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## THE ASSESSING FACTORS OF BUSINESS SUCCESS AMONG SME FOOD AND BEVERAGE INDUSTRY IN KELANTAN: A PILOT STUDY

**Yusni Munirah Binti Yusuf<sup>1</sup>**

*Arshad Ayub Graduate Business School, Universiti Teknologi MARA, Kelantan Branch, Kota Bharu Campus, 15050 Kota Bharu, Kelantan, Malaysia*

**Siti Maziah Binti Ab Rahman<sup>2\*</sup>**

*Faculty Business and Management, Universiti Teknologi MARA, Kelantan Branch, Machang Campus, 18500 Machang, Kelantan, Malaysia  
maziah650@uitm.edu.my*

**Hasnun Anip Bin Bustaman<sup>3</sup>**

*Faculty Business and Management, Universiti Teknologi MARA, Kelantan Branch, Machang Campus, 18500 Machang, Kelantan, Malaysia*

**Abstract:** Business success is the achievement of an organisation's financial or non-financial goals through effective management, strategic planning, and resource optimisation. It encompasses financial, market, social, and personal dimensions. Success is subjective but typically involves sustainable growth, wealth creation, and profitability. According to dynamic capability theory, a robust business strategy involves a firm's ability to sense and adapt to market changes, with market and demand sensing being critical for understanding consumer needs, predicting shifts, and swiftly capitalising on new opportunities. This study aims to identify the key factors influencing small and medium enterprises' (SMEs) success in the food and beverage (F&B) sector in Kelantan, focusing on the relationships on business strategy and its effects on business success, analysed through the dynamic capability theory. Data were collected using purposive sampling from a survey of 30 respondents on well-established SME F&B businesses in Kelantan and analysed using SPSS and PLS-SEM. The results show that sensing activity and reconfiguring activities could bring business success to the SME. This finding is valuable for F&B entrepreneurs, policymakers, and academics, offering new insights into dynamic capability theory and filling existing research gaps.

**Keywords:** Dynamic capability, business strategy, and business success

### 1.0 Introduction

The F&B industry is one of the oldest industries but is still actively developing over time. F&B means any edible material that is prepared, cooked, or otherwise utilised and meant to be consumed whole or in part by humans (Bresciani, 2017). This industry is vast, full of innovation, and always looking for new ways to produce the foods that consumers demand at the best possible price. It involves transforming raw agricultural goods into consumer goods. The supply chain in this industry includes food processing, packaging, and distribution covering fresh food, packaged food, and beverages to be sold at restaurants, cafés, fast food joints, delis, street stalls, catering businesses, and food manufacturers.

In Malaysia, the F&B industry has been identified as a fast-growing market and one of the main contributions to the national domestic income. The industry is highly competitive and has its own unique taste and flavours influenced by the main four races in the country, mainly Malay, Chinese, Indian, and indigenous influences. There are also cross-cultural adaptations and mixed cultures such as Mamak (Indian-Muslim cuisine) and Nyonya (the Malay Chinese mix). Due to this factor, the innovation of food and beverage products to match consumer tastes has been dynamic across generations.

The F&B sector contributed significantly to the country's Gross Domestic Product (GDP). According to the Domestic of Malaysia statistic, in 2022, the F&B and accommodation industries has generated a revenue of RM433.5 billion. Beyond the figure, several positive outcomes could occur from

<sup>2\*</sup> Corresponding author: Universiti Teknologi MARA, Kelantan Branch, Machang Campus, Malaysia, maziah650@uitm.edu.my

this industry, such as driving economic growth where there is more job creations within the industries alone. This could help Malaysia combat the unemployment rate issue, especially among fresh graduates. Significant growth of the F&B sector also could stimulate rural development as many raw materials from agricultural areas are being bought, leading to better income distribution and infrastructure improvements. A thriving F&B sector could attract tourists and foreign investments (Terkini, 2024). As a result, this will increase spending in hospitality and related industries while promoting technological advancement within the industry.

As this industry depends on raw ingredients from agricultural products, it has to face a time-sensitive supply chain where the product can go bad fast. Secondly, due to its nature of business, there is a high demand for hygiene and safe food handling. The imperative includes exhaustive equipment cleaning requirements to tight controls and potential allergens. Third, a tendency towards price-sensitive products where every margin matters. These problem statements in the F&B industry, if not carefully managed, can seriously squeeze the profit margins of small and medium enterprises.

Therefore, this study is specifically designed to help the small and medium enterprises in the F&B sector in Malaysia sustain their businesses in the highly competitive market. The study suggests that a business strategy is crucial for a business' success. This study evolves around dynamic capability theory to explain how business strategy can stimulate business growth, hence contributing to lower failure among SMEs in the F&B industry. At the same time, this study will also help policymakers in setting up appropriate policies to be imposed by business practitioners and entrepreneurs.

## **2.0 Literature Review**

### **2.1 Underpinning Theory**

Dynamic capability theory was developed by David Teece, Gary Pisano, and Amy Shuen in 1997. This theory stated that to match the changing environment, a firm must have the ability to engage both internally and externally in adapting, integrating, and reconfiguring organisational skills, resources, and functional competences (Baden-Fuller & Teece, 2020). The basic ideas are that a firm must have a robust business strategy to respond to a dynamic market. The three main points emphasised in this theory are strategies for sensing the rapidly changing environment, strategies for seizing business opportunities, and lastly, strategies for reconfiguring the resources available (Ghosh et al., 2022).

Sensing is the activity to early detect any changes that occur in the marketplace. An organisation with strong dynamic capability excels at identifying emerging trends and shifts in consumer preferences and catching on to potential threats. Sensing activity can be taken as proactive business strategies among SMEs so that they can stay ahead of competitors by leveraging market intelligence to make informed strategic decisions (Dressler & Paunovic, 2021). Sensing in dynamic capability comprises two types, which are market sensing and demand sensing. By knowing the current trends and customer needs, businesses can modify their products and services to meet current and future demands. This understanding enables them to develop innovative solutions and gain a competitive edge.

Seizing, on the other hand, is the second step that an organisation needs to do. Seizing involves the activity to act on the given opportunities (Baden-Fuller & Teece, 2020). A firm's ability to effectively seize opportunities is a key factor in enhancing organisational performance and fostering innovation, ultimately leading to a competitive advantage (Brewis et al., 2023). Actively pursuing and capitalising on market needs, R&D projects, and business initiatives that align with the firm's strategic objectives are essential aspects of seizing opportunities (Qiu et al., 2022). Management must have the decision-making authority to influence these activities effectively. To succeed in international businesses, organisations need not only the capability to identify opportunities but also to translate insights into concrete actions, guided by strategic decision-making at the managerial level (Verbeke, 2022).

The last step is reconfiguring when necessary. A firm's ability to continuously innovate and improve its processes, products, and services is essential for maintaining its market position (Noyal et

al., 2022). This also involves the organisation's capacity to adapt to changing environments by effectively integrating and reconfiguring both internal and external resources. To successfully reconfigure a business model, a company must first assess its strengths and weaknesses relative to competitors, fully leverage technology and skilled personnel to create unique value, and continually adapt strategies as market conditions evolve. In China, digital platforms have shown that flexible digital resources can make previously rigid marketing and non-marketing resources pliable, adjustable, and reconfigurable, enhancing marketing agility (Weng et al., 2024). Ultimately, entrepreneurs play a crucial role in envisioning new venture ideas and implementing business model innovations, which can help SMEs overcome knowledge barriers, restructure their business models, and establish networks of innovation partners.

## 2.2 Business Success

A successful business is concerned with effectively meeting customer needs, generating sustainable growth, and making long-term profit. Success is a subjective word; it can bring different meanings to every person. Success can be measured in both monetary and non-monetary form. Non-profit, for example, NGOs focusing on making a social impact, measuring how well the company can meet its goals and serve the community. On the other hand, in the hospitality business, customer service and marketing are prioritised as key measures of success.

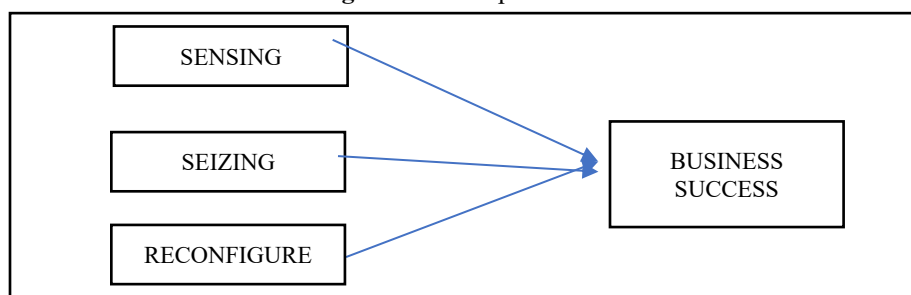
Achieving business success within the framework of dynamic capability theory requires high managerial capabilities and a strong mindset among an organisation's human resources. This is critical when drafting business strategies, evaluating performance, and fostering innovation. Managers must be adaptable at taking calculated risks, making informed decisions, and forecasting market trends. Previous studies have shown a positive relationship between business success and an entrepreneurial mindset, highlighting the importance of a strong entrepreneurial mindset in overcoming business challenges (Manafe et al., 2023). Additionally, research in Indonesia emphasises that entrepreneurial competencies are crucial for understanding business operations and anticipating the potential impacts of decisions (Hanifan & Dhewanto, 2022). In essence, a great entrepreneurial mindset, coupled with human competency, is vital for overcoming obstacles and ensuring smooth business operations, which are essential for achieving business success.

## 2.3 Business Strategy

Business strategy can be best defined as a plan that outlines how a company will achieve its goals and objectives. Business strategy is a comprehensive approach that helps a company fulfil its mission and vision and encompasses a set of values that guide a company's priorities, decisions, and actions (Rice, 2014). For a business to succeed, having a strong business strategy is essential (Rumelt, 1993). A well-planned strategy provides managers with direction and vision, enabling them to tackle obstacles effectively. It helps leaders set organisational goals and gives companies a competitive edge. Serving as the foundation for various departments, business strategy is crucial for guiding departmental functions, aligning them with corporate objectives, enhancing collaboration, promoting agility, and fostering continuous improvement. With a clear strategic framework in place, organisations can optimise performance and achieve long-term success.

The conceptual framework is developed to explain the relationship between sensing, seizing, reconfiguring and business success.

**Figure 1:** Conceptual Framework



### 3.0 Methodology

This study applies the quantitative research method. The sample size is 30 of registered SMEs in the food and beverage industry in Kelantan. Questionnaires were distributed, a letter of consent was given to obtain permission from each respondent, and the demographic factors were kept private and confidential. Purposive sampling technique was used. A five-point Likert scale was used to measure the responses, from strongly disagree to strongly agree. A total of 50 questionnaires were distributed equally among the SMEs in Kelantan. SPSS was used for the data screening and descriptive analysis, while for data reliability and validity, this study used Smart PLS 4.

### 4.0 Data Analysis and Findings

A total of 30 respondents were brought forward for data analysis. Their demographics are as follows: the gender of business owner was dominated by females, which was 55%, while men were 45%. Participants with a diploma background had the highest percentage, which was 47.3%, followed by SPM, degrees, and certificates, with 28%, 14.7%, and 10%, respectively. Most of the businesses have run the operation for more than 15 years, with a percentage of 80.6%, and second least for less than 15 years, 13.2%. Most of the respondents have less than 30 workers, 49.8%, and less than 50 workers have a percentage of 35.6%. Most of the businesses have annual sales of less than RM100k with a percentage of 55.3% and less than RM250k, 37.6%.

**Table 1.0:** Mean, standard deviation and Correlation

Variables	N	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
Sensing	30	-7.45	9.12	0.83	4.78
Seizing	30	-8.26	11.4	1.57	5.68
Reconfigure	30	-12.4	10.20	-1.10	6.52
BisSuccess	30	-13.8	9.08	-2.36	6.60
Valid N (listwise)	30				

Table 2.0 below shows the measurement model data based on Cronbach alpha, average variance extracted, and composite reliability. In this study, based on the Cronbach alpha result, the sensing and seizing activities have high internal consistency with 0.871 and 0.884, respectively, while reconfiguration meets the minimum, with 0.712, and business success has strong internal consistency. For the average variance extracted (AVE), sensing, seizing, and business success have good convergent validity, and reconfiguring has strong convergent validity. Lastly, for the composite reliability, all the constructs exceeded the 0.7 threshold, which indicates that all are reliable.

**Table 2.0:** Measurement of Data

Variables	Cronbach's alpha	AVE	Composite Reliability
Sensing	0.871	0.676	0.862
Seizing	0.884	0.694	0.872
Reconfigure	0.712	0.839	0.912
Business Success	0.891	0.617	0.89

**Table 3.0:** Discriminant validity and correlation between latent variables (Fornell & Larcker criteria)

No	Construct	X1(SNSG)	X2(SEIZING)	X3(RECON)	X4(BSUCC)
1	SNSG	0.822			
2	SEIZING	0.729	0.833		
3	RECON	0.822	0.597	0.916	
4	BSUCC	0.769	0.762	0.66	0.786

The findings on hypothesis are clarified in Table 4.0 below. For the sensing to business success relationship, the beta was 0.383, with a p-value of 0.001, showing a significant positive effect. The hypotheses are supported. For the relationship between seizing and business success, it did not show a significant effect; with a beta of 0.088 and a p-value of 0.483, the hypotheses for this variable were not supported. Lastly, for the relationship between reconfiguration and business success, it was positive and significantly associated with business success; thus, the hypotheses are supported.

**Table 4.0:** Results of the Hypotheses testing

No	Hypotheses	$\beta$	p-value	Result
1	Sensing (SNSG) to Business Success (BSUCC)	0.383	0.001	Supported
2	Seizing (SEIZING) to Business Success (BSUCC)	0.088	0.483	Not Supported
3	Reconfiguring (RECON) to Business Success (BSUCC)	0.43	0.000	Supported

## 5.0 Conclusion and Recommendations

The success of SMEs is important to a country's development and growth. This is because SMEs are the backbone of the country's economy, job creation, and social stability. Hence, it is crucial to ensure the success and sustainability of these enterprises in the market so that they can serve as engines of growth and poverty alleviation. This study proves that business strategy is the basic core of an enterprise to achieve business success through sensing and reconfiguring activities in Kelantan. Having a systematic and well-organised business strategy might help SMEs reduce the risk of errors, leading to more consistent and reliable outcomes across the organisations. In conclusion, dynamic capability theory, which comprises three main corporate agility that are the capacity to sense and shape opportunities and threats, seize the opportunities, and maintain competitiveness through enhancing, combining, and, when necessary, reconfiguring the business, along with the need for great managerial capability to respond and take calculated risk, is such a complete set of business strategy that SMEs can apply to ensure their sustainability in the marketplace and, therefore, achieving business success in the long run.

## 6.0 Acknowledgment

This research article was financially supported by Universiti Teknologi MARA and Institute of Postgraduate Studies UiTM.

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