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PREFACE

Dr. George O. Tasie
Guest Editor

*Special Issue on "Contemporary Issues in International Business
and Entrepreneurship"*

Previously technology, globalisation, and trade liberalisation did not play a dominant role in business environments, but today the approach is totally different. The millennium is characterised by globalised trading system and the predominance of the revolutionary information technologies. This scenario is where the real challenge is for the entrepreneuristic persons and organisations, raising the issue of how entrepreneurs and business organisations respond to the demands of the globalised markets and the fierce competition of business organisation in the so-called "borderless world".

The papers in this special volume of Journal of Business and Entrepreneurship (JIBE) explain some of these challenges by providing in-depth and analytical information on various topics of international business interests. For instance, the article on service quality demonstrates the extent in which customer satisfaction and expectations have become a popular area of academic attention and economic development of society. Other articles also draw on the importance of internationalisation of businesses, such as global marketing, organisational reputation, Swedish entrepreneurship, the impact of currency in business and scores of other thought-provoking research papers.

The articles chosen for this special issue represent and reflect the crucial challenges facing international business and management during the past and present economic crises. Although the current worldwide economic crisis has eased and most of the countries affected are on the way to recovery, we have to recognise the factors contributing to the crisis.

It is hoped that this volume will contribute towards creating an awareness of the need for better business practices and excellent management ideas across the world. I am optimistic that wider readers will benefit largely through reading this particular issue.

Above all, I must record my thanks and profound appreciation to the contributors of articles to this issue, and especially Professor Zafar U. Ahmed for affording me an opportunity to guest edit this special issue. Finally, I wish to thank the JIBE's Editorial Board and the reviewers for the job well done. Without their invaluable contribution, the publication of this special issue would not have been possible.

PROFILE OF GUEST EDITOR

Dr. George O. Tasie

George O. Tasie, Ph.D (Manchester), M.Sc (Leicester), M.P.A; B.Sc (Hon) (Liverpool), M.M.S (London), is Head, Department of Management Studies at the University of Brunei Darassulam [UBD], Brunei. His teaching interests are in general management, human resource management, human resource development, organisational behaviour, and international management. His professional work and experience in academia has taken him to the U.S.A, the United Kingdom, Malaysia, Australia, Singapore, the Philippines, Indonesia, Brunei, Vietnam and Nigeria. The publication of one of his books on "Public Sector Administration and Management" was sponsored by the University of Malaysia Sarawak, where he was an associate professor before joining UBD. He has contributed articles to other internationally accredited journals. Dr. Tasie has also written and published books on rural financial planning and management. He has been involved in short courses and consultancy works for a variety of organisations in the U.S.A, U.K, Singapore, Nigeria, Malaysia, Brunei and JASPOC (Joint ASEAN Senior Officers' Course). His current research interests center on business-government relations, training and development and stress management in Southeast Asia.

THE MODERATING EFFECT OF DISTINCTIVE CAPABILITIES ON THE COMPETITIVE STRATEGY AND PERFORMANCE RELATIONSHIP IN MALAYSIAN SMEs

Mohd Khairuddin Hashim
Syed Azizi Wafa
Osman Mohamad
Mohamad Sulaiman

Abstract

Although distinctive capabilities are crucial to the success of firms, few studies have focused on this strategic variable, particularly in small and medium enterprises (SMEs). Furthermore, previous empirical studies have neglected to consider distinctive capabilities as having moderating effect on the competitive strategy-performance linkage. The purpose of this study is to address this issue. Based on a sample survey of 100 SMEs operating across Northern Malaysia, this study found significant differences in the mean growth in ROI, ROA, and the Business Performance Composite Index, among the SMEs that adopted different competitive strategies. The results also indicate that distinctive capabilities do moderate the relationship between competitive strategy and performance of SMEs.

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INTRODUCTION

Regardless of their size, businesses need some form of competitive advantage in order to compete successfully in the market. To establish a competitive advantage, a firm must seek and identify its distinctive capabilities. The resource-based view (RBV) theory states that the principal source of a firm's competitive advantage lies in its distinctive capabilities. The resource-based view (RBV) theorists have presented the case for making distinctive capabilities as the source of competitive advantage for the firm as well as the foundation for developing effective competitive strategy. However, in the aggregate, empirical studies have not provided conclusive support for this theoretical argument, particularly in SMEs. We believe a key limitation of past studies is that they failed to examine distinctive capabilities in a broader perspective. Of particular importance, previous studies have neglected to consider distinctive capabilities as having moderating effect on the competitive strategy-performance relationship.

The strategic management literature views distinctive capabilities as an important contingency factor that has a strong impact on a firm's strategic direction (Ulrich and Lake, 1990; Prahalad and Hamel, 1990; Shoemaker, 1992; Hall, 1993; and Peteraf, 1993). Furthermore, the literature supports the view that firms need some form of competitive advantage for designing their competitive strategy. The resource-based perspective maintains that distinctive capabilities that are scarce, durable, defensible and hard to imitate can form the basis for sustainable competitive advantage that is necessary for the formulation of effective competitive strategy (Wheelen and Hunger, 1999; Grant 1991; Kay, 1993; and Grant and Craig, 1993). Hence, the competitive strategy and performance relationship would become effective with sustainability of competitive advantage derive from the distinctive capabilities. Following this line of reasoning, distinctive capabilities could have a moderating effect on the competitive strategy-performance relationship. The objective of this study is, therefore, to test empirically the moderating effect of distinctive capabilities on the relationship between competitive strategy and performance in SMEs.

LITERATURE REVIEW

Resource-Based View Theory. The resource-based view (RBV) theory suggests that the principal source of a firm's competitive advantage lies in its resources (both tangible and intangible). The RBV views a firm as having a different level of resources and capabilities that can form the basis for competition, as they provide the foundation for competitive advantage.

The RBV states that the competitive advantage derived from distinctive capabilities will depend on the extent to which the distinctive capabilities are able to reduce the cost structure of the firm, used to produce differentiated products and their uniqueness in comparison with competitors. The sustainability of the competitive advantage of the distinctive capabilities would depend on the rate of their durability, availability of substitutes and their inimitability (Wheelen and Hunger, 1999; Grant 1991; Kay, 1993; and Grant and Craig, 1993).

Additionally, the RBV noted the following two premises for making the resources and capabilities as the foundation for developing competitive strategy. First, the internal resources and capabilities provide the basic direction for a firm's strategy. Second, resources and capabilities are the primary source of profit for the firm (Grant, 1991; and Graig and Grant, 1993).

Distinctive Capabilities. The strategic management literature highlights distinctive capabilities or competencies as an important part of an organization's competitive advantage. In general, a review of the literature suggests that organizational distinctive capabilities may be defined as some resource, skill, activity or capability that a business is uniquely good at in comparison to rival firms (Thompson and Strickland, 1987; and Stoner, 1987).

Wenerfelt (1984), Barney (1991), Hall (1992, 1993) and Graig & Grant (1993) referred to distinctive capabilities as anything which could be thought of as a strength or weakness of a given firm (both tangible and intangible assets such as brand names, trade marks, patents, copyright, registered designs, contracts, trade secrets, reputation, networks,

data bases and information, culture of the organization, knowledge of technology, employment of skilled personnel, trade contacts, efficient machinery and capital).

Ansoff (1965) developed one of the earlier works on distinctive capabilities. Based on four categories of skills and resources (facilities and equipment, personnel skills, organizational capabilities and management capabilities), Ansoff established the competency profile along the functional areas: R&D, operations, marketing, general management and finance. This competency profile is widely applicable to a single firm as well as most industries.

Price (1996) stressed that although the quest for competitive advantage occurs in space of three dimension (products, processes and markets), competitive advantage can come from any organizational process such as manufacturing or production, administrative, marketing, information and financial.

Although the literature clearly underscores distinctive capabilities as an important source of competitive advantage for organizations, few empirical studies have attempted to probe the distinctive capabilities-performance relationship. A small number of empirical studies have found evidence that suggests distinctive capabilities do exist in organizations. However, these studies found little or no statistically significant relationship between these two constructs (Hitt et. al 1982; Hitt and Ireland, 1985 and 1986; and Stoner, 1987).

As discussed earlier, a potential factor contributing to the insignificant relationship could be that past studies have failed to examine distinctive capabilities in a broader perspective. More specifically, previous studies have neglected to consider distinctive capabilities as having moderating effect (a contingency factor) on the competitive strategy-performance relationship.

Competitive Strategy. The strategic management literature emphasizes the important role of competitive strategy in organizations. This is because large and small businesses use competitive strategies to outline the fundamental steps that they plan to follow in order to accomplish their objectives (David, 1999; Wheelen and Hunger, 1999 and Rue and Holland, 1989). In addition, Forrest (1990) pointed that SMEs need to develop

effective competitive strategies in order to react to the changing nature of business as reflected in such factors as an increase in competition, both national and international, the increasing internationalization of markets, and new global competitors.

In the context of SMEs, Giglierano (1987) noted that effective competitive strategies depended on the type of business as well as the products they developed. Giglierano found that SMEs that adopted particular competitive strategies achieved better performance. According to Kay (1993), the performance (success) of a firm depended on an effective match between the external relationships of the firm and its own distinctive capabilities. The author noted that effective competitive strategies of successful firms are adaptive and opportunistic in exploiting these distinctive capabilities.

Porter (1980), has emphasized that a firm should formulate its competitive strategy based on the competitive advantage of producing value to its customers. Porter (1985) stressed that a firm can gain its competitive advantage by developing a chain of strategically important capabilities (such as production, marketing, sales, service, human resource management, technology development, and procurement activities) cheaper or better than its competitors. Porter classified the competitive strategies based on these capabilities as generic strategies. According to Porter, the three types of generic competitive strategies are: low cost, differentiation and focus (niche). In a low cost strategy, the firm attempts to reduce cost and increase profit as well as sales by using economies of scale, scope and technology. In a differentiation strategy, the firm emphasizes on developing ways to make products appear unique and different. Finally, in a niche (focus) strategy, the firm focuses on product development and marketing efforts in a particular market segment that the firm has a cost or differentiation advantage.

Using Porter's three generic competitive strategies (low cost, differentiation and focus), Schroeder, Congden and Gopinath (1995) determined the linkage between the generic strategies and manufacturing technology. In addition, Mosakowski (1993) found that entrepreneurial firms which adopted focus and differentiation strategies performed better than firms that do not use these strategies.

In developing six competitive strategies (harvest, build, cashout, niche, climber and continuity) for businesses in consumer markets and four (low commitment, growth, maintenance and niche) in industrial markets, Galbraith and Schendel (1983) concluded that only the build strategy type (consumer), growth (industrial) and niche (both) appear appropriate.

Although the literature suggests firms adopt various competitive strategies, several of these can be defined in terms of Porter's or Galbraith and Schendel's dimensions. Despite the relevance of the generic competitive strategies developed by Porter and Galbraith and Schendel, few studies have examined them in the context of SMEs.

Performance. Different companies in different countries tend to emphasize different objectives. However, the literature suggests financial profitability and growth to be the most common measures of organizational performance. Nash (1993) claimed that profitability is the best indicator to identify whether an organization is doing things right and hence profitability can be used as the primary measure of organization success. Furthermore, according to Doyle (1994), profitability is also the most common measure of performance in western companies.

Profit margin, return on assets, return on equity, return on sales are considered to be the common measures of financial profitability (Robinson, 1982; Galbraith and Schendel, 1983). Abu Kassim et. al (1989) found sales, sales growth, net profit and gross profit were among the financial measures preferred by the Malaysian manufacturing firms.

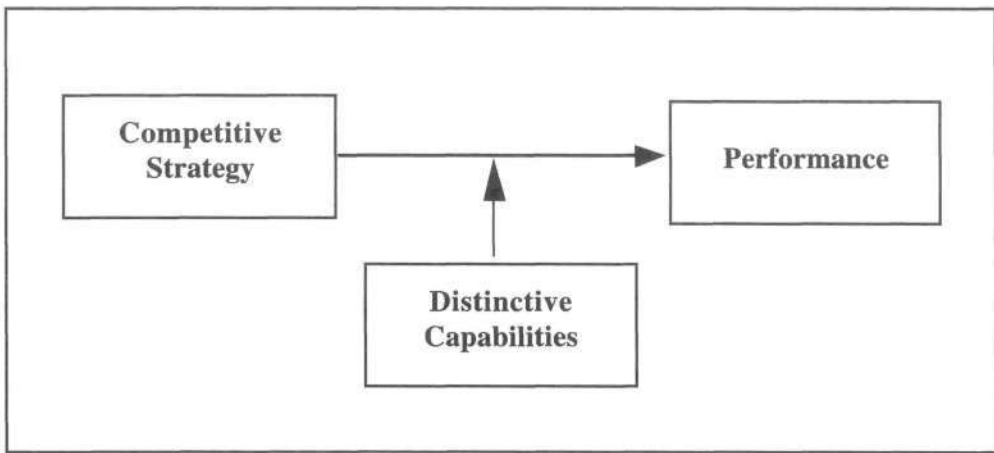
THE RESEARCH FRAMEWORK

The literature review reveals that distinctive capability is an important source of a firm's competitive advantage. Firms need some form of competitive advantage in order to compete successfully in the market. The distinctive capabilities that a firm possesses would determine what the firm can do best, in which industry, and the mode of competition to adopt. In short, distinctive capabilities provide the basic support for the direction of a firm's strategy. Therefore, distinctive capabilities may have a moderating effect on the competitive strategy-performance relationship. The schematic representation of the theoretical framework and research hypotheses is presented below.

Hypothesis 1: The performance of SMEs varies with the choice of competitive strategy they adopt.

Hypothesis 2 : The combined distinctive capabilities (the sum of general administration, production, engineering, R&D, marketing, finance, personnel, and government and public relations capabilities) moderates the relationship between competitive strategy and the SMEs performance.

Figure 1 : The Theoretical Framework



RESEARCH METHODOLOGY

Procedure and Sample

The owners/managers of 548 firms located across Northern Malaysia and operating in different industries were contacted by telephone and their participation was requested and confirmed. Subsequently, the interviews were held at the earliest possible time. Using a structured questionnaire, the data for the study were collected through the personal face-to-face interviews with the owners and managers of the selected SMEs. Of the 548 owners/managers, 100 participated and completed the interview. This outcome resulted in the overall response rate of 18.2 percent.

Measurements

Distinctive Capabilities. The distinctive capabilities variable was measured by using the instrument developed by Hitt and Ireland (1985). Hitt and Ireland's instrument comprises 55 capabilities grouped according to seven functional areas: general administration; production; engineering, research and development; marketing; finance; personnel; and public and governmental relations.

However, some functional capabilities in the Hitt and Ireland's instrument had to be omitted and changed to suit the conditions of the local business. From the original 55 items, the present study adopted only 50 items. The 50 distinctive capabilities of the seven functional areas in this study were measured in terms of their level of strength in the firms. The combined level of distinctive capability (overall) for each firm was derived by adding the scores of all seven functional distinctive capabilities and dividing them by seven.

Competitive Strategy. The competitive strategies were operationalized by using Porter's strategies of low cost, differentiation and niche; Galbraith and Schendel's growth and harvest strategy; and David's vertical integration strategy. These strategies were selected because they have been widely adopted in previous studies. By using these strategies, findings of this study can be compared with past studies.

Structured questions containing brief descriptions of each of the six strategies were used to determine the competitive strategies in this study. By using a five-point numerical scale, response mode ranging from "least applicable" to "most applicable", respondents were requested to indicate the competitive strategy that was most applicable to their firm. Each respondent was instructed to choose only one description that best describes the competitive strategy that their firm was adopting.

Performance. This study evaluated performance by using the actual figures of dollar sales volume, the amount of assets, the amount of equity, the number of employees, return on investment ($ROI = \text{net profit} / \text{total equity}$), return on sales ($ROS = \text{net profit} / \text{total sales}$) and return on assets ($ROA = \text{net} / \text{total assets}$) over a three to five-year period.

The average performance measures were derived by adding the annual figures of (dollar sales volume, the amount of assets, the amount of equity, the number of employees, ROI, ROS and ROA) for over a three to five year period and divided by three or five.

The growth (average rate) performance measures were computed by taking the average percentage change in the performance measures (sales volume, the amount of assets, the amount of equity, and the number of employees, ROI, ROS and ROA) for over a three to five year period (1992-1996). The rate of change of each of the performance measures was computed by taking the difference between two years and divided by the earlier year, resulting in each performance measure having four figures (i.e. 1992 and 1993; 1993 and 1994; 1994 and 1995; and 1995 and 1996). The average rate of growth of each of the measures was derived by dividing the total growth rate from 1992 to 1995 by four.

This study also adopted Lee's (1987) business performance composite index (BPCI) as the mean values of ROI, ROS and ROA ($BPCI = (ROI + ROS + ROA)/3$).

The Background of the Sample Firms.

Firms from fourteen industries were represented in this study. A majority of these firms (close to 50%) were however from the Food, Textile, and the Furniture Industries. Around 90% of the firms have more than one owner, and 83% were registered as Private Limited companies. The mean number of employees was 61 workers with a standard deviation of 65.72. The mean age of the firms was 13 years and the mean number of products made was six. Capitalization ranged from \$1000.00 to \$11 million.

RESULTS

Levels of Distinctive Capabilities.

Table 1 presents the mean and standard deviation scores for the levels of the individual and combined distinctive capabilities (general administration, production, engineering, R&D, marketing, finance, personnel, and government and public relations).

The results in Table 1 suggest that most of the SMEs studied have moderate levels of distinctive capabilities. The mean score was 3.29 for the combined distinctive capabilities and the mean values range from 2.76 to 3.78 for the individual distinctive capabilities.

Table 1: Summary of the Mean and Standard Deviation (SD) Scores of the Levels of the Distinctive Capabilities Variable

Distinctive Capabilities Dimensions:	Mean	SD
1. Level of Each Functional Distinctive Capabilities:		
i. General Administration	3.78	0.51
ii. Production/Operations	3.38	0.53
iii. Engineering, R & D	2.76	1.08
iv. Marketing	3.12	0.71
v. Finance	3.40	0.54
vi. Personnel	3.33	0.57
vii. Public and Governmental Relations	3.67	0.61
2. Level of the Combined Distinctive Capabilities	3.29	0.47

Distribution of the Competitive Strategies Adopted by the Sample Firms.

Table 2 presents the distribution of the six competitive strategies adopted by the 100 firms. Of the 100 firms, 30 firms adopted the differentiation strategy (30%), 26 firms (26%) adopted the low strategy, 17 firms (17%) adopted the growth strategy, 18 firms (18%) adopted the niche strategy, six (6%) firms adopted the harvest strategy, and the remaining three (3%) firms adopted the vertical integration strategy.

Table 2: Business Strategies Adopted By the Firms

Business Strategies :	Frequency	Percent
a. Product Differentiation	30	30.0
b. Low Cost	26	26.0
c. Growth	17	17.0
d. Niche	18	18.0
e. Harvest	6	6.0
f. Vertical Integration	3	3.0

The Performance Measures.

Table 3 below indicates the means and standard deviations (SD) scores of the average, growth and the BPCI performance measures of the firms surveyed.

Table 3: Means and Standard Deviation of the Average and BPCI Performance Measures

Performance Measures:	Mean	SD	Minimum	Maximum
1. Average:				
a. Sales	4,001,472.40	9,643,946.24	43,333.33	82,000,000
b. Assets	1,434,254.0	2,564,154.18	26,000.00	17,600,000
c. Employment	51.79	55.75	6.67	270
d. Equity	1,012,571.4	2,609,547.93	32,000.00	18,400,000
e. ROS	0.13	0.17	0.00	1.58
f. ROI	1.00	2.79	-0.03	20.75
g. ROA	0.33	0.51	0.00	3.83
2. BPCI	0.49	1.08	-0.01	7.62

Testing of Hypothesis 1

Hypothesis 1 of this study states that the performance of SMEs will vary with the competitive strategy they adopted. This hypothesis was tested by using the one-way ANOVA. The results in the following Tables 4, 5, and 6 indicate statistically significant differences in the performance (BPCI, growth in ROI and ROA) of the SMEs that adopted different competitive strategies.

As shown in Table 4, the F-value of 2.96 for the business performance composite index (BPCI) at .04 significant level provide support for hypothesis 1. These results suggest that there are significant differences in the BPCI mean between the different competitive strategies adopted by the SMEs. The Duncan Multiple Range test indicates that the means for niche strategy (mean=0.11) and differentiation strategy (mean=0.26) are the ones that are low on BPCI and are significantly different.

Table 4: One-Way ANOVA of Strategy Types By BPCI

Variable:	Mean	F. Ratio	Significance F	Duncan
Strategy Types:		2.96	0.0370	0.5
Niche*	0.1106			
Differentiation*	0.2625			
Growth	0.496			
Low Cost	1.0225			

* Indicate significant difference

Table 5 presents the results of the ANOVA analysis between the competitive strategies and the growth of ROI that are statistically significant. At .04 significant level, the F-value for growth in ROI is 2.93, providing support for hypothesis 1. These results indicate that there are significant differences in the mean growth in ROI among the SMEs that adopted the different competitive strategies. The Duncan Multiple Range test indicates that the mean for differentiation strategy (0.20) is the one that is low on growth and is significantly different.

Table 5: One-Way ANOVA of Strategy Types By ROI Growth

Variable:	Mean	F. Ratio	Significance F	Duncan
Business Strategy:		2.9297	0.0437	0.5
Niche	-0.835			
Differentiation*	0.2028			
Growth	2.31			
Low Cost	2.5942			

* Indicate significant difference

The results in Table 6 indicate that the ANOVA results between the competitive strategies and the growth in ROA are statistically significant. At .03 significant level, the F-value for growth in ROA is 3.193. These results also provide support for hypothesis 1. The results suggest that there are significant differences in the mean growth in ROA among the SMEs that adopted the different competitive strategies. The Duncan Multiple Range test indicated that the means for differentiation strategy (0.49), niche strategy (1.09) and low cost strategy (1.66) are the ones that are low on growth in ROA and are significantly different.

Table 6: One-Way ANOVA of Strategy Types By ROA Growth

Variable:	Mean	F. Ratio	Significance F	Duncan
Strategy Types :		3.1933	0.0292	0.5
Differentiation*	0.4908			
Niche*	1.0985			
Low Cost*	1.6654			
Growth	5.9710			

* Indicate significant difference

Testing of Hypothesis 2

Hypothesis 2 states that distinctive capabilities have a moderating effect on the relationship between competitive strategy and the performance of SMEs.

The results of the regression analysis in the following Table 7 indicate the change in R² from the restricted regression model (without moderator variable) to the full regression model (with distinctive capabilities as the moderator) is statistically significant at $p < 0.05$ for assets, employment, gross profit, ROS (average performance), growth ROA and growth ROI (growth performance). The results for the other performance measures were not significant.

The significant result provides some support for hypothesis 2. This result suggests that the relationship between competitive strategies and performance (as for assets, employment, gross profit, ROS, growth ROA and growth ROI) varies with the level of distinctive capabilities possessed by the SMEs surveyed.

CONCLUSIONS AND MANAGERIAL IMPLICATIONS

The results of the ANOVA show that the performances of the SMEs vary with the competitive strategies that they adopt, providing support for hypothesis 1. This result indicates that the generic strategy types developed by Porter are not only relevant for large firms but also for SMEs. It is also consistent with the findings of Bracker and Pearson (1986), and Covin and Slavin (1989). They state that SMEs not only practise strategic management but their performance is influenced by it.

For hypothesis 2, the results indicated that among the average performance measures,

Table 7: Distinctive Capabilities as Moderator

Dependent Variable	Without Moderator (R2)	Sig F	With Moderator (>R2)	Sig F
a. Average:				
Sales	0.07	0.51	0.19	0.38
Assets	0.04	0.84	0.37	0.01*
Employment	0.03	0.89	0.42	0.00*
Equity	0.08	0.34	0.19	0.36
Gross Profit	0.06	0.57	0.17	0.48*
ROS	0.02	0.95	0.28	0.08*
ROA	0.06	0.68	0.09	0.93
ROI	0.06	0.68	0.09	0.93
b. Growth :				
Sales	0.09	0.29	0.16	0.55
Assets	0.05	0.67	0.15	0.66
Employment	0.03	0.89	0.18	0.45
Equity	0.09	0.28	0.21	0.23
Gross Profit	0.02	0.85	0.12	0.57
ROS	0.18	0.03*	0.25	0.15
ROA	0.23	0.04*	0.42	0.02*
ROI	0.2	0.03*	0.29	0.09*
c. BPCI	0.02	0.91	0.25	0.13

four are statistically significant. These are assets (R2 from 0.04 to 0.37 percent), employment (R2 from 0.03 to 0.42, at $p < 0.01$), gross profit (R2 from 0.06 to 0.17 percent, at $p < 0.00$) and ROS (R2 from 0.02 to 0.28 percent, at $p < 0.08$). As for the growth performance measures, the results were significant for growth ROA (R2 from 0.23 to 0.42 percent, at $p < 0.02$) and growth ROI (R2 from 0.20 to 0.29 percent, at $p < 0.09$) only.

The above results seem to support the hypothesis that distinctive capabilities have a moderating effect on the competitive strategy-performance relationship in the SMEs. In other words, these findings appear to suggest that the relationship between competitive strategy and the performance of the SMEs vary with the level of the distinctive capabilities. These findings point out that competitive strategy may lead to better performance under conditions of high level of distinctive capabilities. These findings appear to add support to the theoretical argument that the distinctive capabilities of a firm are the central considerations in formulating an effective competitive strategy. Firms should be concerned with the formulation of competitive strategies based upon their appropriate distinctive capabilities. It is likely that when the competitive strategy

matches or fits the distinctive capabilities (the higher the better), the competitive strategy will become effective and hence improve organisational performance.

This study holds important practical implications. First, based on the results of this study, owners/managers of SMEs must realise that the measurement of firm performance is a complex construct. As a result, owners/managers should be aware that distinctive capabilities have different impacts on the performance of SMEs, depending on which components of performance are considered. Second, owners/managers need to be aware of the moderating effect of distinctive capabilities on the competitive strategy-performance relationship. In order to ensure that their firms would continue to survive, owners/managers of SMEs need to be concerned with developing distinctive capabilities that are crucial determinants of competitive advantage and improving their firm performance.

Notes

Research Terms

The **small and medium-sized enterprises (SMEs)** in this study are defined as manufacturing firms that employed between 10 and 300 full time employees as well as have been in operations for at least three years.

Distinctive capabilities refer to the combined distinctive capabilities (sum of) of the following seven functional areas capabilities: general administrative; production; engineering, research and development (R&D); marketing; finance; personnel; and public and governmental relations.

Competitive strategy refers to the pattern of action taken or manner in which a firm relates as well as competes in its environment. The six competitive strategies used in this study are; low cost, differentiation, niche, growth, harvest and vertical integration.

Performance is measured in terms of firm average, growth and the business performance composite index (BPCI). Sales, assets, gross profit, employment, equity, return on sales (ROS), return on investment (ROI), and return on asset (ROA) are used to assess the SMEs average and growth performance. The BPCI is derived from the mean values of ROS, ROI and ROA ($BPCI = (ROS + ROI + ROA) / 3$).

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