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Influence of Organizational Capability on Competitive Advantage in Small and Medium Enterprises (SMEs)

Sarminah Samad, Nurul Nadia Abdul Aziz, Junainah Jaidi and Yassien A.H. Masoud
Arshad Ayub Gradvate Business School (AAGBS), Faculty of Business Management
Universiti Teknologi MARA, 40450 Shah Alam, Selangor, Malaysia

Abstract: Previous studies have revealed that various factors have been linked to competitive advantage. Competitive advantage is one of the important topic to be addressed as it able to create value of customers and increase organizational performance. This ability will help organization to sustain its product position in the market. Though some studies have related competitive advantage with organizational capability factor, less research has been carried on processed food Small and Medium Enterprises (SMEs) in Malaysia. The aim of this study was to examine the influence of organizational capability (quality relationship and financial capability) on competitive advantage of processed food SMEs in Malaysia. The study constructs a Structure Equation Model (SEM) to answer the hypotheses and objectives of the study. Data in the study was collected from a sample of 110 processed food SMEs industry in Malaysia. The obtained data were analyzed using SPSS and Amos Version 22. Descriptive and inferential statistics were employed to answer the objectives and hypotheses of the study. Through an empirical test of the processed food SMEs in Malaysia, this study draws the following conclusions or results:quality relationship has a positive influence on competitive advantage; financial capability has a positive influence on competitive advantage; organizational capability has a positive significant contribution on competitive advantage and quality relationship has more influence than financial capability on competitive advantage. Findings from this study serve as a guideline in business activities to strengthen the competitive advantage of SMEs industry.Findings, implications and recommendations for future research from this study are discussed.

Key words: Organizational capability, quality relationship, financial capability, competitive advantage, future

INTRODUCTION

Organizational Capability has been highlighted as one of the important factors for business organization strategies to achieve their business goals, gain competitive advantage and performance (Wheen *et al*., 2015). This suggests that competitive advantage and organizational performance depend on the alignment of organizational strategies and organizational capabilities. The influence of organizational capability on firm competitive advantage including Small and Medium Enterprises (SMEs) around the world in general has been studied by several scholars (Utami and Lantu, 2014). Studies on the competitive advantage of SMEs has also been carried out in the Southeast Asia such as Singapore (Aslan *et al*., 2011), Thailand (Wethyavivorn *et al*., 2009) and Indonesia (Utami and Lantu, 2014). Many studies have been carried out on this topic due to the challenges that SMEs have faced in terms of intense competition, lack of strategic marketing activities, incompetent entrepreneurs, increasing pressure on innovation (Haniff and Halim (2014) and organizational capability in terms of financial capability and quality relationship (Angilella and Mazzu, 2015). This implies that organizational capability serves as one of the key factors for SMEs to gain competitive advantage. It was reported that one of the challenges faced by the food industry SMEs in Malaysia is their ability to gain competitive advantage. Among the challengesare related to the low quality of products, lack of networking and lack of financial resources management.These factors have been link to the inability of SMEs in gaining competitive advantage and to meet the standards set by hypermarkets and international markets (Haniff and Halim, 2014; Turi *et al*., 2014). Theoretically, SMEs performance could be related to organizational capability, innovations and networking. Though this evidence has been documented in the literature, scarce research was found in Malaysian context. The question is does the competitive advantage of the processed food SMEs in Malaysia is influenced by

Corresponding Author: Sarminah Samad, Arshad Ayub Gradvate Business School (AAGBS), Faculty of Business Management, Universiti Teknologi MARA, 40450 Shah Alam, Selangor, Malaysia

organizational capability? This study therefore examined the influence of organizational capability on competitive advantage of processed food SMEs in Malaysia. Findings of this study would be able to close the gap of previous research findings and serve as a guideline for decision makers and SMEs entrepreneurs or owners.

Literature review: Grounded from Resource Based View (RBV) theory, organizational capability appears as one of the internal resources that influence organization competitive advantage and organizational performance (Albertini, 2013). Strategic management theory highlights RBV as one of the management approaches that linked to competitiveness and performance (David, 2011). The resource-based theory stems from the principle that the source of firms competitive advantage lies in their internal resources, as opposed to their positioning in the external environment. This implies that evaluating opportunities and threats in conducting business and its competitive advantage depends on the unique resources and capabilities of a firm (Barney, 1995). The resource-based view of a firm predicts that certain types of resources owned and controlled by firms have the potential influence on competitive advantage and ultimately for superior firm performance (Samad, 2015). This is because RBV emphasizes the firm's resources as the key drivers for competitive advantage and business performance (Aragon-Correa *et al*., 2003).

The assumptions of RBV is based on two main premises: First, RBV assumes that firms within an industry or within a strategic group may be heterogeneous with respect to the bundle of resources that they control. Under this assumption, the skills, capabilities and other resources that are owned by a firm is different from another firm. These differences lead to employment of different strategies to compete with each other. Secondly, RBV assumes that resources are not mobile and do not move from one firm to another, at least in short-run. For instance, some resources cannot be and difficult to imitate. Due to this immobility, firms cannot replicate rivals' resources and implement the same strategies. Example of these resources can be seen in the intangible resources, organizational strategy such as trademark, pattern, brand, processes, knowledge or intellectual property which are usually immobile. The uniqueness of the resources (heterogeneity) is considered a necessary condition for a bundle of resources to contribute on competitive advantage.

The above notion has been supported by Grant (1996) who has classified resources in terms of tangible (e.g., financial reserves, buildings and equipment) and intangible (e.g., technology, human resources and reputation). Regardless of their nature, resources are not productive on their own but rather must be assembled, integrated and managed so as to form organizational capabilities (e.g., new product development, market sensing, relationship building) to address external environments and meet changing market demands (Eisenhardt and Martin, 2000). In other words, capabilities serve to bind different resources, so that they can be identified and organized effectively and efficiently (Day, 1994). For an activity to be a capability, it must reach some threshold level of routine or practice and work in a reliable manner (Helfert, 2003). Firms can achieve a competitive advantage by constantly reconfiguring or recombining different types of resources that can alter existing capabilities or generate new ones (Eisenhardt and Martin, 2000).

In a capability-based perspective, a firm competitive advantage derives from its capabilities or competencies (Collis, 1994). This perspective emphasizes a more dynamic view of competition, by focusing on firm's business processes rather than on assets or resources in a static view. In a broad sense, this perspective encompasses all research works dealing with concepts like distinctive capabilities (Hitt and Ireland, 1985), organizational capabilities (Collis, 1994) and core competencies (Leonard-Barton, 1992) and dynamic capabilities (Eisenhardt and Martin, 2000). On the other note Zack, (1999) and Nonaka and Takeuchi (1995) argue that knowledge-based resources are also relevant to the achievement of a firm competitive advantage. This study however examined the influence of organizational capability on competitive advantage SMEs in Malaysian context.

Competitive advantage: Studies on competitive advantage has attracted a great concern among researchers and practitioners (Peteraf and Barney, 2003). Although, strategic management literature has extensively highlighted the competitive advantage concept but there are some variations on the definition. Sigalas *et al.* (2013) stated that no agreement on a single conceptually clear and unambiguous definition of competitive advantage was given by scholars.Though the literature provide less solid conceptual definition of competitive advantage, however the concept generally can be classified into two main streams (Sigalas *et al*., 2013). The first stream relates to competitive advantage in terms of performance (Newbert, 2007) and thesecond stream is in terms of sources or determinants of competitive advantage (Powell, 2001). In SMEs context, Kazem concluded competitiveness as the ability of a firm to make customers

choice of their products and as the indicator of a firm ability to have continuous enhancement in business performance.

Various models of competitive advantage have been postulated by researchers. Bharadwaj *et al*., (1993) have suggested competitive advantage in terms of cost advantage and differentiation advantage; Feng *et al*., (2010) suggested competitive advantage in terms of product quality, cost leadership, delivery reliability, process flexibility and customer service. Meanwhile, Moghli *et al*. (2012) proposed a model which consists of time advantage, quality, cost and flexibility. Kaleka (2002) suggested competitive advantage based on cost advantage, product advantage and service advantage. Kaleka (2002)'s model of competitive appeared as among the widely used and validated instrument that relevant to the nature of competitive advantage in this study. Therefore this study has adopted Kaleka's model of competitive advantage to link with organizational capability factors (quality relationship and financial capability)

Study on competitive advantage has been done from various perspectives. Example it has been used as dependent variable, independent variable, mediating and moderating variable. Researchers have also focused on the key success factors of SMEs to gain competitive advantage (Ensari and Karabay, 2014). The other perspective is on the determinants of competitive advantage in different setting of SMEs. Examples of competitive advantage determinants are innovation (Moghli *et al*.,, 2012); network or relationship (Tang, 2011); managerial and leadership (Trivellas and Reklitis, 2014) and financial capability (Dada and Fogg, 2014). These determinants are considered as resources which can be classified under organizational capability as reflected and explained in RBV theory. Organizational capabilities include for examples organizational strategy, culture, learning, routines and entrepreneurship (Wheen *et al*., 2015) and the ability of an organization to perform using organizational resources to achieve its goals. This study proposed organizational capability in terms of quality relationship and financial capability to link with competitive advantage of processed food SMEs in Malaysia.

Organizational capability and competitive advantage: Previous studies have indicated that organizational capability in terms of quality relationship and financial capability has a positive influence with competitive advantage (Collis, 1994). It is supported by RBV which suggests that tangible resource (financial capability) and intangible resource (quality relationship) contribute towards organization competitive advantage (Tang, 2011;Dada and Fogg, 2014). Wethyavivorn *et al*., (2009) found that healthy or quality relationship between entrepreneurs with various group of investors appeared as the essential element for a firm performance that could affect competitiveness in international market with highest factor loading of 0.70. Some researchers have found that strong and quality relationship with employees, customers, suppliers and government are positively associated with competitive advantage (Kaleka, 2002). This is in line with RBV theory which suggests that organizational capabilities in terms of networking capability and quality relationship would enable a firm to achieve competitive advantage (Barney, 2000). This study therefore examined the influence of organizational capability on competitive advantage as depicted in the research framework as depicted in Fig. 1. Figure 1 shows the endogenous construct of the study is competitive advantage and the exogenous construct is organizational capability which consists of quality relationship and financial capability. This study aimed to investigate the influence of organizational capability (quality relationship and financial capability) on competitive advantage.

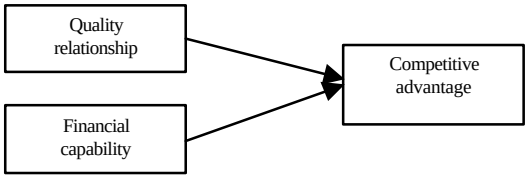

Fig. 1: Research framework

Organizational capability: The proposed research framework for a specific model in this study was designed to explain the influence of organizational capability on competitive advantage. It was aimed to analyse the ability of Malaysian processed food SMEs in terms of quality relationship and financial capability to gain competitive. Based on the literature review, the quality relationship and financial capability will improve competitive advantage. Thus this study addressed the following hypotheses:

- HA_1: Quality relationship has a positive influence on competitive advantage,
- HA_2: Financial capability has a positive influence on competitive advantage,
- HA_3: Organizational capability (quality relationship and financial capability) will contribute significantly on competitive advantage and
- HA_4: Quality relationship has more significant effect on competitive advantage than financial capability

MATERIALS AND METHODS

This is a correlational and cross sectional study with the main aim to examine the influence of organizational capability on SMEs competitive advantage. The sample of study was selected based on the following criteria: the SMEs that employed more than 5-200 employees; processed food SMEs and the SMEs that never penetrated or market their products in any hypermarkets in Malaysia. The samples were selected based on random sampling among 150 processed food SMEs. Self-administered questionnaires were distributed to respondents within two months. 110 useable questionnaires were analysed with the response rate of 73% of the whole sample. This sample is adequate because according to Sekaran and Bougie (2013), a total of 108 respondents are required to represent the population size of more than 150 people.The data was analysed using SPSS version 22 and SEM-AMOS version 22 to analyse the data and test the hypotheses of the study.

The independent variable (exogenous Construct) of the study is organizational capability which measures two components namely quality relationship and financial capability. Quality relationship constitutes of 5 items and 8 items of financial capability with two aspects: financial stability 5 items and risk management 3 items. The measurement was based on the adapted instrument developed by Wethyavivorn *et al.*, (2009). The dependent variable or endogenous construct of competitive advantage consists of 17 items. This variable constitutes three aspects namely cost advantage, product advantage and service advantage and was measured using the adapted measurement developed by Kaleka (2002). The response options for all the items were based on a 5 point Likert-scale ranging from 1 = strongly disagree to 5 = strongly agree. The Cronbach's alpha values which indicate the reliability of quality relationship is 0.72, financial capability 0.96 and competitive advantage 0.86. The coefficient alpha values for all measured variables were above 0.70 therefore within the acceptable value (Nunnally, 1967). The findings also indicate that all of the questionnaires scales score have adequate internal consistency and reliability.

RESULTS AND DISCUSSION

Descriptive analysis and inferential statistics were employed in the study. The descriptive analysis was conducted to report the profile of the respondent and inferential statistics was employed to test the hypotheses of the study.

Table 1: Cronbach's alpha for the variables

Variables	Cronbach's alpha	No.of items
Quality relationship	0.723	5
Financial capability	0.959	13
Competitive advantage	0.855	18

Table 2: The summary of fitness indices of overall measurement models

Name of index for a good fit	Range of values	Index value
Absolute fit	RMSEA<0.08	0.078
Incremental fit	CFI> 0.90	0.905
Parsimonious fit	ChiSq/df< 3.00	2.985

Profile of respondents: Findings on the profile of the respondents revealed that majority of the respondents were female (65.5%) and 34.5% were male. 13.3% respondents were single where as 86.4% were married. 30.9% of the respondents age were between 40-50 year old and 27.3% belonged to the age group between 50-60 year old, 25.5% between 30-40 year, 11.8% between 20-30 year and 4.5% >60 years. With respect to the years of experience, 35.5% of the respondents have >5-10 years of experience in the industry. It is followed by 25.5 % from 10-15 year, 18.2% from 1-5 year, 10% from 15-20 year, 5.5% from 20-25 year, 4.5% from 25-30 year and 0.9% >30 year.

Reliability analysis: The coefficient alphas for the different constructs were computed using the reliability procedure in SPSS as are presented in Table 1. The reliabilities of all of the constructs in this current study fall within the acceptable range from 0.723 to 0.959. Both variables achieved an acceptable value according to Hair *et al.* (2006) which requires at least 0.7 and above.

Confirmatory factor analysis: Upon completing the reliability test, Confirmatory Factor Analysis (CFA) was performed to assess the unidimensionality and validity of the measurement model. Unidimensionalitydeals with the existence of one construct underlying a set of items which is measured using convergent validity.Convergent validity is achieved when all items in a measurement model are statistically significant. Convergent could also be verified through average variance extracted (level of acceptance AVE = 0.5).

In CFA item that does not fit the measurement model due to low factor loading should be removed. Assessing the unidimensionality for each factor and the reliability and validity of each construct are two important things that need to be considered in measurement model. The result of the CFA using SEM-AMOS is shown in Table 2 and Fig. 2.

The model in Fig. 2 indicates a CFA procedure to assess all constructs involved in the study. The data are

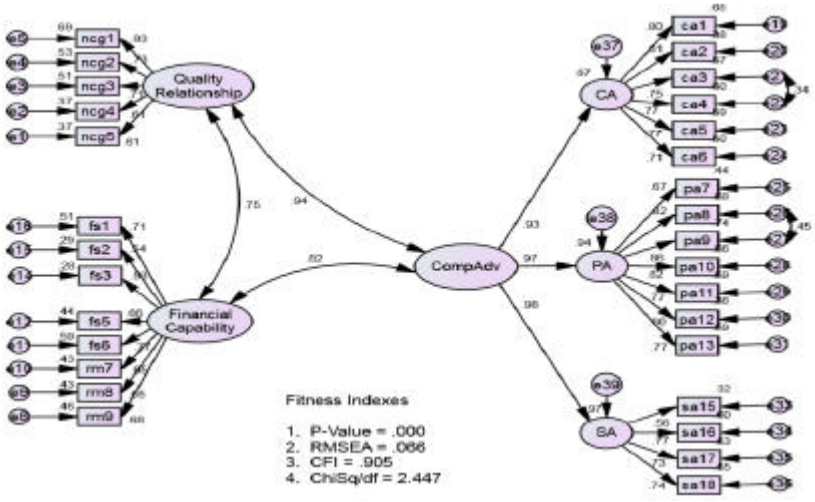

Fig. 2: The results of CFA and factor loading after two items deletion

the score of 110 SMEs on two organizational capability constructs. The arrows from the factors to the variables represent linear regression coefficients or factor loadings (Hox and Bechger, 1998). Figure 2 reports the factor loading after deletion of two items. To determine the measurement model fit, the goodness of fit indices such as absolute, incremental and parsimonious were observed. Table 2 shows the absolute fit, incremental fit and parsimonious fit which achieved the required level with RMSEA<0.08, CFI>0.90 and Chisq/df<3.00 as suggested by Hair *et al*. (2006). Therefore, there no issue of unidimensionality. Meanwhile, Table 3 indicates the reliability of the scale which is based on the value represented by the Construct Reliability (CR) and Average Variance Extracted (AVE) scores of different factors obtained. Construct reliability of both latent constructs was greater than the acceptable limit of 0.60, (Hair *et al*., 2006). The AVE for both constructs was greater than the acceptable limit of 0.5 (Hair *et al*., 2006) which supports the convergent validity of the constructs. This result indicated the existence of internal consistency of the instrument used in the current study.

Path analysis of the model and results

Structural equation modelling: After the issues of unidimensionality, validity and reliability of the latent constructs have been addressed, the constructs were modelled into a structural model (Fig. 3) for analysis using Structural Equation Modelling (SEM). This analysis was performed to answer the following research hypotheses:

H_1: There is a significant influence of quality relationship on competitive advantage,

H_2: There is a significant influence of financial capability on competitive advantage,

Table 3: The CFA results for the measurement model

Variables	Cronbach's alpha	AVE	CR
Construct	>0.70	>0.500	>0.600
Quality relationship	0.723	0.985	0.970
Financial capability	0.959	0.903	0.823
Competitive advantage	0.855	0.961	0.891

H_3: Organizational capability contribute significantly on competitive advantage and

H_4: Quality relationship will have more significant effect than financial capability oncompetitive advantage

Figure 3 depicts the structural model for the path of interest to test the hypotheses of the study. This model integrates and correlates all factors to the organizational capability constructs. It also provides a structural link from the organizational capability to the competitive advantage. Figure 3 empirically shows that organizational capability has a high significant influence on competitive advantage. The coefficient determination (R^2) of 0.91 indicates that 91% of exogenous construct of organizational capability (quality relationship and financial capability) has contributed on competitive advantage. Since the correlation between exogenous constructs was <0.85, there is no multicollinearity problem (Hair *et al*., 2013).

Accordingly, analysis of regression was performed to examine the influence of quality relationship and financial capability on competitive advantage. Results in Fig.4 shows the standardized path coefficients estimated by the structural equation modelling procedure while Table 4 shows the regression path coefficient and its significance. Data in Table 4 indicates that the change or increase of 1% in quality relationship, will change or increase 0.88 in competitive advantage. Since the significance level for the

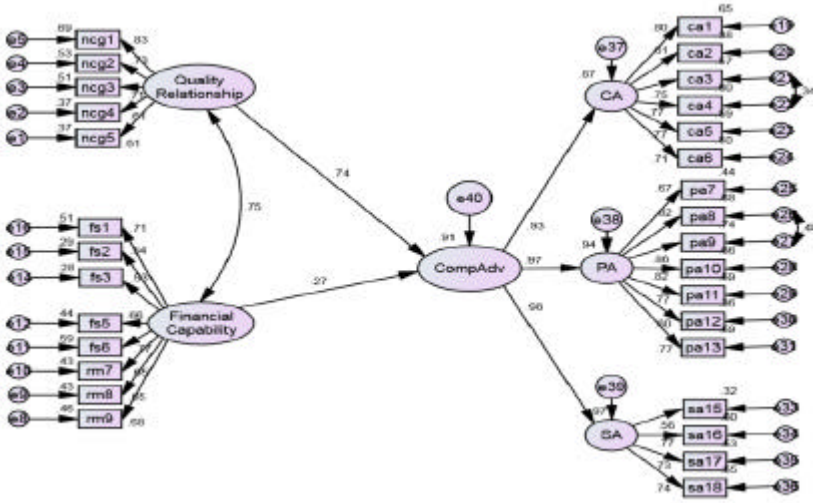

Fig. 3: The standardized path coefficients between constructs in the model

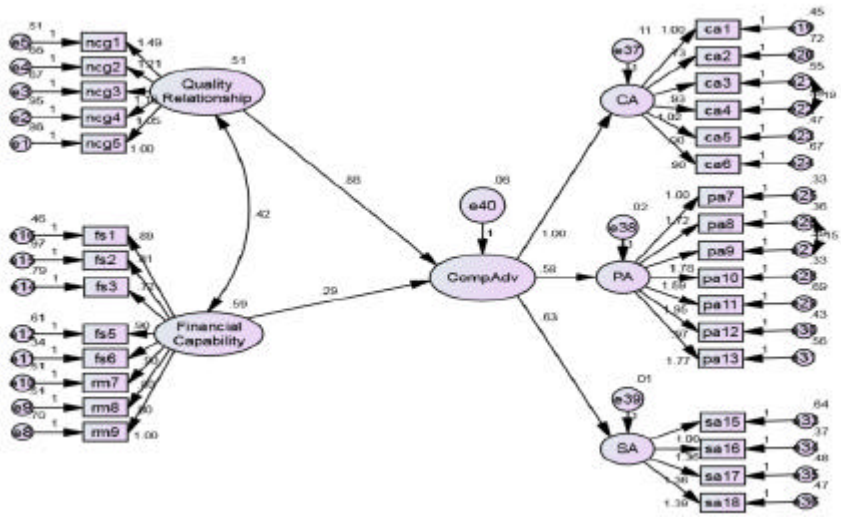

Fig. 4: The regression path coefficients between constructs in the model

variable was within the acceptable value of 0.001, hence, the hypothesis H_1 was supported. Similarly for financial capability, the change or increase of 1% in this variable, will increase or change by 0.29 in competitive advantage. The significance level for the variable was within the acceptable value of 0.001, therefore the hypothesis H_2 was supported.

Examining the contribution of overall organizational capability (quality relationship and financial capability) on competitive advantage as depicted in Fig. 3, it was found that organizational capability has contributed 91% variance on competitive advantage. This finding supported the H_3 hypothesis of study that organizational capability contributed significantly on competitive advantage.

Table 4: The regression path coefficients and its significance

Variables	Estimate	S.E	C.R	p (sig.)
CompAdv	QR.88	0.102	8.556	***
CompAdv	FC.29	0.067	4.328	***

Significant *** p<0.001, CompAdv = Competitive advantage, QR = Quality Relationship, FC = Financial Capability

Further, Table 4 shows that the estimate value for quality relationship is .88 while for financial capability is 0.29. It can be concluded that quality relationship has more significant effect than financial capability on competitive advantage. This finding provided support for the H_4 of the study.

Influence of organizational capability on competitive advantage: It is evident that after a thorough analysis of this data, organizational capability in terms of quality relationship and financial capability emerged as the important factors that influenced competitive advantage of Malaysian processed food SMEs. This suggests that the processed food SMEs in Malaysia have to emphasize good and quality relationship with relevant stakeholders including government to ensure the company remain competitive. The results indicated the importance for SMEs to pay more emphasis on efforts towards developing and sustaining good networking with relevant stakeholders. Quality relationship is also linked to intellectual capabilities of the people in the organization. The ability of SMEs to have quality relationship would help them to learn on many aspects of business related matters such as on customers' needs, tastes and preferences. Quality relationship would also help SMEs to have good strategic business alliances. Strategic alliances with other important stakeholders in the industry presumably, will help these SMEs to better implement their strategies for greater revenue generation and profit maximization. This finding is in tandem with previous studies that have emphasised on the relationship between networking capability and competitive advantage (Predic and Stosic, 2013; Tooksoon and Mudor, 2012; Turyakira and Mbidde, 2015).

Accordingly, financial capability was also revealed as one of the important factors that influenced competitive advantage. The result suggests the importance of the processed food SMEs to strengthen its financial stability. This is because financial capability is considered as one of the important internal resources that could influence competitive advantage as postulated in RBV theory. Since processed food SMEs and in general micro-enterprises in Malaysian are facing a series of challenges in terms of the changes in macroeconomics environment (such as, the implementation of goods and services taxes), the result indicates that micro-enterprises are in need of highly financial capability. The possible reason is due to the increase in raw material costs that could affect the company profit which ultimately would disrupt the business journey of gaining competitive advantages. Since financial capability emerged as an important factor and can support company's competitive advantage and performance, SMEs should be able to manage the financial assets effectively. The cost calculations will certainly enable the SMEs to monitor current expenses and anticipate future costs on an ongoing basis.

Both quality relationship and financial capability influence on competitive advantage confirm the RBV notion and dynamic capability theory that firms need to have the ability to renew its internal resources in line with changes in its environment for its own advantage (Samad, 2015). Samad *et al*. (2014) suggested that a well planning of business would help firms gaining the momentum of competitive advantage. In addition an efficient financial management would provide a possibility of SMEs to have a greater business chances and competitive advantages. This finding is parallel with the previous studies that linked the influence of financial capability on competitive advantage (Angilella and Mazzu, 2015; Kumlu, 2014).

CONCLUSION

Based on the presented results, it can be concluded that the target respondents from the participating organizations in the study constitute a comprehensive representation that allows for drawing of specific and concise conclusions on the influence of quality relationship and financial capability on competitive advantage of processed food specifically and in food industry SMEs in general. Due to globalization and increasing competition in this business, the SMEs have to pay attention on the influence of quality relationship and financial capability to gain competitive advantage.

The data presented in this study indicated that organizational capability is critical in gaining competitive advantage. These issues must therefore be given great concern in organizations not only in the processed food SMEs but any organizations that harbour any intentions of being successful in its industry. Management of processed food SMEs must endeavour to put in place suitable formulas in maintaining good quality relationship and financial capability suited for their specific and unique environment to ensure the companies remain competitive.

Voluminous study related to SMEs have been documented in literature. This indicates that SMEs play pivotal role to the development of a nation. The significant contribution of SMEs in economic growth in terms of employment creation and their contribution to GDP has been globally acknowledged. Therefore, the era of current market globalization has influenced to the dynamic business environment of SMEs to gain competitive advantage against their competitors.

This is the first issue dealt with in this study that has not been emphasized in earlier studies especially among processed food SMEs in Malaysia. Previous studies were regularly conducted in different setting. The study revealed here demonstrates that previous empirical research and the theory could be valid in Malaysian context. This study should not be an end in itself

therefore possible extensions of this study could be explored. It would be interesting to test the sensitivity of the findings by using other approach. Robustness can also be validated through using different samples in a variety of settings. The impacts of other variables on organizational on organizational performance could be further explored to validate the findings of the study.

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