

UNIVERSITI TEKNOLOGI MARA

**ORGANISATIONAL CAPABILITIES
AND COMPETITIVE ADVANTAGE:
THE MODERATING EFFECTS OF
MANAGERIAL COMPETENCIES IN
PROCESSED FOODS SMES IN
MALAYSIA**

NURUL NADIA ABD AZIZ

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ABSTRACT

The premise of this research is that the SMEs in Southeast Asia, including Malaysia, are facing difficulties to survive. Recently, some scholars have argued that the SMEs in Malaysia have a lack of competitiveness regarding costs, products and services. Thus, this study aims to provide a better understanding of continuous knowledge sharing by determining; (1) the effects of organisational capabilities on competitive advantage among the food processing SMEs in Malaysia; and (2) the relationship between innovation, networking, financial capabilities, and competitive advantage. Furthermore, this study incorporates knowledge and skills as a moderating variable, renamed as managerial competencies which possibly strengthen the likelihood that strong organisational capabilities may lead to competitive advantages. Therefore, this study also aims to determine the moderating effects of managerial competencies on the relationship between organisational capabilities and competitive advantage. A random sampling technique was applied to collect the data from 2,384 SMEs processing food products in Malaysia. A total of 330 SMEs in the food processing industry had participated in this study. The main instrument for this study is a set of questionnaire which was adopted from previous studies. A structural equation modelling using AMOS was applied in analysing the direct and moderating effect hypotheses. The fitness index statistics confirmed that the overall model fit and all of the paths in the model were statistically significant. The results support the hypothesised effects of the organisational capabilities on the competitive advantage. These valuable findings show that the organisational capabilities explain 93 percent of the variance in competitive advantage. All three constructs of the organisational capabilities (innovation, networking and financial capabilities) individually had significant and positive relationship with the competitive advantage but with a low strength of relationship magnitude. Managerial competencies were also found to moderate the effects of organisational capabilities on the competitive advantage. In brief, this study contributes to the competitive advantage studies through a comprehensive empirical research. Focusing on the scale and scope dimensions, this study highlighted, in particular, the importance of the firm internal resource capabilities as the potential influencers of the SME's competitive advantage. This study provides useful implications and recommendations for the practitioners and policy makers on how to help Malaysian food processing SMEs increase their competitiveness in penetrating the hypermarkets and further the global market.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

The attention to the industrial sustainability issues of the small and medium enterprises (hereinafter referred to as the SMEs) has been gradually increasing since the early 1990s, when the society and academicians began to realise the enormous contribution of SMEs to a country economic growth (Abdullah, Hamali, Deen, Saban, & Abdurahman, 2009; Abdullah & Mustapha, 2009; Akdoğan & Cingöz, 2012; Anggadwita & Mustafid, 2014; Barney, 1991; Bharadwaj, Varadarajan, & Fahy, 1993; Bridle, Vrieling, Cardillo, Araya, & Hinojosa, 2013; Eravia & Handayani, 2015; Ismail, Domil, & Isa, 2014; Jebna & Baharudin, 2013; Kaleka, 2002; Leonidou, Leonidou, Fotiadis, & Zeriti, 2013; Mohamad, Rashed, & Rahman, 2008; Munir, Lim, & Knight, 2011; Piercy, Anna, & Katsikeas, 1998; Rose, Kumar, & Yen, 2006; Utami & Lantu, 2014; Zaridis, Maroulis, & Simos, 2009). With the intensification of numerous parties to expand the potential of the SMEs, various studies have been carried out to determine the factors that may affect the industrial sustainability of the SMEs. Among the downstream of research related to industrial sustainability is the industrial competitive advantage.

Competitive advantage refers to the extent to which firms are able to gain and retain their dominant position in the market over their competitors by creating value for their customers (Feng, Sun, & Zhang, 2010). In other words, competitive advantage is the ability of the SMEs to make customers choose their products from their competitors or it may reflect their ability to continuously introduce enhancements in the process of making the product (Kazem, 2003). Barney (1991) believed that four primary attributes for competitive advantage are uniqueness, value, inability to be imitated and replaced. In short, a company is said to have a competitive advantage if it is able to offer quality products at lower prices than their competitors while also offering the best services.

In Malaysia, companies that have a competitive advantage produce well-known product brands such as Ayamas, Ramly, Ayam Brand, Jalen, Gardenia, Adabi, Kimball, Seri Murni, Lady's Choice and Munchy's. In addition, some other