the stronger the organisational capabilities possessed by the SMEs, the bigger the opportunities for them to gain competitive advantage. In contrast, weak organisational capabilities may lead to smaller chances of the SMEs to gain competitive advantage. Results of the moderating testing demonstrate the full moderation effects of the managerial competencies on the effect of organisational capabilities and competitive advantage. Meanwhile, the Knowledge-Based View theory assumes that managerial competencies (including knowledge and skills) which are the most important resources that may affect competitive advantage, found in this study, may also act as a moderator on the paths between organisational capabilities and competitive advantage. The empirical results provide statistically significant and positive moderating effect of the managerial competencies on the effect of organisational capabilities on competitive advantage.

The effect of organisational capabilities on competitive advantage is more pronounced by the SMEs with low managerial competence level. This result implies that the effect of the organisational capabilities on the competitive advantage of the SMEs is strong for the group that has a low level of managerial competencies. The results explain that the impact of poor organisational capabilities on competitive disadvantage may be greater when the SMEs have a low level of managerial competencies. Specifically, if managerial competencies level is low, the poor intensity of organisational capabilities may lead to a greater impact on the uncompetitive SMEs in the processed food industry in Malaysia.

In contrast, the effect of organisational capabilities on SMEs' competitive advantage is not significant for groups with high managerial competencies level. It means that if the level of the managerial competencies is high, the poor intensity of organisational capabilities may not lead to a greater impact on competitive disadvantage for the processed food SMEs. Perhaps, with high knowledge and skills, the weaknesses in the organisation can be adapted and tailored according to the situation. This, in turn, may reduce the impact of poor organisational capabilities on competitive disadvantage. The findings support the argument by [24] who mentioned that the constraints of the SMEs should be managed by their wisdom. This is in line with the Resource-Based View (Barney, 1991) and Knowledge-Based View (Grant, 1997) theories of the firm which consider knowledge and skills as the firm's specific resources that become the most important organisational assets and key strategic resources that contribute unique values to a business [25].

Overall, the results appear to support the concept of the RBV theory that assumes that competitive advantage is not dependent on the market and industrial structures but depends on the superior internal resources in a firm [26]. It refers to the

internal resources that are durable and difficult to imitate and be substituted by others. The above findings underpin the apparent theoretical considerations that resources can be any things that are considered as the strength or weakness of a particular firm [27]. Thus, the findings of this study comply with the RBV theory that assumes that the implication of the firm success depends on the firm-specific resources. The findings of this study are in line with the findings of [28], who found that the SMEs with reduction of restrictions on resources (such as financial, human resources, logistics and technology) may induce firms to gain competitive advantage, which would subsequently be expanded to a global market. The work of other researchers [3, 4, 8] supported the first research finding. Previously, the Ministry of Agriculture argued that the Malaysian processed food SMEs was having some problems that caused the failure of the SMEs to penetrate the hypermarkets. The ministry argued that they were having problems regarding the lack of innovation, networks vulnerability and financial instability. Therefore, within the context of this empirical research, it can be said that the ministry's argument was true. Mindful of the above discussion, it is plausible to conclude that these three dimensions must be taken as a priority in the future development of the SMEs particularly in the processed food industry in Malaysia. These capabilities should be prudently incorporated and coordinated to maximise the competitive advantage [29]. Therefore, this research has met all the research objectives.

## 6. Limitations and Recommendations

First, this study design was cross-sectional in nature with the aim to investigate the predictive effect of variables of this study. In connection to that, the researcher relies on theories and existing literature that suggest the causal direction of various relationships. Despite the fact that the cross-sectional research approach used in this study is consistent with that of prior studies [12, 30], this study, however, was not able to conclusively assess the causality in a relationship. Therefore, it is would be useful for future researchers to test the causality statistically using longitudinal design so that the cause-and-effect relationship might be established.

Second, the findings of this study are limited to a sample of the SMEs in Malaysia which raised concerns that the findings may be specific to the Malaysian context only. Therefore, the findings of this study should be carefully interpreted as they were drawn in a sample of the Malaysian SMEs and may not reflect the situation of the SMEs' competitive advantage in other countries. The SMEs in other countries may have a different effect on cultures and environments [31]. Hence, the results of this study may not be generalised beyond Malaysia. A comparative study of the SMEs from different countries is recommended to test and extend the generalizability of the findings in this study.

## 7. Conclusion

Although the results of this empirical research showed that all the proposed hypotheses are supported, but the researcher denies the ministry arguments that these three factors are the main cause of the problems competitive disadvantages of SMEs to penetrate hypermarkets, particularly in the processed foods industry. The results of this study indicated that there are other factors that also contributed to the competitive disadvantages of SMEs in Malaysia. In other words, there may

be other factors that can be added to competitive advantage model. In addition, this study also revealed that the effect of organisational capabilities on competitive advantage depends on the managerial competency level. The findings of this empirical research have achieved the research objectives, answered the research questions and hypotheses of the study, as well as fulfilled the research gaps.

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