

Research Article

Exploring the Capabilities for Export Enhancement of Malaysian Small and Medium Enterprises (SMEs) in Food and Beverages Industry: A Preliminary Findings

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Abstract: This paper explores the significant capabilities for SMEs in food and beverages industry to enhance their performance in export business. It reports on the findings from interviews data of 21 SMEs in Malaysia. Building upon resource based view (RBV) and dynamic capabilities view (DCV), this qualitative study indicates the importance of innovation capability and adaptive capability for the SMEs' export performance particularly in developing countries. This paper contributes to the international small business management literature by presenting a preliminary analysis of the interface between innovation capability, adaptive capability and export performance.

Keywords: Export Performance; Innovation Capability; Adaptive Capability; SMEs

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Public Interest Statement

SMEs are the backbone of Malaysian economic growth contributing 37% of gross domestic product (GDP) and 66% of total employments highlight the significance of conducting research related to SMEs. The development of business sustainability and competitiveness in current markets that volatile and rapidly changing demanding SMEs to penetrate global markets. In order to enter international markets with lack of resources, export becomes one of the most preferable mediums for SMEs. Therefore, research related to SMEs management are expected to facilitate policy makers and firms to enhance SMEs performance not only in domestic market but also in international markets.

1. Introduction

In relation to the SMEs internationalisation process, exporting can be considered an important strategy compared to other strategies e.g. foreign direct investment. Export business involves lower risk and smaller

commitment, as companies do not have to deal with the complexities of developing foreign subsidiaries (D'Angelo, Majocchi, Zucchella, & Buck, 2013). Hence, export may at least initially, be preferred alternative to internationalisation for SMEs. Entering dynamic and unpredictable export markets requires SMEs to develop relevant capabilities. This is believed to be a crucial step for SMEs to succeed in international markets (Knight & Kim, 2009; Kuivalainen, Puumalainen, Sintonen, & Kyläheiko, 2010). In line with the principal concerns of strategic management of how to deploy the limited resources and how to sustain competitive advantage, organisational capabilities can be the best element to answer those questions. This argument lies under the 'resource based-view' (RBV) perspective.

The RBV focused on firm internal factors (resources and capabilities) in sustaining competitive advantage (Barney, 1991; Barney, Wright, & Ketchen, 2001). Although resources and capabilities are two main components in RBV, Knight and Liesch (2002) and Tuppura et al.(2008) argued that despite the importance of the resource ownership, the dynamic ability of firm to involve in organisational learning process that enable new resources development is more important. This support the idea of resource advantage is not sufficient until the firm utilise their distinctive capabilities to make the efficient use of their resources (Penrose, 1959). Therefore, the resources itself may not offer a distinctive competitive advantage to the firm without capabilities to coordinate those resources to improve firm performance (Kuivalainen et al., 2010; Ulrich & Smallwood, 2004). Capabilities become more significant at the initial stage of SMEs internationalisation since small firms often experience the liabilities of newness and foreignness which in the end lead to business failure (Makrini, 2015; Mudambi & Zahra, 2007). Although SMEs commonly lack of financial, human capital, and other resources, the capability to leverage the accumulated intangible resources can enable them to overcome the internationalisation barriers (Etemad, 2004). Evidently, Mudambi and Zahra (2007) found that the use of technological capabilities can exploit small firms' limited resources in order to enhance firms survival potential in international business.

Barnard (2010) argues that the firm's capabilities can play a significant role in overcoming or limiting the cost of doing business abroad. It is important to note that a possible negative effect of export on firm performance can be manageable if the export activity is well organised with appropriate coordination of organisational resources and capabilities (Knudsen & Madsen, 2002).

Hence, this study attempts to contribute to the research stream by linking influential organizational capabilities and dynamic capabilities in order to enhance export performance. Highlighting the role of dynamic capabilities which represent by adaptive capability, this study also aim to extend the SMEs export performance literature by providing the evidence to indicates that resource and capability are important and necessary for SMEs however it might not be adequate for improving export performance if the firm is not able to learn and to adapt.

2. Review of Literature

The development of organizational capabilities is crucial during the early part of a firm's internationalization process (Sapienza, Autio, George, & Zahra, 2006). When young small firms are involved in international business at the initial stage, they are expected to face uncertainty and risk that trigger a process of learning and adaptation (Lu & Beamish, 2001; Mudambi & Zahra, 2007). Mudambi and Zahra (2007) emphasized that firms which enter international markets at inception commonly suffer the two liabilities of newness and foreignness, which in turn lead to potential failure. Mudambi and Zahra (2007), however suggested that firms can increase their survival probabilities by enhancing their competitive strategies whereby their research findings indicate that firms should effectively exploit their intangible resources such as technological capabilities in order to survive in international markets. This illustrates that the development of capabilities can influence the speed, scope, and effectiveness of the firm's internationalization process (Olejnik & Swoboda, 2012; Zahra, Ireland, & Hitt, 2000).

During the internationalization process, firms extend their activities beyond domestic borders which require them to adjust their resource configuration to support international business activities (Sapienza et al., 2006). As firms gain and accumulate business experience in foreign markets, they eventually enhance their local market knowledge and develop routines for dealing with foreign contexts (Knight & Kim, 2009; Oura, Zilber, & Lopes, 2016). Evidently, both processes of resource configuration and routinization discussed above, represent the capabilities needed for firm to diversify their business in international markets. Therefore, consistent with Westhead, Wright and Ucbasaran (2001), studying firm internationalization from the capabilities perspective is relevant and complementary to other resource-based explanations. Encapsulating both RBV perspectives and organizational capabilities improves understanding of sources of competitive advantage in internationalization (Collis & Montgomery, 2008; Kuivalainen et al., 2010; Zahra & George, 2002).

However the highly dynamic business environment in the 1990s challenged the propositions of RBV as being static and ignoring the effect of market dynamism (Barreto, 2010; Eisenhardt & Martin, 2000). In contrast to RBV, the dynamic capabilities view suggests the need to distinguish capabilities from resources and emphasizes the dynamic process of capability development in gaining competitive advantage (Villar, Alegre, & Pla-Barber, 2014).

In dynamic capabilities research, the firm is regarded as a collection of distinctive resources and capabilities integrated through firm specific routines which then lead to a dynamic and interactive process that requires the coordination of differential knowledge and resources into a firm's existing knowledge base (Zollo & Winter, 2002). Indirectly those capabilities become organizationally embedded over time and provide a source of sustainable competitive advantage (Grewal & Slotegraaf, 2007). However, by definition, Wang and Ahmed (2007) argued that dynamic capabilities are not themselves a process but are embedded in processes. The processes are commonly explicit or modifiable structuring and combinations of resources, hence, they can be transferred more easily within the firm (Wang & Ahmed, 2007, p. 35).

In comparison with the earlier industrial organization view (Porter, 1980), and the RBV (Barney, 1991; Wernerfelt, 1984), the dynamic capabilities view focuses more on the important role of entrepreneurial decision-makers in the formulation and implementation of competitive strategy (Weerawardena et al., 2007). The dynamic capabilities that lead to the competitive advantage are developed within firms and also intentionally and systematically developed by the strong determination of a firm's strategic leaders (Grant, 1991; Knight & Cavusgil, 2005; Rua, França, & Fernández Ortiz, 2018). These capabilities are nurtured, reconfigured and reconstituted by persons in the firm (Weerawardena et al., 2007, p. 297)

While many scholars tend to conclude that the dynamic capabilities view contradicts the RBV, Barney, Wright and Ketchen (2001) disagreed and stated that the characteristics of dynamic capabilities are consistent with the traditional RBV logic. Barney, Wright and Ketchen (2001, p. 630), further argued that changing the words 'RBV' 'dynamic capabilities' does not change the underlying theory, dynamic capabilities are simply capabilities that are dynamic. They used the statement of Eisenhardt and Martin (2000) who stated that dynamic capabilities, per se, cannot be a source of competitive advantage, to further support their arguments. According to Eisenhardt and Martin (2000, p. 1117) the only way that dynamic capabilities can provide competitive advantage is when capabilities have been applied 'sooner, more astutely, and more fortuitously' than the competition to create resource configurations. This suggests that dynamic capabilities are capabilities that can become irrelevant over time, which is consistent with the traditional logic of RBV (Oura et al., 2016)

In summary, the emergence of dynamic capabilities has complemented the RBV by considering the evolution of firm resources and capabilities in relation to environmental changes. Dynamic capabilities also enable firms to identify the firm specific processes that are vital to the firm's evolution (for example, expanding the business from domestic market to international markets). The complementary nature of dynamic capabilities toward RBV has been discussed in earlier literature by Williamson (1991, p. 76):

“The leading efficiency approaches to business strategy are the resource-based and the dynamic capabilities approach.... It is not obvious to me how these two literatures will play out- either individually or in combination. Plainly, they deal with core issues. Possibly they will be joined.”

2.1. SMEs in Malaysia

Studies that concentrating on organizational capabilities as the success factor of SMEs' export performance were widely focused on developed countries particularly from US and European countries. The empirical evidences from developing countries such as from Asian continent were still lack. The findings from developed countries might not necessarily appropriate in the context of developing countries. Drawing this into consideration this study used SMEs in Malaysia as developing countries to gain new insights and contributes to the SMEs' export literature. Since, the majority of firms established in Malaysia can be categorized as SMEs, Malaysia is an appropriate location as research context for this study. Malaysia is a developing country, located within the Association of South-East Asian Nations (ASEAN). It consists of two regions separated by the South China Sea; the Malaysian Peninsula and the states of Sabah and Sarawak in Borneo (MGCC, 2012). During the nineteen sixties, Malaysia was dependent on agriculture. However, the economy transformation has led Malaysia to become a manufactured export-driven economy (Leow & Sab, 2009).

3. Method

Qualitative research is used to develop an in-depth understanding of human behavior. The approach focuses on the reasons underpinning various aspects of behavior and attempts to develop comprehensive detailed explanations of an issue within the research (Saunders, Lewis, & Thornhill, 2003). Therefore, in order to understand how organizational capabilities affect the export performance of Malaysian SMEs, this study employed the qualitative method in answering the research question.

This study has conducted in-depth interviews (face-to-face interviews) with SME owners or top level managers who have the potential to answer the interview questions accurately. The language used in the interview was English or Malay language (based on the preference of the participant). The interviews were conducted with 21 SMEs. Following the qualitative method, the data collection was an iterative process and was stopped when data saturation was reached.

The main purpose of conducting in-depth interviews was to gain rich and detailed answers (Bryman & Bell, 2007). Carson et al., (2001) and Malholtra and Birks (2003) found that for business research, in-depth interviews (semi structured or unstructured) are the best method to investigate an individual's behaviour and are effective in collecting data from CEOs, owners or top managers.

It can be concluded that the in-depth interview is appropriate for enterprise research, and, according to Gilmore and Carson (2007), provides advantages such as covering a wide area of interest, allowing the researchers to become familiar with the areas of interest as the research progresses, and identification and exploration of the key issues as they emerge due to the open-ended nature of the interview protocol which then lead to the opportunity for further probing and examining until mutual understanding is reached.

The rationale behind the selection of CEOs, owners or top level manager as interviewees is that they have the most comprehensive knowledge of their organisation's characteristics, strategy, performance, and they also play a major role in decision-making (Otero-Neira, Martti Tapio, & Fernandez, 2009). These advantages compensate for a commonly identified limitation of choosing CEOs or owners as the interviewee (e.g. bias in providing information) (Otero-Neira, Lindman & Fernández, 2009). In line with that, Spence and Crick (2006) noted that the use of interviews with other members of the respective organisation to avoid bias due to interviews with CEOs, owner or top level manager provides little useful information since they did not have the depth knowledge to answer the questions being asked. Consistently, Bell et al. (2003) emphasised that in-depth interviews with key decision makers in small

business is appropriate, given the assumption that they are commonly reluctant to complete a long and detailed questionnaire. Moreover, a typical lack of published information in the forms of shareholder analysis by small business, and unsystematic recording of internal data also make the research enquiry problematic (Bell et al., 2003; Carson, Gilmore, Perry, & Gronhaug, 2001). Given such advantages, it can be concluded that in-depth interviews can provide an opportunity for the researchers to immerse themselves to a greater depth in understanding the complex process of entrepreneurship in SMEs (Gartner & Birley, 2002).

Prior to the data analysis, the tape recorded interviews of SME participants were transcribed. To begin the analysis process, transcripts of interviews were examined for evidence of organizational capabilities perceived to be important by them. Transcripts were read several times to acquire familiarity with the data before the process of coding and organizing themes commenced (Ritchie, Spencer, & O'Connor, 2003). Familiarization with the research data in qualitative analysis is a crucial activity at the start of analysis (Ritchie et al., 2003). The process of data analysis was conducted concurrently with data collection to allow the identification of important issues related to the research and explore for further information in the following interviews.

4. Findings

The preliminary analysis showed several core themes emerged from the interviews data. In this study, we focused on adaptive capability which represent DCV, and innovation capability which represent RBV. This two capabilities occur to be significant capabilities for SMEs to enhance their export performance.

4.1. Adaptive Capabilities

The adaptive capability for export refers to the capability of SMEs to produce products that meet export standards including the certifications requested and the standard of product quality. The interview data revealed two sub-categories under adaptive capability for export: capability to get all related export certifications, and capability to produce export quality products as showed in Table 1.

Table 1. Adaptive Capability for Export Category: Sub-Category and Examples of Behaviors of Adaptive Capability for Export

Sub-Categories (Codes)	Respond	Examples of Behaviors
Managed to get the related export certification (e.g. HACCP, ISO, GMP, Halal, Certification from Ministry of Health)	21 agreed	Provide certificates to meet export customers' requirements Build factory building that meet export standards/certifications Use consultant services to advise about export standards/certifications

Quality product meet the export standard

21 agreed

Produce high quality products to meet export standard
 Use high grade/quality of raw materials
 Control product quality to meet export standard
 Monitor product quality by hiring qualified Quality Controller (QC)

Most of the participants tended to invest in export certifications or standards. The certifications that they managed or tried to get are Hazard Analysis Critical Control Point (HACCP), International Organization for Standardization (ISO), Good Manufacturing Practice (GMP), Halal Certification (the latter certification tells Muslims that the ingredients and methods of production of products are according to Islamic law), and the certification from the Health Ministry of Malaysia. Most of them already have all the certifications. A few did not manage to get all the certifications for various reasons: financial constraints and documentation or incomplete application paperwork. In relation to financial problems, as commented by the participant from Firm-07:

“Even though we have our own plant, but there are many more aspects that we need to improve: factory layout, fire safety system, water system, the capacity of electricity. All those things that we still need to improve. That’s why we still cannot get ISO.”

However, most of the participants that faced financial problems in trying to achieve export standards have made an effort to get help from the government. For example, another participant from Firm-09 mentioned:

“We need to invest a lot of money for HACCP. Then, we still don’t know the risk of that investment. However, we are working toward HACCP standard. We and many other SMEs with the help of government, we are working toward HACCP standard.”

Most of the participants also agreed that their product quality needed to meet export standards. In addition, four participants stressed that even though they are SME manufacturers, their products needed to be at the same quality standards as large firms. Another three SMEs highlighted that they pay serious attention to product quality: from the quality of raw materials to the quality of the end products. The participant from Firm-01 said:

“I believe one of the important points to be a successful exporter is product itself. Our success starts from product. Everything starts from products. So your products must be in a good quality because if it is not, you cannot sell in international markets or even in local market.”

In fact some participants did not believe in the importance of the uniqueness of the product in order to become a successful exporter. They believed product quality was more important than product uniqueness. As mentioned by the participant from Firm-17:

“So product uniqueness is not really important but the product quality is important. If you want to export your products especially to developed country, you need to really care about your quality. You need to meet their standard.”

From the quality of your raw materials to the quality of your packaging. Sometimes, SMEs tend to care less about product quality. You cannot do that if you want to export."

In order to control their product quality, some of the participants highlighted the importance of employing a Quality Controller (QC) to acquire the customers' satisfaction, loyalty, and trust. The good reputation established by superior product quality helps firm to prosper in their export business. They managed their quality control system mostly by using sampling techniques to test products and packaging. For example the participant from Firm-18 indicated:

"The QC needs to check whether the packaging has been sealed properly or not. Even for the product in the can, they need to make sure whether the lid is properly closed or not. They also need to examine the weight of the product is accurate or not. We are very concern about the quality because sometimes machine also did some errors. We don't want our customers complain in the future. I think QC play an important role to ensure our products meet the standards"

All of the participants also agreed that it is important to respond rapidly to changes in product price in order to meet the acceptable price range in export markets that they penetrate. The foreign customers would prefer to buy products from exporters that can offer competitive prices. Commonly export market pricing and local market pricing are different. The firms need to adjust the export prices based on several factors such as increases in the raw materials price, currency fluctuation, and the logistics costs. Therefore, a quick response to price changes could provide competitive advantage and enhance their firm's export business. According to the participant from Firm-04:

"The raw materials that we bought already expensive, then plus with the cost of production and so on, our price for the end products become higher. When we want to quote the price we need to include the taxation cost, again this will make our price higher"

4.2. Innovation Capabilities

Innovation capability relates to product and process innovation of the firm. Product innovation is associated with new product development or product improvement while process innovation is related to the implementation of new or significantly improved production methods in order to gain competitive advantage. The data shows four sub-categories under innovation capability: capability to conduct research and development (R&D) for new product development, capability to conduct R&D for product improvement and quality control, capability to upgrade from semi-auto machines to fully-auto machines, and capability to adapt new ideas from distributors/customers. In total, thirteen behaviors were identified and were grouped into four sub-categories of innovation capability as depicted in Table 2.

Table 2. Innovation Capability Category: Sub-Categories and Example of Behaviours of Innovation Capability

Sub-Categories (Codes)	Respond	Examples of Behaviors
R&D for new product development	About 19 SMEs using R&D for new product development	Use R&D to develop new products
R&D for product improvement and quality control	21 agreed	Improve products specification Test new products by giving samples to export customers Create value added products

<p>Changed from semi-auto machine to fully auto machine</p>	<p>About 16 agreed that fully auto machine is more suitable for export business that normally involved larger volume</p>	<p>Use the feedback from professionals for product improvement</p> <p>Buy new machine to increase production capacity</p> <p>Reduce production cost</p> <p>Use automatic machines to improve production</p> <p>Outsource production to other manufacturers that have different production capacity</p>
<p>Adapt new idea from distributors/customers for product improvement (e.g. change size of packaging, specialty product)</p>	<p>21 agreed</p>	<p>Change the packaging to meet export customers' requirements.</p> <p>Develop new products to meet export customers demand</p> <p>Change the product specifications to meet export customers' requirements</p> <p>Translate the packaging label based on export customer's requirements</p>

Most participants tended to use R&D for product improvement, quality control, and new product development. All 21 participants mentioned that they used R&D for product improvement and quality control. Product improvement includes designing the packaging to meet export standards, create a unique product, and improve the nutrition of their products. In order to compete with other competitors particularly from Asian countries, the product value added is significant. Participant from Firm-12 commented:

“R&D can help us explore what kind of value added that we can add on our products. This is important. I have mentioned to you just now that 70 percent of our raw materials were imported. So it is quite difficult for us to compete with other Asian countries especially from Thailand, Vietnam, and Indonesia”

R&D is also important for quality control in order to avoid defects in products. As an example, participant from Firm-01 mentioned:

“That’s why in food business you cannot play it as a monkey business. Even 0.005 defects, it will consider defect. There is no formula that saying, ‘it’s just 0.005 defects so it’s fine’. Once defect it will consider total defect.”

In addition, 19 out of 21 participants explained that they also used R&D for new product development. The other two participants mentioned that they are not really focused on new product development. Some of the participants have their own R&D department with a laboratory and employees responsible for running the tests. However, some participants explained that they did not have their own laboratory due to financial constraints. Therefore they did some collaboration with government agencies and used government expertise and laboratories to run their tests. As mentioned by the participant from Firm-06:

*“We started our research with cooperation from *MARDI Kota Bahru. Based on that research we managed to improve our quality of soy sauce and we also started to produce another sauces such as chili, tomato, oyster, and black pepper.”*
 (*MARDI is Malaysian Agricultural Research and Development Institute)

The other capability under this category is the change from semi-automatic machine to fully-automatic machine. Semi-automatic machines for production need more manpower compared with fully-automatic machines. About 16 respondents commented that they had changed from semi-automatic machine to fully-automatic because fully-automatic is more suitable for export business involving large volume production. As indicated by the participant from Firm-18:

“We already bought new machine, fully-auto machine. Up to now, we are still not using the full capacity of our production. So, I don’t think our production have any problem to meet export demand. We need to be able to deliver the order on time as what we have promised to them.”

The other significant reason for transforming from semi-automatic machine to fully-automatic machine is to control the production quality. An example provided by the participant from Firm-10:

“Our previous production was relied more on human resources but many problems occurred in managing human resources. So, our company decided to buy new machine which will result less relying on human resources. The new machine also helps to reduce defect and help us control the product quality efficiently”

Seven participants offered several reasons why they still used semi-automatic machines: financial constraints, their factory structure is not suitable for fully-automatic machines due to the size and weight of the machines, and their percentage of export sales were still low that semi-automatic machines were still adequate.

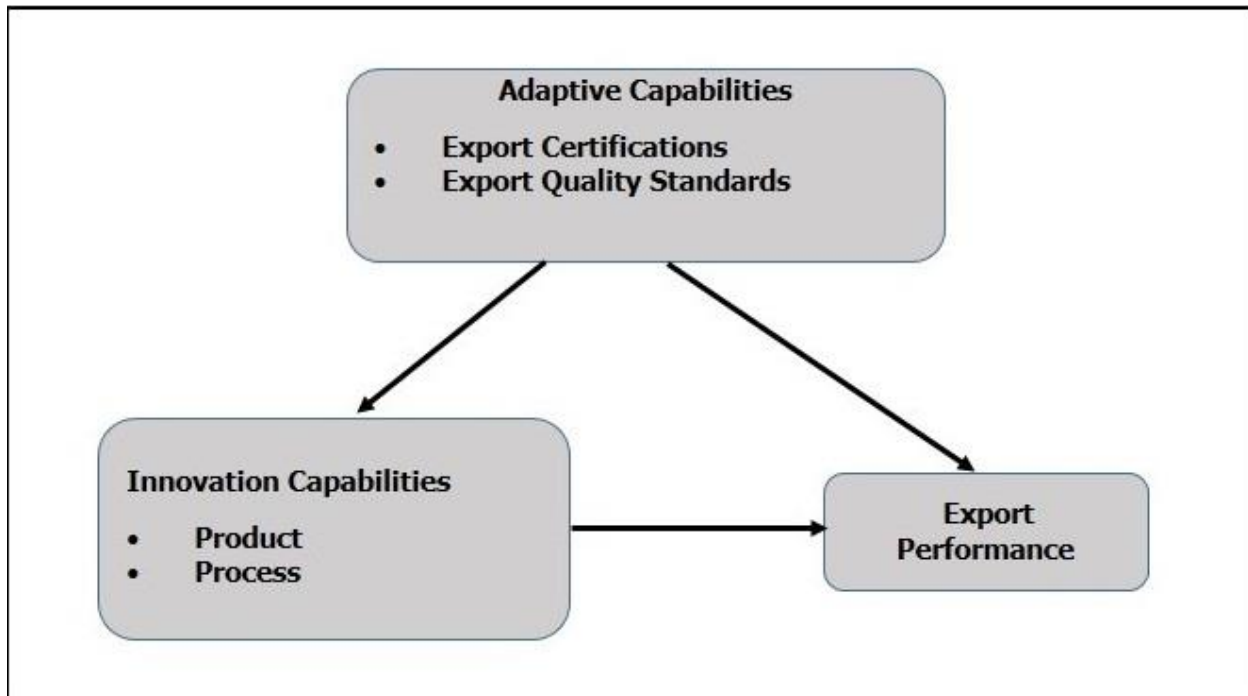
The other capability that they mentioned as important is to adapt new ideas from foreign distributors or end customers for product improvement. Most of the respondents adapted ideas from foreign distributors and end customers to create different size of packaging, and products that have a specific purpose. They tended to produce smaller packaging because according to them, their customers reduced the consumption of their product during recession. They also created products for specific purposes or specific target markets, for example, oil that can make biscuits crunchier, and instant oats for baby food.

Most participants commented that they needed to redesign their packaging in order to meet the export standards. Some of them needed to invest in buying new packaging machines in order to produce products that have export standards of packaging. Most of them changed their packaging based on export customers’ requirements. For example, the participant from Firm-18 commented:

“Our packaging depends on the customers’ requirement. Some of our customers ask us to change the packaging and we did because it is worth it to change. It is worth it because their order is big and on regular basis. We use different packaging for local and export markets.”

Therefore it can be concluded that, the adaptive capabilities at certain point were not only enhancing export performance of SMEs but also become an antecedent factor that can strengthen the innovation capabilities of SMEs. Based on this preliminary analysis, this study illustrates the findings showed in Figure 1 below.

Figure 1. Conceptual Model Developed Based on Preliminary Findings



5. Discussion and Conclusion

This study has explored the significant of organizational capabilities by utilizing RBV and DCV as an underlying theoretical basis towards export performance of Malaysian SMEs. It has identified the existence of adaptive capabilities and innovation capabilities emerged in the routines underpinning SMEs' export enhancement. Despite the weakness of SMEs which considered to be generally lack in resources tangible or intangible (Fernández-Mesa & Alegre, 2015), it can be concluded that small firm in developing countries can successfully compete in international markets by focusing on their adaptive capabilities. The rapidly changing export environments require SMEs to keep aware of the standards that their foreign customers expect and ready to adapt accordingly. This findings present new insight for SMEs literature providing the evidence that SMEs from developing countries require different capabilities to enhance their export performance.

Previous studies focused on developed countries emphasized that adaptive capabilities are not significant because their products already meet the export standards (Maldifassi & Caorsi, 2014). The local market standards are at par with the export standard, therefore the adaptation of any changes were not needed. This situation can clearly illustrates the different between SMEs in developed countries and SMEs in developing countries.

Additionally, this study also found that adaptive capabilities become antecedent factor that can enhance innovation capabilities which also significant toward export performance. The innovation capabilities that include developing new products, upgrading production ability, improving packaging of products become necessarily important in order to adapt the changes and the standards required by export customers.

Hence this work confirms that adaptive capabilities and innovation capabilities can enhance export performance of SMEs. Whereas adaptive capabilities play a dual role by also significant in enhancing innovation capabilities of SMEs. In conclusion, it supports the theories conveys by RBV and DCV that organizational capabilities are important determinant of SMEs' export success

9. References

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