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Organisational Capabilities and Competitive Advantage: The Moderating Influence of Managerial Competencies

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ABSTRACT

This study assessed the exclusive relationship of organisational capabilities, managerial competencies, and competitive advantage within the Malaysian context based on a sample of 330 SMEs in the food processing industry. This study employed a structural equation modelling using AMOS for the testing of the moderating role of managerial competencies in the relationship between organisational capabilities and competitive advantage. The obtained results of fitness indices demonstrated satisfactory goodness-of-fit. The results of hypotheses testing revealed that (1) the relationship between organisational capabilities and competitive advantage was statistically significant and positive (where organisational capabilities accounted for 93% of the total variance in competitive advantage) and (2) managerial competencies fully mediate the relationship between organisational capabilities and competitive advantage. Most importantly, this study provided empirical evidence that supported the theory of resource-based view, theory of dynamic capability view, and theory of knowledge-based view on the significance of organisational capabilities and managerial competencies for SMEs to gain competitive advantage, especially in marketing their products in hypermarkets and penetrating the global markets.

Keywords: Competitive Advantage, Organisational Capabilities, Managerial Competencies

INTRODUCTION

The competitive advantage in small and medium-sized enterprises (SMEs) within the region of Southeast Asia, including Singapore (Talib, Ali, & Idris, 2013), Thailand (Wethyavivorn, Charoenngam, & Teerajetgul, 2009), Indonesia (Hamdani & Wirawan, 2012; Utami & Lantu, 2014) and Malaysia (Arshad, Rasli, Arshad, & Zain, 2014; Halim, Bakar, & Mohamad, 2014; Husin & Ibrahim, 2014; Ismail, Domil, & Isa, 2014; Rajuddin & Alias, 2010), was extensively explored, unlike their Western counterparts, given the challenges they encounter, such as ineffective marketing strategies, incapable entrepreneurs, and the growing need to create due to intensified competition (Haniiff & Halim, 2014). SMEs in Malaysia are of no exception; there are 36,000 new entrepreneurs in Malaysia annually, but only less than 10% are able to grow their business successfully and at least 13% have to

terminate their business operation (including those in the industrial sector) (Hassan, Yaacob, & Abdullatiff, 2014).

The increasing significance of SMEs to the growth of a country (Hassan et al., 2014; Rahman, Wasilan, Deros, & Saibani, 2011; Rajuddin & Alias, 2010) and their struggles to sustain their business operation have propelled numerous studies to assess the competitive advantage of SMEs. In particular, the poor product quality, limited networking, and ineffective management of financial resources were found to have contributed to the lack of competitive advantage of SMEs in the food processing industry, especially in marketing their products in hypermarkets, according to Ministry of Domestic Trade, Cooperatives and Consumerism (2014). The standards of hypermarkets and even the global markets are not properly measured up by a majority of the SMEs in the food industry (Haniff & Halim, 2014).

Accordingly, there are empirical evidence that reported the exclusive relationship between organisational capabilities in terms of the capability to innovate (Abou-Moghli, Abdallah, & Muala, 2012), the capability to expand networking (Ismail et al., 2014), and financial capability (Utami & Lantu, 2014) and competitive advantage for SMEs. Despite the extensive studies on the influence of these individual aspects of the organisational capabilities on the competitive advantage, studies on how these aspects collectively influence the competitive advantage of SMEs remain scarce. As Nam (2010) propounded, the influence of research and development (R&D) intensity, industrial networks, and external financing on competitive advantage are potentially significant.

Hence, this study aimed to assess the direct relationship between organisational capabilities and competitive advantage of SMEs within the Malaysian context based on the theory of resource-based view (RBV). Accordingly, the theory of RBV was adopted in prior studies on competitive advantage (see Hassan et al., 2014; Ismail et al., 2014). According to the theory of RBV, the resources of an organisation, which in this case, the organisational strategies, serve to facilitate the implementation process of the organisational strategies towards attaining higher competitive advantage.

Considering that the linear relationship between such resources and competitive advantage was assessed in most studies (Abou-Moghli et al., 2012), this study addressed the need to assess the moderating influence of various constructs on the relationship between organisational capabilities and competitive advantage has been highlighted in several studies. After all, it is essential that SMEs possess the necessary information and capabilities to innovate (Hamdani & Wirawan, 2012), secure valuable external networks (Ismail et al., 2014), and effectively manage their financial resources (Hassan et al., 2014) to attain higher competitive advantage at the global scale (Williams & Hare, 2012). With that, managerial competencies were viewed as a potential moderator in this study in enhancing the organisational capabilities of SMEs to gain competitive advantage.

Apart from the theory of RBV, this study adopted the theory of dynamic capability view (DCV) based on the assumption that an effective management with the appropriate level of information and capabilities has the potential to enhance the relationship between organisational capabilities and competitive advantage. With respect to this theory, the managerial competencies in terms of knowledge and skills were viewed as another potential moderator in this study considering that both aspects serve to effectively optimise the organisational resources in gaining competitive advantage (Patwardhan, 2009). This assumption was also supported by the theory of knowledge-based view (KBV) where the knowledge to create and innovate is regarded as the most essential resource for an organisation to stand out among the rest as well as to sustain its competitive advantage

considering that any attempt to imitate from the competitors would be not possible.

In view of the above, this study assessed the relationship between organisational capabilities and competitive advantage with respect to the theory of RBV. With the integration of the theory of DCV and the theory of KBV, this study also assessed the moderating role of managerial competencies in the relationship between organisational capabilities and competitive advantage for SMEs. The resultant outcomes of this study were expected to enhance the current understanding of how organisational capabilities influence competitive advantage, especially for SMEs within the Malaysian context. Most importantly, this study provided essential insights on how SMEs are able to attain higher competitive advantage in their efforts to market their products in hypermarkets and subsequently, at the global markets.

LITERATURE REVIEW

Most SMEs in Malaysia have to terminate their business operation within five years (Khalique, 2011; SME Corp., 2012). The inability to grow their business successfully in Malaysia should not be overlooked, which highlights the pertinent need to grasp the factors that influence the success of SMEs (Jebna and Baharudin 2013). To date, the competitive advantage of SMEs in the food processing industry within the Malaysian context remains unexplored despite the extensive number of studies on the competitive advantage of SMEs in Malaysia (Arshad et al., 2014; Husin & Ibrahim, 2014; Ismail et al., 2014; Jebna & Baharudin, 2013; Salikin, Wahab, & Muhammad, 2014; Wahid, Aziz, & Halim, 2017).

Focusing on the SMEs in the food processing industry, SMEs in Malaysia demonstrate several shortcomings in terms of their management, financial resources, and product quality (Ministry of Domestic Trade, Cooperatives and Consumerism, 2014). The SMEs are mostly poorly managed with financial problems and deliver poor product quality (Aziz & Samad, 2016). There are various management-related issues for SMEs, such as in the implementation of marketing and promotional strategies, when their business operation simultaneously deals with different types of products without a specific focus.

Besides that, financial instability is another aspect that hampers their promotional activities and planning of marketing. Moreover, SMEs depend on the payments made by hypermarkets for capital reinvestment; thus, the cases of delay in payment also put SMEs at a disadvantage, resulting in financial instability (Aziz & Samad, 2016; Samad, Aziz, Jaidi, & Masoud, 2016). Adding to that, SMEs are put at a greater risk when they are not linked to the key government agencies, such as the Ministry of Agriculture and Agro-based Industry (MOA), Federal Land Development Authority (FELDA), Majlis Amanah Rakyat (MARA), and Rubber Industry Smallholders Development Authority (RISDA). Through these agencies, SMEs are able to receive the appropriate training and financial support.

Additionally, in most cases, the conditions of the products of SMEs do not satisfy the standards of hypermarkets. The lifespan of their products does not measure up to what the hypermarkets expect, which is a lifespan of at least between six months and one year. Moreover, these hypermarkets are also particular about the types of products these SMEs offer—SMEs that offer similar types of products without any competitive advantage would not be considered given the limited space these hypermarkets have to display the products. As for those who are able to distribute their products to the hypermarkets, certain SMEs are not able to satisfy the demand of hypermarkets in terms of quantity and punctuality of delivery, resulting in the failure to obtain contract extension (Maktab Koperasi Malaysia, 2010).

From the theoretical perspective, there are three factors that determine the success of SMEs in the food processing industry in Malaysia, specifically (1) the capability to innovate, (2) the capability to expand networking, and (3) financial capability. In fact, the influence of these three factors on competitive advantage was extensively assessed in numerous studies at the individual level. However, the influence of each factor on competitive advantage was independently assessed. Therefore, this study aimed to assess how these three different aspects of organisational capabilities collectively influence competitive advantage where these different types of capabilities were viewed as a combination of factors that influence the competitive advantage of SMEs, especially in the food processing industry in Malaysia.

Moreover, the assessed relationship between the identified factors and competitive advantage in most studies was a direct relationship (Abou-Moghli et al., 2012; Aziz & Samad, 2016). With respect to the theory of KBV, SMEs should be adequately equipped with the competencies and capabilities to innovate (Hamdani & Wirawan, 2012), reliable external networks (Abdullah & Mustapha, 2009; Ismail et al., 2014; Wethyavivorn et al., 2009), and effective management of financial resources (Hassan et al., 2014) to gain higher competitive advantage. The theory of KBV posited the significance of knowledge as a strategic organisational resource, which minimises the risk of imitation for an organisation to gain competitive advantage. Previous studies, however, not integrated the KBV in examining the moderating effects of managerial competencies on organisational capabilities and competitive advantage. The need to enhance the level of knowledge and skills at the organisational and individual levels are often overlooked by most SMEs because they miss the opportunity to attend training or do not have the capacity to bear the extra cost involved for training. Addressing the significance of knowledge and skills in attaining competitive advantage for SMEs in Malaysia, this study also assessed the moderating role of managerial competencies in the relationship between organisational capabilities and competitive advantage given the lack of studies on the influence of managerial competencies in terms of knowledge and skills.

METHOD

This study applied the positivist paradigm and quantitative methodology. There are three reasons leading to the choice of paradigm for this study. The first reason is that significant numbers of scholars have conducted researches on competitive advantage using a quantitative approach (Aziz & Samad, 2016a; 2016b; Aziz, Wahid, & Halim, 2017; Eravia & Handayani, 2015; Koe et al., 2015; Singh & Rosli, 2013). The second reason is related to the research goals. This study aimed to confirm the theory, as well as support or challenge the findings of previous researchers in different research contexts. In order to confirm the theory, the hypothesis testing should be conducted (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). For that reason, the quantitative paradigm was chosen for this study. This is because a quantitative approach is able to validate the hypothesis and measure the fitness of the model with the data in hand. Third, the application of quantitative method may also propagate the new research in the future to get a better understanding of the factors influencing the competitiveness of the SMEs in Malaysia. The instrument used in this study can be adapted for verification purposes in the future studies, in which the replication results are important to confirm the theory. Therefore, in this case, a quantitative method offers a platform for new research in the context of the SMEs, especially in the food processing industry in Malaysia.

The organisational capabilities represented the exogenous construct and competitive advantage was regarded as the endogenous construct in this correlational study. Apart from

that, this study also assessed the indirect relationship between both exogenous constructs and endogenous construct through managerial competencies, as the moderating variable. This study randomly distributed questionnaire surveys among SMEs in Malaysia with the following characteristics: (1) the number of employees must be between 5 and 200; (2) operate in the food processing industry in Malaysia; (3) do not market their products in any local hypermarkets.

RESULTS AND ANALYSIS

Results of Confirmatory Factor Analysis

Following the removal of four items, the obtained results of fitness indices, specifically RMSEA (0.057), CFI (0.909), and ChiSq/DF (2.067), exhibited satisfactory goodness-of-fit. In other words, the obtained data demonstrated unidimensionality.

Results of Structural Equation Modelling

H1: Organisational capabilities significantly influence competitive advantage.

Table 1: Results of regression analysis

	Hypothesised path	Estimate	S.E.	C.R.	p-value	Hypothesis
H1	CompAdv ← OCs	0.820	0.056	14.772	.000	Supported

Notes: R2 = 0.93; CompAdv denotes competitive advantage; OCs denotes organisational capabilities.

Table 1 presents the obtained results of regression analysis for the hypothesised path between organisational capabilities and competitive advantage. The obtained coefficient of determination (R2) of 0.93 suggests that organisational capabilities accounted for 93% of the total variance in competitive advantage. In addition, the obtained result on the regression weight estimate (0.820) implies that every increase of one unit of organisational capabilities raises competitive advantage by 0.820 units. Meanwhile, the critical ratio for regression weight recorded the value of 14.772 (where the regression weight estimate is divided by its standard error [$z = 0.820/0.056$]), which suggests that the obtained regression weight estimate was 14.772 standard errors above zero. The regression weight for organisational capabilities in predicting competitive advantage was significantly different from zero at .001 level (in a two-tailed test) considering that the probability of achieving a critical ratio of 14.772 in absolute value was lesser than 0.001. Thus, H1 was supported. In other words, organisational capabilities significantly influence competitive advantage. Furthermore, the significant relationship between organisational capabilities and competitive advantage was proved positive ($\beta = 0.820, p < .001$).

H2: Managerial competencies moderate the relationship between organisational capabilities and competitive advantage.

Following that, the obtained data were grouped into (1) group of high competence and (2) group of low competence prior to the analysis for the testing of the moderating role of managerial competencies in the relationship between organisational capabilities and competitive advantage in this study. In particular, the participating SMEs with a mean value of 4.00 and above for their managerial competencies were included in the group of high competence, while the remaining SMEs (with a mean of below 4.00 for their managerial

competencies) represented the group of low competence.

Referring to Table 2, the constrained model recorded a chi-square value (CMIN) of 1558.1 with degree of freedom (DF) of 1019, while the unconstrained model recorded a chi-square value of 1555.6 with DF of 1018. As shown in Table 3, the difference in the chi-square value and DF between both models for the group of high competence were 2.478 and 1, respectively. However, the difference in chi-square value (2.478, DF = 1) was lower than the chi-square value of 3.84 (DF = 1). In other words, the result of the moderation test was not significant for the group of high competence.

Table 2: Results of chi-square value and the number of degrees of freedom for constrained model and unconstrained model for the group of high competence

Model	Constrained model					Unconstrained model				
	NPAR	CMIN	DF	p-value	CMIN/DF	NPAR	CMIN	DF	p-value	CMIN/DF
Default model	109	1558.1	1019	0	1.529	110	1555.6	1018	0	1.528
Saturated model	1128	0	0			1128	0	0		
Independence model	47	2189.7	1081	0	2.026	47	2189.7	1081	0	2.026

Table 3: Results of moderation test for the group of high competence

	Constrained model	Unconstrained model	Chi-square difference	Result of moderation test	Hypothesis
Chi-square	1558.127	1555.649	2.478	Not significant	Rejected
DF	1019	1018	1		

Meanwhile, as for the group of low competence (Table 4), the constrained model recorded a chi-square value (CMIN) of 2038.705 with DF of 1020. On the other hand, the unconstrained model recorded a chi-square value of 2012.246 with DF of 1019. As shown in Table 5, the difference in chi-square value and DF between both models for the group of low competence were 26.459 and 1, respectively. Similarly, the result of moderation test was significant for the group of low competence since the obtained difference in chi-square value (26.459, DF = 1) exceeded the chi-square value of 3.84 (DF = 1). Considering the obtained results for both groups of high competence and low competence, full moderation was demonstrated.

Table 4: Results of chi-square value and the number of degrees of freedom for constrained model and unconstrained model for the group of low competence

Model	Constrained model					Unconstrained model				
	NPA R	CMIN	DF	p- valu e	CMIN/ DF	NPA R	CMIN	DF	p- valu e	CMIN/ DF
Default model	108	2038.7	1020	0	1.999	109	2012.2	1019	0	1.975
Saturated model	1128	0	0			1128	0	0		
Independence model	47	4374.2	1081	0	4.046	47	4374.2	1081	0	4.046

Table 5: Results of moderation test for the group of low competence

	Constrained model	Unconstrained model	Chi-square difference	Result of moderation test	Hypothesis
Chi-square	2038.705	2012.246	26.459	Significant	Supported
DF	1020	1019	1		

Considering that the prior testing of the mediation effect of managerial competencies was conducted based on a non-parametric approach, this study ensued with the parametric testing of the mediation effect of managerial competencies, which specifically ascertained the significance of the mediation effect in the groups of high competence and low competence. Referring to Table 6, the group of high competence produced a standardised parameter estimate of 0.411 ($p = .106$; not significant), while the group of low competence recorded a significant standardised parameter estimate of 3.712 ($p = .002$). Evidently, the influence of organisational capabilities on competitive advantage was more apparent in the latter group. Considering the significance of the standardised estimates, full moderation was reaffirmed. Thus, H2 was supported.

Table 6: The mediation effect of organisational competencies on competitive advantage for the group of high competence and group of low competence

Group	Hypothesised path	Estimate	S.E.	C.R.	p-value	Result
High competence	CompAdv \leftarrow OCs	0.411	0.254	1.617	.106	Not significant
Low competence	CompAdv \leftarrow OCs	3.712	1.195	3.106	.002	Significant

Notes: CompAdv denotes competitive advantage; OCs denotes organisational capabilities.

DISCUSSION AND CONCLUSION

The obtained results of this study (H1) demonstrated the significant, positive influence of organisational capabilities on competitive advantage. In other words, SMEs with higher organisational capabilities in the food processing industry achieve higher competitive advantage, and vice versa. Meanwhile, the results of the moderation test (H2) revealed that full moderation occurred where managerial competencies fully moderate the relationship between organisational capabilities and competitive advantage. Moreover, this study also empirically supported the theory of KBV. Evidently, managerial competencies in terms of knowledge and skills are essential resources for an organisation to gain competitive advantage.

Surprisingly, the influence of organisational capabilities on competitive advantage was found to be more apparent among SMEs with low managerial competencies in this study. In other words, poor organisational capabilities result in even lower competitive advantage for SMEs with low managerial competencies in the food processing industry in Malaysia. Meanwhile, the influence of organisational capabilities on competitive advantage was less apparent for SMEs with high managerial competencies. This implies that poor organisational capabilities may not result in lower competitive advantage when the managerial competencies are high for SMEs in the food processing industry in Malaysia.

With the appropriate knowledge and skills, an organisation would have the necessary resources to adapt to the changing environment and remain competitive in the market. The influence of the shortcomings in their organisational capabilities on competitive advantage can also be minimised. The obtained findings of this study on the significance of knowledge and skills for SMEs to address their shortcomings were also demonstrated in several other studies (Abban, Omta, Aheto, & Scholten, 2013; de Oliveira, Sokulski, da Silva Batista, & de Francisco, 2018; Hsiao & Hsu, 2018; Li, Clark, & Sillince, 2018; Samad et al., 2016). Besides that, the obtained findings of this study also proved the theory of RBV (Barney, 1991) and the theory of KBV (Grant, 1997), which reaffirmed that both knowledge and skills are among the most pivotal strategic resources that offer high competitive advantage to the organisations, such as SMEs (Maury, 2018; Sawyer, Evans, & Bosua, 2014).

Basically, this study also produced empirical evidence that specifically supported the theory of RBV, which posited that the market structure and industrial structure do not affect competitive advantage, but rather the internal resources of an organisation (Soh, 2005). The organisational resources are able to withstand the risk of imitation, which make these internal resources highly valuable for an organisation. The findings of this study were in line with the notion that the firm-specific resources determine the success of an organisation. Thus, it can be theoretically assumed

that these resources reflect the success of an organisation (Ambrosini, 2003; Maury, 2018). SMEs with unconstrained access to financial resources, human resource, logistics, and technology were found to exhibit higher competitive advantage with the capacity to penetrate the global markets (Eltamimi, 2013). The findings on the influence of organisational capabilities on competitive advantage in this study were also in line with the obtained findings of other studies (Aziz et al., 2017; Lorenzo, Rubio, & Garcés, 2018; Maury, 2018; Utami & Lantu, 2014; Wahid, Ishak, Yunus, Aziz, & Ramli, 2014; Wethyavivorn et al., 2009).

The objectives of this study were twofold: (1) to assess the relationship between organisational capabilities and competitive advantage; (2) to assess the moderating role of managerial competencies in the relationship between organisational capabilities and competitive advantage. With respect to the results of hypotheses testing, both objectives of this study were achieved. As revealed by MOA, the constraints of SMEs in the food industry in Malaysia, specifically poor innovation quality, limited networking, and financial instability, hamper their efforts to market their products in hypermarkets, which were also reaffirmed in this study. Hence, it is highly imperative that the expansion of SMEs in Malaysia, especially in the food processing industry, to efficiently integrate and optimise their capabilities to innovate and to expand their networking (particularly with the key government agencies) as well as to solidify their financial capability in order to attain higher competitive advantage (Smith, 2007).

This cross-sectional study assessed the relationship between organisational capabilities and competitive advantage with managerial competencies as the moderating variable based on the theoretical assumptions and the findings of prior studies. Although the obtained findings of this study were in line with the findings of prior studies (Haniff & Halim, 2014), this study may not be able to comprehensively determine causality, which highlights the need for future research to conduct a longitudinal study. Moreover, this study exclusively focused on SMEs in Malaysia, which raises the concern of generalising these findings across a population of different cultural or geographical contexts. Therefore, the generalisation of the obtained findings in this study should be treated with caution, as they may not accurately reflect the organisational capabilities, managerial competencies, and competitive advantage of SMEs in other countries of different backgrounds (Fletcher & Fang, 2006). Besides that, it is also recommended for future research to compare the performance of SMEs in different countries to ensure the generalisation of results.

Although the results of this empirical research showed that all the proposed hypotheses are supported, but the researcher denies the ministry arguments that these three factors are the main cause of the problems competitive disadvantages of SMEs to penetrate hypermarkets, particularly in the processed foods industry. The results of this study indicated that there are other factors that also contributed to the competitive disadvantages of SMEs in Malaysia. In other words, there may be other factors that can be added to competitive advantage model. Apart from that, this study also empirically demonstrated the influence of managerial competencies on the relationship between organisational capabilities and competitive advantage for SMEs within the Malaysian context. In view of the above, the objectives of this study were successfully addressed and the hypotheses on how organisational capabilities collectively affect competitive advantage and the moderating role of managerial competencies in this exclusive relationship were proved.

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