

UNIVERSITI TEKNOLOGI MARA

**ABSORPTIVE CAPACITY AND PERFORMANCE IN
MALAYSIAN MANUFACTURING
SMEs**

ZARINA DENAN

Thesis submitted in fulfillment of the requirements

For the degree of

Doctor of Philosophy

Faculty of Business Management

October 2011

Candidate's Declaration

I declare that work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

In the event that my thesis be found to violate the conditions mentioned above, I voluntarily waive the right of conferment of my degree and agree to be subjected to the disciplinary rules and regulations of Universiti Teknologi MARA.

Name of Candidate	ZARINA BINTI DENAN
Candidate's ID No.	2005393806
Programme	Management
Faculty	Business Management
Thesis Title	Absorptive Capacity and Performance in Malaysian Manufacturing SMEs
Signature of Candidate
Date	October 2011

ABSTRACT

Many small and medium-sized enterprises (SMEs) presently evolve in a complex business environment characterized by globalization the internationalization of markets and the need for greater efficiency effectiveness and competitiveness based on innovation and knowledge. This has put increasing pressure upon the management of these firms especially manufacturing and technological SMEs that must now compete globally. Many entrepreneurial researches have highlighted the significance of potential strategies, technological innovation, or entrepreneurial orientation in improving SMEs productivity. However, a few have identified the SMEs capabilities in knowledge process leading to excellent business performance. This research is concerned with identifying those answers through various knowledge capabilities that small business in Malaysia can adopt to enhance their performance, by employing the knowledge-based view approach. SMEs represent more than 95% of total manufacturing establishments in Malaysia, 75% of which encompasses textiles and apparel sector, food and beverages, metal and metal products, publishing, printing and reproducing of recorded media, furniture sector, rubber and plastics products and wood and wood products industry. Questionnaires were personally administered to 180 companies belonging to the above industries. Simple, multiple and hierarchical regression analyses were performed to examine relationships among the variables under study. The simple regression analysis suggested a significant and positive relationship between SMEs owners/managers' prior knowledge and absorptive capacity. The results also indicated that there was a significant and positive relationship between the SMEs owners/managers' prior knowledge and absorptive capacity. A positive and significant relationship between absorptive capacity and financial performance was also found. The other two performances (operational and innovation) were found to have insignificant relationship with absorptive capacity.

Hierarchical regression was utilized to test the impact of moderating variables, environmental dynamism, strategic planning formality and strategic decision making process on absorptive capacity-performance relationship. The study highlighted only strategic decision making process had some impact on absorptive capacity-operational performance relationship. The study also obtained significant and negative effect of strategic decision making process on absorptive capacity-innovation performance relationship. In summary, findings highlighted the importance of SMEs to develop their own knowledge-based not only for survival but to have sustainable competitive advantage.

ACKNOWLEDGMENTS

Assalamualaikum,

I wish to express my gratitude to both my supervisors, Associate Professor Dr. Noraini Ismail and Professor Dr Noormala Dato' Amir Ishak. I would like to extend a special thanks to Associate Professor Dr Noraini Ismail for her constant supervision and advice. I will always be indebted to her for sharing with me her valuable time, knowledge and most of all, her trust.

My sincere thanks to Prof. Ramayah, Dr. Norzanah Muhammad and Dr. Primadita Sharmala who have validated my questionnaire. Not forgetting Dr Siti Zaleha Abdul Rasid for her kind assistance and advice.

I really appreciate the understanding and support from my husband, Mohd Yaakop, my son Razin, my brothers and sisters, my friends in UiTM Segamat and my officemates (MNI room) in UiTM Shah Alam, without whose encouragement would make my Phd journey impossible. Also I would like to thank all my Phd colleagues, Noorasyikin, Fahmi, Nizam, Ani @ aini and Zatul for making my Phd journey the most memorable one.

I also would like to dedicate this thesis to my late parents Yatimah Hassan and Denan Timin who were there when I needed them the most and without their blessings my PhD journey might not reach its destination. My prayer will always be with you both.

Last but not least, thank you to Universiti Teknologi MARA for the financial assistance and support throughout the duration of my project.

TABLE OF CONTENTS

CANDIDATE'S DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v-viii
LIST OF TABLES	ix-x
LIST OF FIGURES	xii
GLOSSARY ACRONYMS	xiii

CHAPTER 1: INTRODUCTION

1.1	Background of the Study	1
1.2	Problem Statement	5
1.3	Objectives of the Study	7
1.4	Research Questions	7
1.5	Justification	8
1.6	Significance of study	10
1.7	Scope of the Study	11
1.8	Outline of the Thesis	12

CHAPTER 2: SMEs in MALAYSIA

2.1	Introduction	14
2.2	A Profile of SMEs in Malaysia	18
2.3	Overview of Study on SMEs' Performance	21
2.4	Current Status of KM in Malaysia	26
2.5	Summary	32

CHAPTER 3: LITERATURE REVIEW

3.0	Theoretical Foundation	34
3.1	Resource Based View	34
3.2	Knowledge Based View	37
3.3	Performance	40