

**THE INFLUENCE OF STRATEGIC
ORIENTATION AND COMPETITIVE
ADVANTAGE ON EXPORT PERFORMANCE:
A STUDY AMONG THE MANUFACTURING
SMEs IN MALAYSIA**

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UNIVERSITI SAINS MALAYSIA

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by

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LIST OF ABBREVIATIONS

AVE	Average Variance Extracted
CFA	Confirmatory Factor Analysis
CMV	Common Method Variance
CR	Composite Reliability
DC	Dynamic Capabilities
DCP	Dynamic Capabilities Perspective
DFTZ	Digital Free Trade Zone
E&E	Electrical And Electronic
EMO	Export-Market Orientation
EO	Entrepreneurial Orientation
F&B	Food and Beverages
FMM	Federation Manufacturing Malaysia
HIP	High Impact Program
HTMT	Heterotrait-Monotrait ratio
ICT	Information and Communication Technology
IoT	Internet of Things
IT	Information Technology
MANCEF	Micro and Nanotechnology Commercialization Education Foundation
MATRADE	Malaysia External Trade Development
MIDA	Malaysia Investment Development Authority
MIFF	Malaysia International Furniture
MITI	Malaysia Investment, Trade and Industry
MNCs	Multinational Companies
MO	Market Orientation
MOF	Ministry of Finance

MOSTI	Ministry of Science and Technology
MPC	Malaysia Productivity Corporation
NPD	New Product Development
NSDC	National SME Development Council
PLS	Smart partial least squares
R&D	Research and Development
RBV	Resource-Based View
SMEs	small and medium enterprises
SMEX	Smart Manufacturing Exhibition
SOP	Standard of Procedure
SPSS	Statistical Package for Social Science

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**PENGARUH ORIENTASI STRATEGIK DAN KELEBIHAN KOMPETITIF
KE ATAS PRESTASI EKSPORT: SATU KAJIAN DALAM KALANGAN
INDUSTRI KECIL SEDERHANA (IKS) PEMBUATAN
DI MALAYSIA**

ABSTRAK

Aktiviti pengantarabangsaan merupakan penentu utama dalam lonjakan pertumbuhan ekonomi sesebuah negara membangun dan ianya dapat menarik peluang pelaburan dan pekerjaan. Di samping itu, kejayaan aktiviti pengantarabangsaan dapat meningkatkan nisbah eskport sesebuah negara. Secara globalnya, kebanyakan firma pembuatan telah melangkah ke arah pengantarabangsaan dengan menjalankan aktiviti pengeksportan dalam pengoperasian perniagaan. Oleh itu, industri kecil dan sederhana (IKS) di Malaysia menjadi signifikan pada hari ini apabila eksport menjadi sumber pendapatan utama negara. Ia sangat penting kepada IKS terutama di negara yang sedang membangun seperti Malaysia untuk melihat dan membentuk strategi keupayaan firma dalam menghadapi persekitaran dan persaingan di peringkat global; dan mendapatkan peluang perniagaan demi meningkatkan nisbah eksport untuk jangka masa panjang. Di samping itu, lebih dari 80 peratus IKS dalam industri pembuatan telah mengembangkan perniagaan mereka ke peringkat antarabangsa dan mempunyai hubungan dengan pembekal dan pelanggan antarabangsa. Walau bagaimanapun, pemilik IKS ini berhadapan dengan pelbagai cabaran dalam mengekalkan aktiviti eksport mereka di pasaran antarabangsa untuk jangka masa panjang. Ini disebabkan oleh polisi yang sentiasa berubah dan persaingan yang sengit di pasaran antarabangsa. Selain daripada itu, ia juga bergantung kepada ciri-ciri sesebuah industri,

terutamanya industri pembuatan. Pada masa ini, para pengkaji dan pengamal industri berminat untuk mengkaji tentang aktiviti pengeksportan IKS dan mengenalpasti faktor yang mempengaruhi prestasi eksport di pasaran antarabangsa. Menurut sorotan kajian terdahulu, para pengkaji telah mengenalpasti beberapa penentu dan halangan dalam mengembangkan daya pengeluaran IKS dalam industri pembuatan serta kelestarian di pasaran antarabangsa. Oleh yang demikian, kajian ini dijalankan untuk mengenalpasti faktor yang mempengaruhi prestasi eksport IKS yang menjalankan perniagaan pembuatan. Faktor yang telah dikenalpasti berdasarkan kajian terdahulu terdiri daripada orientasi strategik dan kelebihan kompetitif pasaran. Dalam memenuhi objektif kajian ini, data diperolehi daripada pengurusan atasan IKS dalam industri pembuatan yang beroperasi di Semenanjung Malaysia. IKS ini dimiliki oleh milikan tunggal, perkongsian dan sendirian berhad yang mempunyai pengalaman dalam pasaran antarabangsa seperti yang disahkan oleh agensi Persekutuan Pengilang-pengilang Malaysia dan Perbadanan Pembangunan Perdagangan Luar Malaysia. Data diperolehi melalui soalan kaji selidik di atas talian dan secara bersemuka dengan menggunakan teknik persampelan bertujuan. Pakej statistik untuk Sains Sosial (SPSS) telah digunakan untuk statistik diskriptif dan Smart PLS 3.2.7 digunakan untuk menilai ukuran dan model persamaan pengstrukturkan rangka kajian. Hasil kajian mendapati orientasi strategik dan kelebihan kompetitif dalam pasaran menjadi pengaruh kepada kejayaan IKS yang terlibat dalam industri pembuatan. Penentu ini juga turut menyumbang kepada pembangunan eksport di peringkat antarabangsa. Hasil kajian ini juga dapat membantu pemilik IKS pembuatan tentang strategi pembangunan pasaran eksport dan kepentingan sumber organisasi antarabangsa untuk lebih inovatif, mengambil

risiko dan proaktif dalam pencapaian objektif pada masa hadapan dalam melahirkan IKS yang lebih berdaya saing di peringkat antarabangsa.

**THE INFLUENCE OF STRATEGIC ORIENTATION AND COMPETITIVE
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ABSTRACT

Internationalization is a key determinant of the economic growth boom of a developing country and it can attract investment and employment opportunities. In addition, the success of internationalization activity can increase the export ratio of a country. Globally, most manufacturing firms have moved towards internationalization by carrying out export activities in business operations. It is crucial for the SMEs, especially in developing countries like Malaysia, to see and shape a company's capability strategy in dealing with the environment and competition at the global level; and to gain business opportunities in order to improve the export ratio for the long term. Additionally, more than 80 percent of small and medium-sized enterprises (SMEs) in the manufacturing industry have expanded their business internationally and have relationships with international suppliers and customers. However, the owners of this SMEs are facing various challenges in sustaining their export activities in the international market for the long term. This is due to the constantly changing policies and fierce competition in the international market. Besides that, it also depends on the characteristics of an industry, especially the manufacturing industry. Currently, researchers and industry practitioners are interested in studying about the export activities of the SMEs and identifying factors that influence export performance in the international markets. According to the highlights of previous studies, the researchers have identified definers and obstacles in developing the output capacity of the SMEs in the

manufacturing industry as well as sustainability in the world market. Thus, this study is being carried out to identify factors that affect the export performance of the SMEs that runs the manufacturing business. Factors that have been identified based on previous studies consist of strategic orientation and competitive advantage in the market. In fulfilling the objectives of this study, data is obtained from the top management of SMEs in the manufacturing industry operating in the Malaysian Peninsular. The SMEs are owned by a sole-proprietor, partnership and private limited who has experience in international markets as certified by the Federation of Malaysian Manufacturers Agency and the Malaysian Foreign Trade Development Association. Data is obtained through online survey questions and face-to-face using targeted sampling techniques. The Statistical Package for Social Sciences (SPSS) has been used for descriptive statistics and the Smart PLS 3.2.7 is used to assess the size and model of structural equations of the study framework. The results of the study found that strategic orientation and competitive advantage in the market influenced the success of the SMEs involved in the manufacturing industry. This determinant also contributes to the development of exports at the international level. The results of this study can also help the owners of the SMEs to elaborate on export market development strategies and the importance of resources of international organizations to be more innovative, risk-taking and proactive in achieving objectives in the future in giving birth to a more competitive SMEs internationally.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter will provide the reader with the relevant information regarding the background of the Malaysia SME's export performance. Likewise, the reader will be informed with the nature of the research. This chapter discusses the sequence in which gaps in the literature in the subject exist, as well as the challenges that need to be resolved and researched. The detailed description of how to do research will be presented in this chapter. The overall goal of this chapter is to provide support for a problem-solving or research concept.

1.2 Background of the Study

In 2023, the global economy is expected to grow at a slower rate, with weighted global growth and Malaysia export-weighted global growth both projected to increase by 2.4 percent to 2.9 percent. Small and medium-sized firms (SMEs) have been acknowledged as having a significant economic impact in Malaysia due to their contribution to industry growth (Mamun, 2018; Saleh & Ndubisi, 2006). SMEs are acknowledged not just in poor nations, but also in wealthy ones (Pimenova & Vorst, 2004; Steenkamp & Kashyap, 2010). Furthermore, SMEs are seen as key drivers of economic recovery (Hashi & Krasniqi, 2011). Malaysia, one of the world's 107 emerging countries (United Nations, 2019), has prioritized SMEs in its economic transition since the 1990s (World Bank, 2022). The country has observed a slopped down from 97.9 percent of total business establishments in 2016, to 97.4 percent in 2021, which was partially contributed by the SMEs (SME Corp. Malaysia, 2021).

Furthermore, the significant contribution of SMEs to Malaysia's development of economic can be observed in the overall number of SMEs established, which stands at over 1,226,494 (97.4%), with a total proportion of GDP of more than 37 percent (DOSM, 2021). Figure 1.1 illustrates the total number of SMEs established in Malaysia from a year of 2016 to 2021. This is indicates an average growth rate of 5.2 percent per annum during the six-year period.

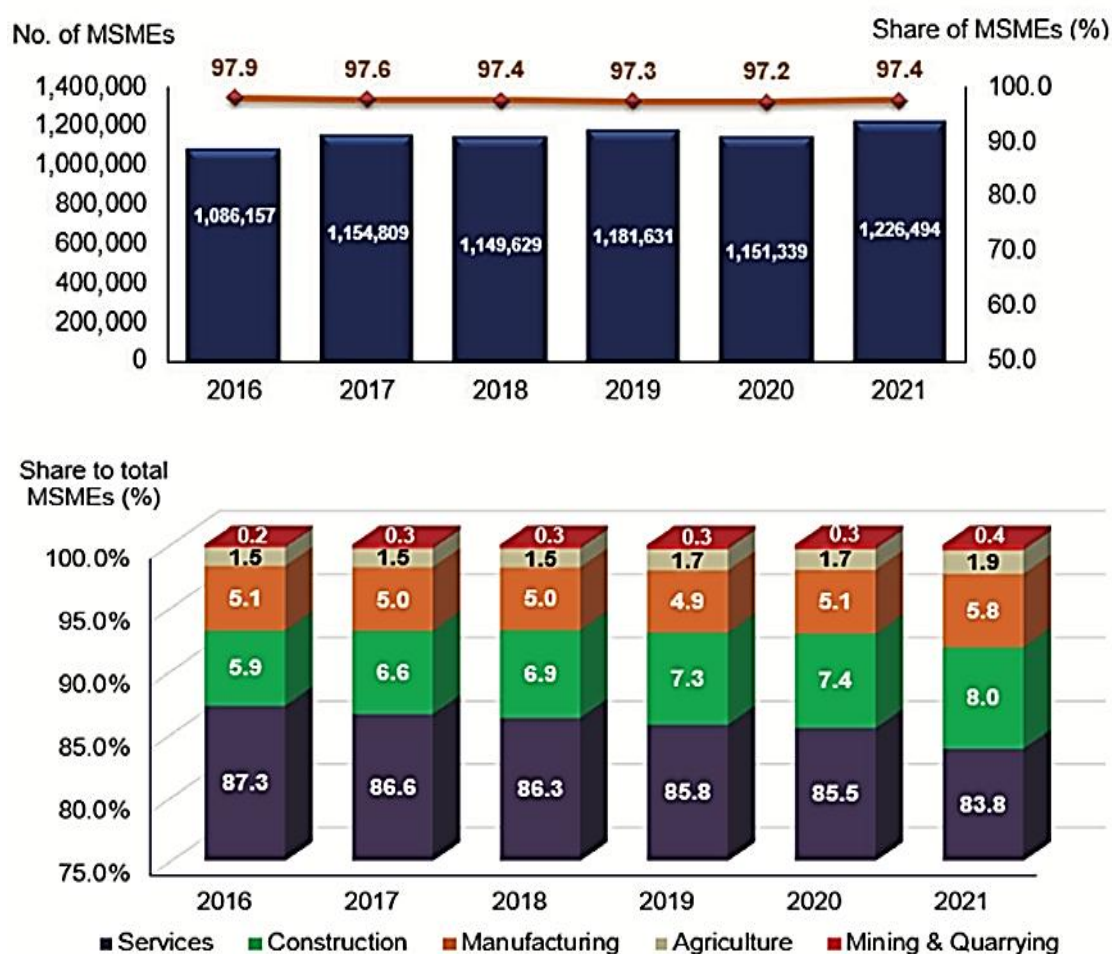


Figure 1.1 Total Components of Malaysia's Manufacturing SMEs in Malaysia.

Source: Department of Statistics, Malaysia (2022).

A significant increase in SMEs' export activities have mark's their international market participation. SMEs have played a critical role in the development of the private sector and integration into the global economy as a cost-effective strategy to alleviate poverty in emerging countries (Raynard & Forstater, 2002). SME internationalization entailed all types of cross-border transfers of goods and services (Ramonette B. Serafica, 2010). Thus, small firms operating and engaging in international market today have no choice but to create their sustainable competitive advantage (McGrath, 2013) to make them compete effectively. Prior study shown an ample evidence that SMEs has not only flourished domestically, but their presence internationally are also roses as well (Muhammad et al., 2010).

As stated by Papaoikonomou et al. (2012), as the major firm sector declines, the SME sector and entrepreneurial activity in Malaysia thrive and fuel economic recovery and growth. The contributions made by SMEs are critical to the reallocation of labour between firms, sectors, and industries. As a result, the significant development of SME in Malaysia is critical to attaining the goal of being a self-sufficient industrialized nation by 2025. This progress must be complemented by a knowledge-based economy, which is an asphalt for a country to become internationally competitive. The knowledge-based economy indicates that SMEs must take advantage of possibilities in the knowledge-driven economy (Economic Planning Unit, 2020). To remain competitive, the ICT industry should act as a force to help SMEs to acquire knowledge, skills, and competences (Economic Planning Unit, 2020). This leads to mutual benefits for SMEs and larger enterprises.

As a consequence, both SMEs and larger companies might reap reciprocal benefits. Another significant contribution of SMEs to the country's economy is the creation of new job possibilities (Hart & Barratt, 2009; Lawless et al., 2014;

Mayombe 2017). Malaysian SMEs accounted for 62 percent of total employment in 2021, earning the sector a specific attention in the 12th Malaysia Plan. As a result, SMEs remain a priority for the government, especially after 150 development initiatives with a budget of RM5 billion were executed (SME Annual Report, 2022). Given the role of SMEs as employment generators and that they aid in the recovery process during the economic crisis, domestic institutions, academics, and the government should focus their attention to the SMEs' development and future growth.

According to Kenton (2019), economies of scale is a vital theory for every business in all the industry and it is cost saving and strategic advantages for larger companies over smaller ones. Hence, in terms of the economy and entrepreneurship, the increase in environmental complexity has had an influence on how businesses operate, as they have experienced uncertainty and fragility as a result of internal and external challenges. This is equally true for small and medium-sized firms and organizations. These businesses are always operating in a dynamic environment, with changes that must be carefully managed, from the procedures involved in firm formation to the transformation of input into output, management and organization, product promotion, and even tax collection. Many SMEs have gone bankrupt due to causes such as severe competition and a lack of initiative, leading them to close (Sarabatin, 2020; Sinar Online, 2021; Utusan Online, 2021; Voon, 2019).

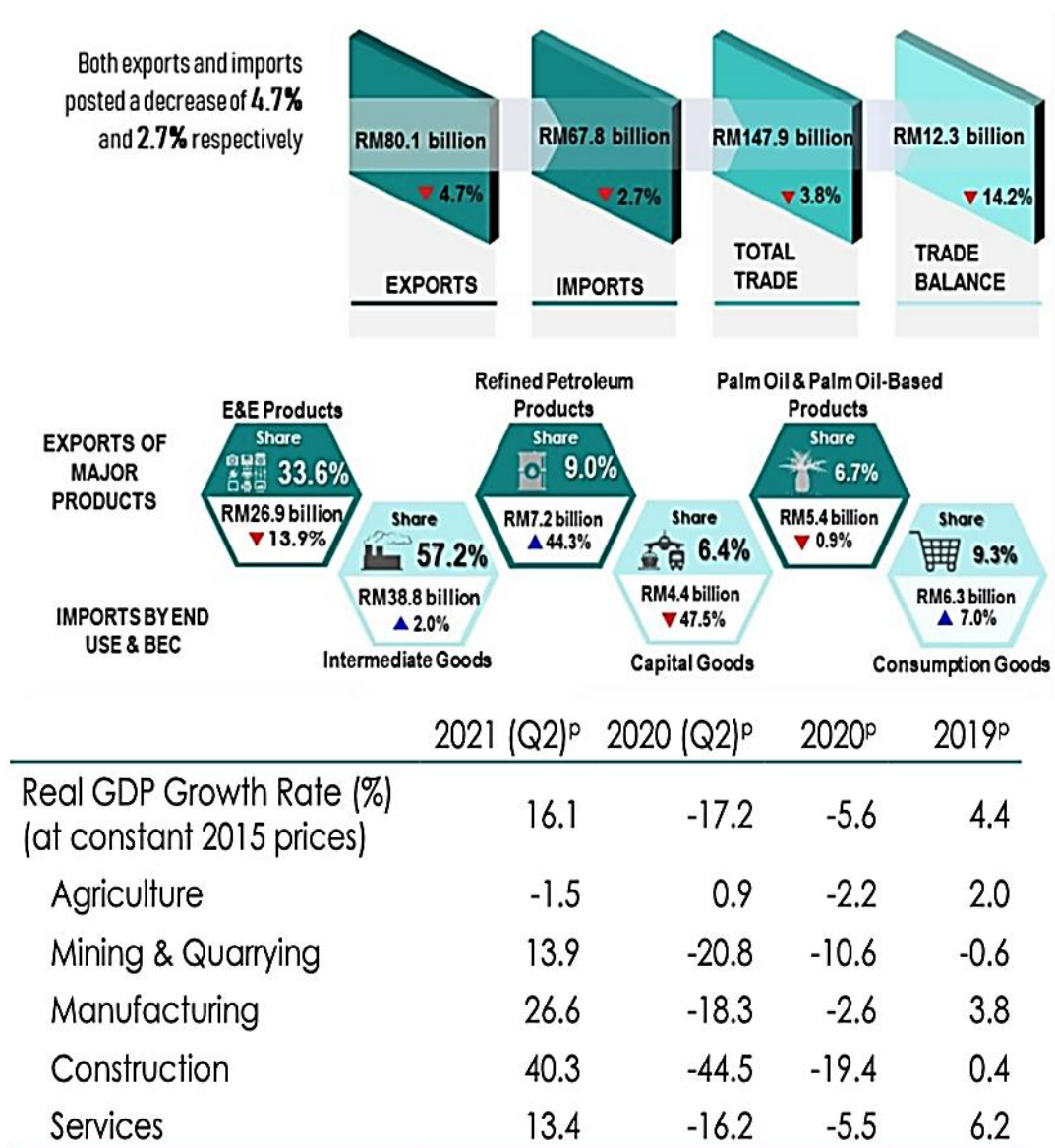
Aside from that, manufacturing SMEs are known to have difficulties growing their companies because of their lack of business resources, expertise, knowledge, and product quality (Ndubisi & Agarwal, 2014; Quazi & Padibjo, 1998; Yusof & Aspinwall, 2000). Not only has resource scarcity impeded the growth of SMEs, but it has also led to poor responses to environmental uncertainty. SMEs in the manufacturing sector also have difficulties in maintaining their competitiveness due

to the dynamic and ever-changing nature of the commercial environment. Rordam and Muzyka (1999) supported that the daily or seasonal changes of environmental such as governmental policy, international expansion and reduction in trade barriers are outside of firm's control, especially business owner like SMEs.

In addition, in the globalization era and world economy is changing rapidly for companies as well as for the goods and services where opportunities are abundance, has creates chances for the firms seeking to expand their operations worldwide. In the 19th and 20th centuries, scale was often critical to success in international trade. Therefore, SMEs are required to aggressively explore beyond their backyard and exploits to the new international market to seek for competitive advantage and venture the opportunities. Zamberi Ahmad (2014) and Senik et al. (2014) stated that SMEs could be more involved in international business activities by venturing into global market conditions to pursuits growth opportunities and able to give the substantial contribution to economic benefit.

Taking Malaysia as an example, it has the largest marginal growth, with increased inter-company linkages, cross-border ventures, and outsourcing activities inside the region driving trading activity. Thus, exporting has undeniably become a more crucial activity in order to maintain and secure growth, profitability, and survival in today's dynamic company environment. As a results, Malaysian SMEs contribution is still regarded poor, particularly when compared to neighbouring nations such as Singapore, Indonesia, Vietnam, Philippines, and Thailand (Tambunan, 2015). This is due to the lower contribution in total export of 18.1 percent by SMEs, which is still a far from the government's prediction to increase to 25 percent by 2025 (MITI, 2021). Moreover, DOSM (2021) has also reported on the

decreasing contribution of SMEs to overall components of Malaysia's export in Figure 1.2 below.



Note: Value in US\$ computed by MITI

Source: DOSM

Figure 1.2 Total Components of Malaysia's Manufacturing Exports.

Source: Department of Statistics, Malaysia (2022).

The comparison is shown in Figure 1.2 where the contribution of total export has slipped by 7.4 percent with total amount of RM26.6 billion compared to year of 2019 which contributed to RM15.07 billion.

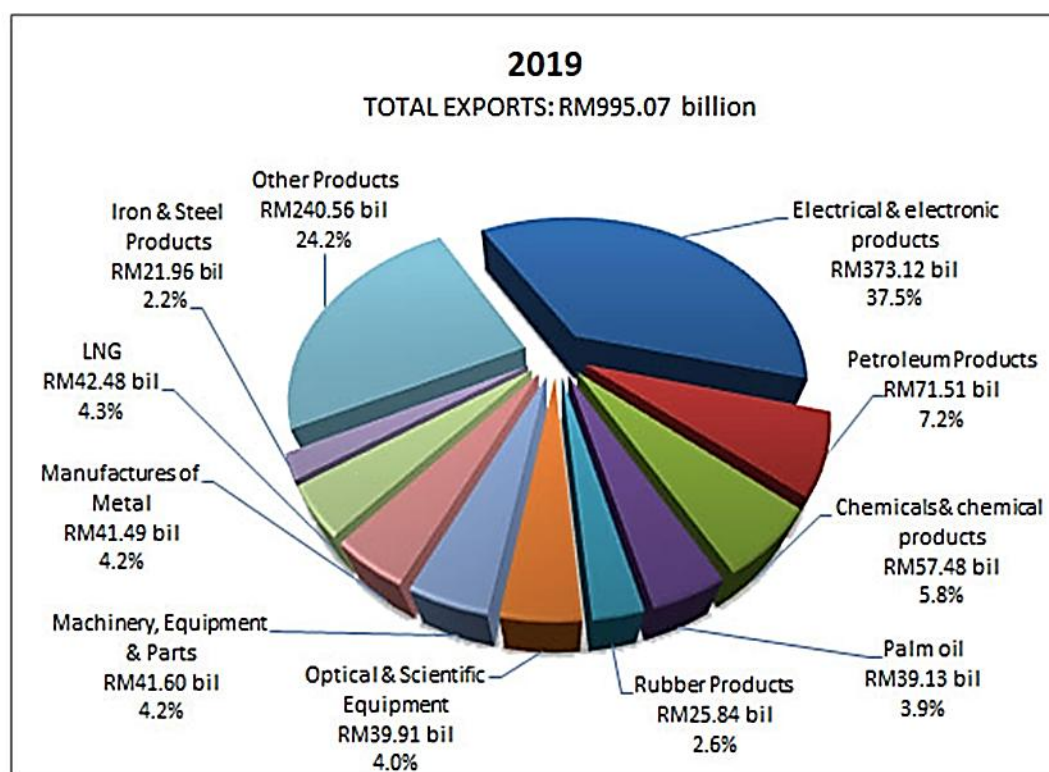


Figure 1.3 Top 10 Malaysia Major Export Products and Total exports to ASEAN countries

Source: Department of Statistics, Malaysia (2020)

Furthermore, comparison of total export performance for Malaysia major exports by products from year 2017 to 2020 is depicted in Table 1.1.

Table 1.1 Total Export Performance of Malaysia Major Export Product by Standard International Trade Classification (SITC)

		2017	2018	2019	2020
SITC CODE	PRODUCT DESCRIPTION	EXPORT (RM bil.)	EXPORT (RM bil.)	EXPORT (RM bil.)	EXPORT (RM bil.)
0	Food	27,369.9	30,218.0	31,841.8	31,579.7
1	Beverages And Tobacco	4,606.4	4,906.4	4,421.9	3,570.6
2	Crude Materials, Inedible	21,210.0	22,513.6	28,566.2	25,529.7
3	Mineral Fuels, Lubricants, Etc.	125,875.5	111,163.2	144,012.6	155,422.3
4	Animal And Vegetable Oils And Fats	47,863.5	50,637.1	56,398.0	47,037.3
5	Chemicals	60,673.9	64,668.7	75,088.4	84,868.4
6	Manufactured Goods	75,145.3	70,014.9	82,821.3	92,168.4
7	Machinery & Transport Equipment	226,094.8	338,784.6	598,808.6	439,466.0
8	Miscellaneous Manufactured Articles	84,485.3	89,029.4	104,645.6	111,581.1
9	Miscellaneous Transactions And Commodities	4,030.5	5,028.2	8,322.5	7,054.8
	GRAND TOTAL	680.1	710.6	955.7	800.1

Source: Malaysia External Trade Statistics, METS (2021).

Furthermore, SMEs has played a very important role in developed and developing countries (SME Corp. Malaysia, 2022). Malaysian SMEs are defined as a manufacturing sector with sales turnover not exceeding RM50 million or full-time employees not exceeding 200 workers, or a service or other sector with sales turnover not exceeding RM20 million or full-time employees not exceeding 75 workers, according to a new revision of the SMEs definition that began on January 1, 2014 (National SME Development Council, 2013 - which now known as SMEs Corporation Berhad). The definition of a Malaysian SME is depicted in Figure 1.3.

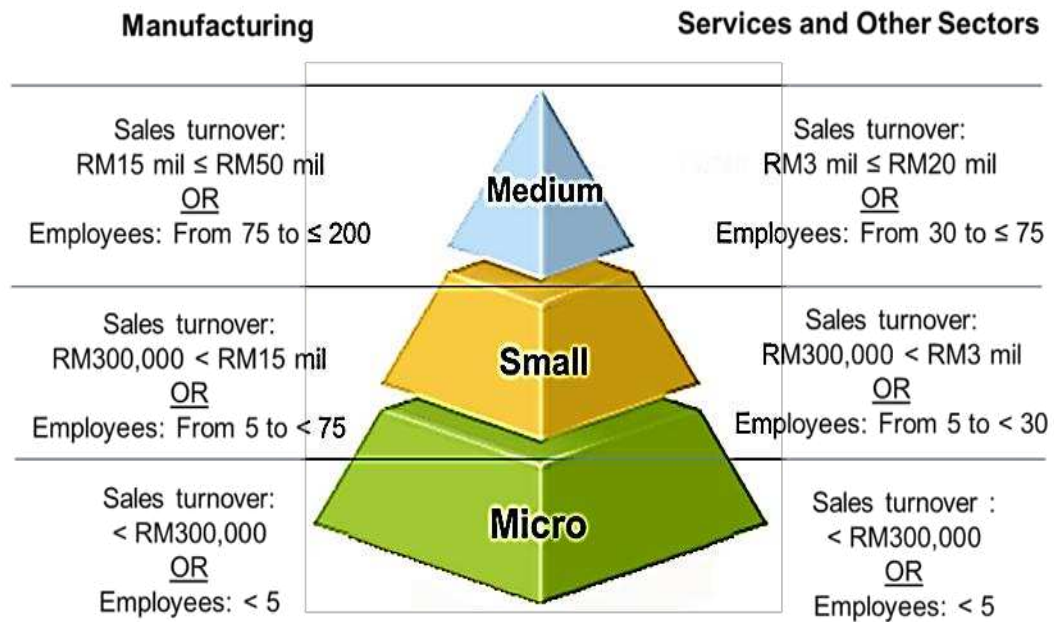


Figure 1.4 Definition of Malaysian SME

Source: SME Corporation (SME Corp.) Malaysia (2023).

Therefore, Samad et al. (2016), stated that SMEs are critical to the Malaysian economy's growth and development, including the implementation of proper methods to maintain firm competitiveness in a hostile environment. Thus, the majority of SMEs have requested government assistance or support in order to improve their competitiveness in the global market (SME Corp. Malaysia, 2017).

In addition, on the basis of the huge decline in international performance, MITI (2023) reported that exports of manufactured goods which constituted 86.2% or RM90.89 billion of total export has decreased by 15.5 percent year-on-year, attributed to lower exports of manufacturing firms consists of electrical and electronic (E&E) products, manufactures of metal and chemicals and chemical products. The inconsistency in overall export contribution has raised worries among SMEs about how it may affect their export activity. Even though the potential grow globally remains strong, major challenges faced by SMEs has slow down their

international process especially related to the lack of resources (Hashim, 2012a). Prior studies have shown that Malaysian SMEs face numerous challenges, including a lack of skilled workers, a competitive environment, poor infrastructure, a low use of government aids, a lack of market and product knowledge, limited financial capability, a lack of innovation and flexibility, limited ICT involvement, high operational costs, and failure to meet customer demands (Hashim, 2012b). Due to lack of skilled and talented workers, SMEs have been unable to increase the quality of their products for local and international markets which leads to reducing their productivity and efficiency.

In order to compete in global environment, SMEs must build distinctive, firm-specific assets such as intangible resources (Kaleka, 2012; Leonidou et al., 2011; Monteiro et al., 2017; Rua et al., 2018) and dynamic capabilities (Da-yuan & Juan, 2014). It is critical for SMEs to gain, retain, and enhance their competitive advantage using whatever resources they have available, and to ensure that they do so. Small businesses, on the other hand, must conduct external analysis to discover opportunities and risks, as well as internal analysis to uncover unique skills. Competitive advantages in foreign markets can be gained as a result of this, having a favourable impact on current and future export performance (Morgan et al., 2006). In the other words, some SMEs have tangible assets, while others have strong intangible assets, both of which can have a significant impact on establishing a long-term competitive advantage. Thus, the continuity of business can be sustain through the development of effective strategies (Thornhill & Amit, 2003).

In achieving the competitiveness in global arena, SMEs need to explore and exploit their capabilities in order to overcome the challenges as well as participate actively to responds onto the fast changing market demands in international market.

It is also important for SMEs to acquire and sustain their capabilities in expanding their business internationally as well as to enhance their export performance. Undoubtedly, SMEs must organize their resources and competencies such as distribution capabilities, informational capabilities, customer relationship capabilities, and product development capabilities; and firm resources such as experiential, managerial, and intellectual to become more competitive (Efrat et al., 2018; Kaleka, 2012; Leonidou et al., 2011; Tan & Sousa, 2015). In addition, firms also required others' superior capabilities and resources in order to compete and responded to the changes due to internationalization and market competitions.

Nevertheless, in order to sustain capabilities, SMEs need to have dynamic capabilities to enhance their export performance, as they are small firms with limited resources and strengths. Thus, exploration and exploitation of dynamic capabilities as a conduit for improving SMEs' export performance is seen to be crucial because it is very important for the firms to acquire relevant capabilities to be successful in the global arena. Besides, such strategic resources and capabilities will enhance the export performance and leads the firms to achieve their objectives to survive in both local and international market. However, not much are known on how the SMEs capitalize their strengths in order to enhance their capabilities toward export performance, especially for those who are grown up from emerging economy like Malaysia. Within the limited literature from the past studies, the focus is mostly on a competitiveness in the perspective of competitive advantage of the firms (Tan & Sousa, 2015).

According to Lynch and Baines (2004), differentiation, low prices, quality, vertical integration, service, synergy, and culture, leadership, and style are all examples of specialist marketing are some sources of advantage in firms. Therefore,

it is crucial for SMEs managers to understand how to pay constant attention to external issues such as technological, economic, political, and social factors; to keep external and internal factors in sync especially in the operation of an interactive process (Goldsmith, 1995), which may leads the firm to achieve their competitive advantage and superior performance. For example, Lin and Lin (2016), supported by O'Donnell et al. (2002), and Van Laere and Heene (2003), stated that SMEs must focus on relational networks in order to obtain a competitive advantage and thrive in a competitive climate.

Besides that, prior studies by Ambrosini and Bowman (2009), Helfat and Peteraf (2009) and Teece (2007), specified that dynamic capabilities are the keys to competitive advantage whereby the development of dynamic capabilities has promoting those capabilities as a tool to competitive advantage which can lead to enhance export performance of the SMEs. All firms, especially SMEs need certain strategic and dynamic qualities to survive in a competitive business climate. In order to be competitive in this environment, SMEs must develop unique, firm-specific assets (Zucchella & Siano, 2014), as well as dynamic qualities in terms of innovation, marketing, and technology that help manufacturing SMEs' global growth (Raymond et al., 2014). As mentioned in the study conducted in Malaysia by Lee et al. (2016), knowledge management will leads SMEs to possesses firm's competitive advantage, and Harris et al. (2013) has supported the study by indicate that knowledge management will leads the firm into innovativeness and as a results, firms are capable to achieve a competitive advantage and higher performance.

Equally important, E-business capabilities are a new communications and computing technology that allows the global trading system to be more open and transparent, giving customers more choices and alternatives (Raymond & Bergeron,

2008). As a result, SMEs must become more customer-centric and regularly reevaluate their value offerings, despite the fact that technology currently provides low-cost data and a wide selection of solutions (Teece, 2010). Borch and Madsen (2007) and Sawers et al. (2008), indicates that SMEs must have dynamic capacities in order to place their products/services in the market includes internal and external capabilities related to (in)formal safeguarding, external reconfiguration and integration, resource acquisition capability, learning network capabilities, and strategies that aligned to those capabilities.

Moreover, recent studies on the role of SMEs' dynamic capabilities by Ko and Liu (2017), found that the effects of environmental strategy can lead the firms to the development of marketing capabilities, as well as research development (R&D) capabilities, which ultimately contributes to superior performance. Even, in the study conducted by Carraresi et al. (2016) in Italy has revealed that the marketing, network, and innovation capabilities are positively affecting SMEs performance, particularly small food businesses. Hence, rapid changes in demand and frequent shifts in technology may become hazard to SMEs which necessitating the alignment of strategic and dynamic capabilities as a strategy to overcome the challenges in either international or local markets (Da-yuan & Juan, 2014). A study on operational capability in emerging markets involving SMEs export growth in Croatia by Miocevic and Morgan (2018) stated that market-sensing capabilities were found to be crucial in boosting exporting SME opportunity recognition capacity and the rate of foreign opportunity exploitation, which leads to higher firm growth.

Similarly, Chin and Lim (2018) found that SMEs' expenditure on human capital development decreased from 2011 to 2015, which was in contrast to operational strategy that aimed to increased SMEs' capacity and capability. Thus,

these competencies may aid businesses in learning about overseas markets and adapting their strategy and products to better meet market demand. As a result, it will lead to positional advantages for the company, which will mediate the relationship between strategic and dynamic skills and outstanding export performance. Based on this perspective and scrutiny in previous research, this study aims to address those challenges and fill in the gaps by presenting and putting to the test a mechanism for deploying strategic and dynamic skills in appropriate organizations, as well as adapting to the factors related to positional advantage, which in turn can further boost export performance even more.

Based on the above mentioned premise, the present study aspires to examines the influence of strategic orientation and competitive advantage of manufacturing SMEs through intangible resources such as strategic capabilities (innovation, export market learning, informational through the Internet, and social and business relationships) and dynamic capabilities (strategic sense-making, timely decision-making, and change implementation capabilities). The development of these capabilities and resources will be seen as a sources of competitive advantage as a whole that eventually affect the performance of SMEs export activities. Additionally, this research aims to determine how those factors will give an impact to export performance by having a positional advantage as a mediating factors in this research.

1.3 Problem Statement

Malaysia's SMEs contribute significantly to the country's economic development growth GDP (Department of Statistics Malaysia, 2020). The significant contribution of SMEs to Malaysia's development of economic can be observed in the overall number of SMEs established, which stands at over 905,897 (95.5%), with a

total proportion of GDP of more than 37 percent (SME Corp. Malaysia, 2021). The GDP is predicted to reach 50 percent by 2030 (Department of Statistics Malaysia, 2016; New Straits Times, 2019). Nonetheless, various difficulties concerning local SMEs have arisen.

First, while SMEs contribute significantly to the local economy, their participation to export operations remains minimal (Ministry of Entrepreneur Development, 2019). According to a Bank Negara survey, over 90 percent of SMEs focus on the domestic market, with just 7 percent exporting their products and services (The Star Online, 2019). Aside from that, in 2023, SMEs accounted for only 15.5 percent of overall Malaysian exports, down 2.6 percent from the previous year of 2021 and 2022. This indicates a reduction in SMEs' export performance in terms of export contribution. Furthermore, from 2011 to 2019, the rate of export activity by SMEs was variable (SME Corp Malaysia 2020). This fluctuation reflects some inconsistencies in the SMEs performance in global market (SME Corp Malaysia (2020). For more details, see Figure 1.5 horizontally explains the number of years and vertically shows the export percentage to total export. It clearly shows that the manufacturing sector contributes to the nation's total export and had inconsistencies performance from the year of 2011 until 2019. Hence, the percentage of SMEs' export is still low despite the huge number of SME establishments as compared to many other Asian countries such as Taiwan, Thailand, Philippines and Japan (Asian development Bank Institute, 2018; Ministry of Entrepreneur Development, 2019; SME Corp. 2020). As a results, the falling growth and survival of manufacturing sector's can be attributed to the competitive market.

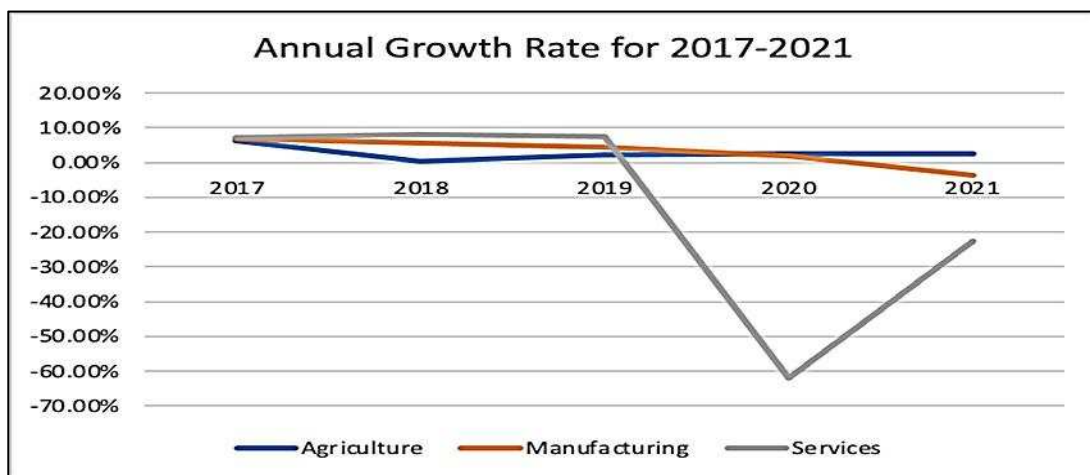
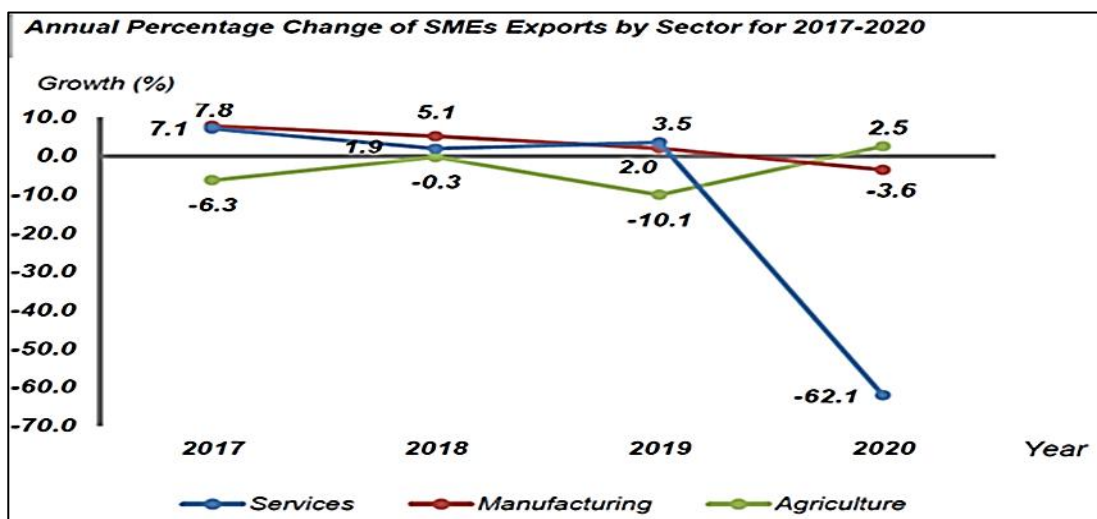
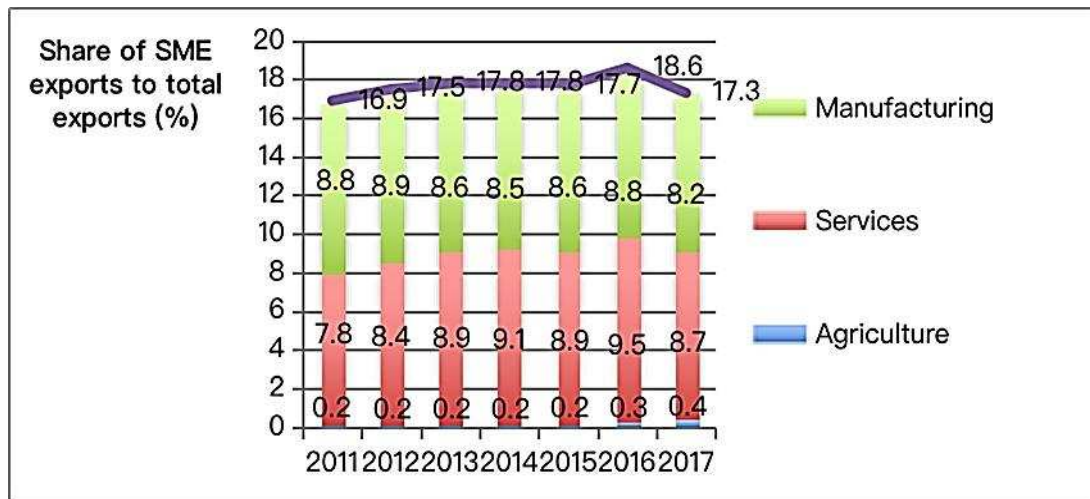


Figure 1.5 Share (percentage) of SME exports to total exports by Sector for year of 2011-2021.

Source: SME Annual Report 2018/2019/2020, SME Corporation, Malaysia by Department of Statistics, Malaysia (DOSM, 2018 - 2022).

Second, Malaysian SMEs face high costs of conducting business, including labor, rentals, and compliance with laws (The Star Online, 2019). The minimum salary has been increased to RM1,200 and EM1,500 per month in 2021 (Ashley, 2020). Malaysia now has one of the highest salary rates in Asia, higher than Indonesia (RM382), Vietnam (RM600), Myanmar (RM348), Laos (RM479), Kemboja (RM629), and the Philippines (RM909) (Ministry of Human Resource Malaysia, 2021). Wage implementation can increase household income and employee productivity, but it can also have a significant impact on manufacturing costs and lead to the closure of some SMEs (Rusly et al., 2016). Increased wage expenses might negatively impact SMEs' profitability due to their labor-intensive nature (Federation of Malaysian Manufacturers, 2018; Lee, 2012). To perform successfully in export operations, SMEs must grasp business difficulties and the state of the international markets.

Third, in recent years, the corporate landscape has shifted towards more globalization and digitization (Lee, 2017). The manufacturing industry is witnessing the fourth industrial revolution, sometimes known as Industry 4.0. Due to this reason, in 2020, SMEs in the manufacturing industry recorded the lowest percentage (44 %) in profit margin as compared to SMEs in other industries, such as agriculture (48%), construction (52%) and services (51%). Thus, SMEs in the manufacturing sector contributed much less to national GDP than those in the service industry (Bank Negara Malaysia, 2019; Ministry of Entrepreneur Development, 2019; The Star Online, 2019). In order to overcome these issues, the government has made some efforts and initiatives like Beyond Nations, Digital Free Trade Zone and Go-Ex, which aimed to ensure the sustainability of SMEs' businesses and to increase the involvement of Malaysian SMEs in export activities (MATRADE, 2020; New Straits

Times, 2021). However, despite various government efforts provided, SME's involvement in export is still low (The Sun Daily, 2020). Currently, the local SMEs that attempt to go overseas are only 18.1 percent out of 907,065 SME establishment (The Sun Daily, 2020). This figure, in reality, is a signal of a low commitment in international market by Malaysian's SMEs.

Moreover, the low involvement of export activities among SMEs are also due to some ongoing issues, such as lack of understanding about the international market, lack of networking to expand, and lack of knowledge to meet certain requirement and standards set up by the international players (Musa, 2016). In addition, according to a survey conducted by Bank Negara Malaysia, the top five concerns for SMEs are connected to business obstacles rather than financial issues. The issues include rising company costs, Ringgit devaluation, decreased domestic demand, poor sales owing to taxation, and negative business attitude. Meanwhile, other sources reported that rising competition is the most major concern facing SMEs (69%). This is followed by fluctuating demand (51%), rising input costs (44%), growing labor costs (40%), and a variety of other variables (The Star Online, 2019). Similar challenges arise when manufacturing SMEs export their products abroad. In addition, SMEs sometimes lack understanding of overseas markets, resulting in poor performance and engagement in export markets (Julien & Ramangalahy, 2003; Loane & Bell, 2006; Stoian et al., 2016; Williams et al., 2016; Zhou, 2007). Thus, SMEs are required to understand about the challenges and business conditions in foreign markets in order to perform well. In this regards, foreign market knowledge and information has been identified as the fundamental resource to be studied to improve firm's capabilities and competitive advantage in regards to enhance export performance of Malaysian manufacturing SMEs.

Fourth, Malaysia Reserve (2019) identifies reluctance to change, lack of managerial skills, and inadequate planning as factors contributing to SMEs' failure to sustain business operations and performance. SMEs and start-ups may not be aware of what is happening in their business until it is too late to make necessary changes (The Edge Market, 2020; The Malaysia Reserve, 2019). Ineffective business operations can be attributed to a lack of long-term planning and management skills (The Malaysia Reserve, 2019). Since the rate of Malaysian SMEs' export performance has fluctuated over time, there is a need to improve their competitiveness, resources, resilience, and management capabilities (Central Bank of Malaysia, 2005; Department of Statistics Malaysia, 2020; SME Corp Malaysia, 2019). Developing and strengthening SMEs capacities and capabilities would involve the acquiring of new skills, technology, and processes which can help SMEs enhance their business operations (Central Bank of Malaysia, 2005). The resources and capability useful for SMEs to improve their international operations by achieving their competitive advantage in the global markets. In addition, The Star Online (December 11, 2017); and MATRADE Press (2019) reported that SMEs faced the challenges due to lack of financial strength and market savviness to explore new markets. Similarly, Sin (2010), SMEs in Malaysia continue to face challenges such as limited capabilities in meeting market liberalization and globalization challenges, limited capacity for technology adoption and knowledge management acquisition, a skills shortage for the new business environment, and low productivity and quality output, according to the study.

Fifth, according to Peng and Lin (2017), firms with international operations are exposed to a changing environment. Malaysian SMEs who involved in export activities have high inspiration to stay competitive in their business and industry as

they are expected to confront with intense global competition, uncertainty and lack of familiarity environment in the host market (Khan & Lew, 2017; Peng & Lin, 2019). However, they are driven to remain competitive in their industry. SMEs can overcome problems by adapting to changing market conditions and demonstrating timely responsiveness through internal and external skills (Peng & Lin, 2017; Teece, 2007, 1997). Hence, to survive internationally, Malaysian SMEs should develop specific dynamic capabilities to change their approach; i.e. the way they conduct their market sensing and react to the rapid market changes which are beyond their control. This is in line with the Malaysian government's new economic transformation under National Entrepreneurship Policy 2030; which demands Malaysian SMEs to be more flexible, knowledge intensive, and adaptive toward mass customization instead of mass production, rigid and resource-focused (Ministry of Entrepreneurial Development, 2019).

Based on this standpoints, MITI, (2019) discovered that Malaysian SMEs continue to face challenges in the global market because of a variety of problems such as a lack of managerial skills, market knowledge, technological and skill capabilities, and product quality. Furthermore, Singh and Mahmood (2014a) supported the arguments when prior studies on strategic and dynamic capabilities is still scarce, even though those capabilities are pillars to the firm to enhance their export performance, especially manufacturing SMEs in Malaysia. For example, according to a study by Mokhtar et al. (2014), Malaysian SMEs still lack potential market and customer information, particularly in terms of intelligence and responsiveness exploitation, and The link between export market orientation and company capabilities that contribute to improved performance is still underexplored. Besides, Economic Planning Unit (2021) also stated that SMEs are lack of

capabilities including human skills, technology support, innovation, knowledge management, market access, and financial resources. These issues addressed in the study by Jamak et al. (2014), stated SMEs confront challenges in terms of business network, marketing capabilities, and managerial skills.

Sixth, due to limited resources, SMEs should evaluate their resources and addressing their external environment's arising issues (Lin & Tsai, 2016). Apart from that, there are other crucial dimensions of export operations that determine the SMEs success and deemed crucial for their competitiveness (Teece, 2007; Webb et al., 2011; Wolff et al., 2015). For example, SMEs are heavily relying on business opportunities for their survival in international markets. This is due to their disadvantages in terms of size and limited resources compared to larger firms (Ireland et al., 2003). However, most of the empirical studies on competitive advantage and capabilities development are based on the data from developed-economy market firms, such as Chuang (2004), Mao et al. (2016), Murray et al. (2011), Newbert (2008), Ray et al. (2004), Tan and Sousa (2015). For example, according to Ray et al. (2004) which study on capabilities, business processes and competitive advantage in North American insurance companies, found the congruence with resource-based expectations are not always represented in firm-level performance. Then, the result found in the study by Newbert (2008) who focus on value, rareness, competitive advantage and performance suggests that value and rarity are tied to competitive advantage, which in turn is related to performance. Unfortunately, according to Kraus et al. (2017), studies on competitive advantage have mostly ignored the importance of positioning advantage in export performance. Thus, further research is definitely required to look into the implication of positional advantage as a mediating role to enhance export performance of Malaysian SMEs.

Taking everything into account, the said variables of strategic orientation (export market orientation) and sources of competitive advantage consists of: (i) strategic capabilities (internet, international network, export marketing and innovation capabilities); and (ii) dynamic capabilities (strategic sense-making, timely decision-making and change implementation capacities) as well as positional advantage are critical aspects in this study. These are the factors that could eventually pinpoint to the existing issues and gap in explaining SMEs export performance in Malaysia.

Based on the issues mentioned earlier and inconsistent performance of Malaysian SMEs, this study is conducted specifically to respond to a call for more research investigating factors influencing SMEs performance at international level (Malca et al., 2019; Quaye et al., 2017; Tan & Sousa, 2015). Therefore, it is crucial to look into these matters as those mentioned capabilities are pillars to the firms to enhance their export performance. Furthermore, in emerging economies like Malaysia, empirical research on the impact of firm strategy and skills on SMEs export performance is scarce, according to Parnell (2011) and Singh and Mahmood (2014b). Thus, this study intends to further examine the internal factors, such as strategic orientation and competitive advantage characteristics that can improve SMEs' export performance. Besides, considering the prior studies on strategic and dynamic capabilities which combined together as sources of competitive advantage is still scarce (Singh & Mahmood, 2014a), where a number of studies have been dedicated in the Malaysian context, such as Sing and Mahmood (2014) and Ismail and Kuivalainen (2015). However, according to Ismail and Kuivalainen (2015), their findings require further investigation in relation to the factors that affects SMEs performance at international level.

1.4 Research Objectives

The goal of this study is to look at manufacturing SMEs' strategic and dynamic capabilities, positioning advantages, and export performance in light of the preceding debate. First, this study aims to determine the extent to which characteristics associated with strategic orientation (as antecedents) will energize and improve a firm's strategic and dynamic capabilities. Second, the study will look at the extent to which characteristics in strategic and dynamic capabilities (as sources of competitive advantages) influence positioning advantages (as a mediator), resulting in better export performance.

Therefore, this research aims to achieve the following goals:

- i) To examine whether strategic orientation (e.g., export market orientation) has a positive effect on strategic capabilities and dynamic capabilities of manufacturing SMEs.
- ii) To investigate whether i) strategic capabilities (i.e., innovation capability, export market capability, Internet capability, and international network capability) and ii) dynamic capabilities (i.e., strategic sense-making capacity, timely decision-making capacity, and change implementation capacity) has a positive effect on positional advantages of manufacturing SMEs.
- iii) To examine whether positional advantages has a positive effect on export performance of manufacturing SMEs.
- iv) To investigate whether positional advantages mediates the relationship between (1) strategic capabilities; (2) dynamic capabilities and export performance of manufacturing SMEs.

1.5 Research Questions

Based on the research objectives, this study seeks to answer the following research questions:

- i) Is there a positive relationship between strategic orientation (for example, export market orientation) on strategic and dynamic capabilities of manufacturing SMEs?
- ii) Is there a positive relationship between (i) strategic capabilities (such as innovation, export market capability, internet capability, and international network capability) and (ii) dynamic capabilities (such as strategic sense-making capacity, timely decision-making capacity, and change implementation capacity) on positional advantages of manufacturing SMEs?
- iii) Is there a positive relationship between positional advantages and export performance of manufacturing SMEs?
- iv) Can positional advantage mediate the relationship between strategic capabilities; dynamic capabilities and export performance of manufacturing SMEs?

1.6 Scope of the Study

First, The study focuses on the empirical assessment of strategic orientation elements, such as export-market orientation (EMO), to the sources of competitive advantages, which include strategic and dynamic capabilities, resulting in improved manufacturing SMEs' export performance. Strategic capabilities in this study comprises innovation, export marketing, Internet, and international network