

# The effectiveness of capabilities and Malaysian SMEs' performance: Mediated by global mindset

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## Abstract

**Purpose:** Small and medium-sized enterprises (SMEs) are crucial to the Malaysian economy, making substantial contributions to the GDP. Numerous challenges hinder SMEs from increasing export activities in the global market. This study aims to identify the capabilities that can enhance Malaysian small and medium enterprises' export performance.

**Design/methodology/approach:** This study examines contingency theory alongside resource based and market-based perspective to better understand the issue.

**Findings:** The study's findings offer insights to organizations, enabling them to identify effective strategies and enhance export performance.

**Research limitations/implications:** This study aims to address the identified research gap by exploring the relationship between capabilities and export performance among Malaysian SMEs, with a global mindset serving as a mediator factor.

**Practical implications:** This study assists SMEs in enhancing their export performance by optimizing their decision-making processes during export activities. Enhancing capabilities leads to better export performance among SMEs.

**Originality/value:** To address the need for further research on SMEs' export performance this paper intends to create a comprehensive conceptual framework. This framework incorporates three potential mediators such as organizational capability, technological capability, and managerial capability to determine the effectiveness of SMEs export performance as well as SMEs' growth and competitiveness

**Keywords:** Export performance, small and medium enterprises, organizational capability, managerial capability, technological capability, capability, global mindset

## Introduction

The Malaysian government has placed a significant expectation on economy growth. SMEs play a vital role in contributing to economic growth. Between 2020 and 2022, internal and external environmental trends changed, and currency values fluctuated. These changes were primarily attributed to the global impact of the COVID-19 outbreak which effects across all sectors of the economy worldwide. This study focuses on the quality of SMEs' export performance. It examines how capabilities including organizational capability, managerial capability, and a global mindset, impact the export performance of SMEs.

Hanifah, Hasliza, Hazlina and Ali (2019) mentioned that more than 99 percent of business in Malaysia were SMEs. SMEs play a crucial role in contributing to the Malaysian economy (Zalina, Firdaus & Azman, 2016). In conjunction with this, large organizations may be able to meet the demand and supply of goods and services with the existence of SMEs. It is hard to unite all definitions of SMEs into one as there is no global consensus on the definition of SMEs. The classification of SMEs in this study follows the latest definition provided by the Economic Census of 2016. The census reported that there were 907065 SMEs in operation in Malaysia in 2015, representing 98.5% of the total 920624 firms. This marks an increase of over 260000 establishments with an average growth rate of 7.3% from 2010 to 2015.

Organizational capabilities refer to an organization's ability to manage its resources by implementing strategic decisions Nayeemunnisa and Gomathi (2020). These capabilities are essential for the organization to effectively utilize its assets, make informed choices and achieve its objectives in a competitive environment. Nayeemunnisa and Gomathi (2020) described organizational capabilities involves how effectively an organization manages its resources through strategic decision-making. Organizational capabilities are vital to a business as organizational capabilities help to support an organization during volatile business conditions. Helfat and Winter (2011) stated that operational capability allows the organization to consistently perform activities using established skills to maintain and support its current products and services.

Managerial capabilities is described as the management's ability to unify organization's skills and strengths (Ali, Zwetsloot and Nada (2019). Bamel and Bamel (2018) categorized managerial capability as the skill in reconfiguring available resources within the company and utilizing them in various capacities. Besides that, Sethibe and Steyn (2015) mentioned that managerial capabilities play an important role towards organizational innovation as the management style helps to encourage employee to stimulate creativity.

Galhanone, Rocha, Spers and Rodrigues (2020) mentioned that global mindset can also be classified into individual level and organizational level, and it was believed that there is a strong connection between individual and corporate levels, contingent upon the attributes and competencies of the firm's manager. Besides that, Niemczyk and Sus (2020) pointed out that it is essential to identify skill sets that allow companies to gain a competitive edge in the market. A connection has been identified between a global managerial mindset and an organization's effort toward internationalization (Felicio, Duarte and Rodriguez, 2016). To survive in the high complexity of international market, an organization must gain the competitive advantage in dealing with different challenges.

Malaysian SMEs face limitations in their overall development which might result in poor export performance. Some of these SMEs encounter limitation on accessing the appropriate technology and rely on poor technology which put them at a struggle stage in sustaining the business in the competitive market. Nevertheless, SMEs have begun notice the business risk and are increasingly emphasizing the importance of acquiring capabilities to improve the business performance. In conjunction with this, this study must be carried out. The research findings could be useful and provide a guideline for small and medium enterprises that want to prioritize capabilities.

## **Literature Review**

### ***Small and medium Enterprises (SMEs)***

The achievements of the small and medium enterprises can potentially enhance the success of larger organizations too. Hanifah, Hasliza, Hazlina and Ali (2019) mentioned that more than

99 percent of business in Malaysia were SMEs. SMEs play a significant role to Malaysia's economy (Zalina, Firdaus and Azman, 2016). According to SME Corp Malaysia (2022), SMEs are categorized based on the number of employees and the annual sales revenue. SME Corp Malaysia (2022) indicated that a manufacturing firm is classified as small enterprise if its annual sales turnover ranges from RM300,000 to RM15 million and it employs between 5 and 75 individuals. On the other hand, a firm in the service and other sectors is classified as a small enterprise if its annual sales turnover is between RM300,000 and RM3 million, with a workforce of 5 to 30 employees. Medium enterprise of manufacturing sector has the sales turnover in between RM 15 mil and RM 50 mil while the employees is ranged between 75 and 200. Besides that, medium enterprise which is involved in services and other sector has the sales turnover between RM 3 million and RM 20 million while the number of employees is in the range of minimum 30 employees and not more than 75 employees. To gain a competitive edge in the market, internationalization plays a vital role towards SMEs' growth (Zhou and Wu, 2009). Alam, Akomea and Poku (2011) mentioned that there are some issues that encounter by SMEs such as financial, human resources, lack of knowledge and information. The limitation of skilled, technology and network lead to SMEs food processing facing difficulty in generating optimized level of profit. The inconsistency supply and downstream growth of agricultural causes food processing SMEs to lack confidence to compete in the market and rely on local resources and depend on import materials (Hasnan, Aziz, Zulkifli and Taip, 2014).

### ***Export Performance***

Export performance is crucial for conducting the business. Enhancing the export performance is the key objective for organizations in effective management. Throughout the export performance, an organization can evaluate the business level. Organizations can benefit from entering foreign market directly by avoiding the huge amount of startup costs. Ribau, Claudie and Moreira, Antonio and Raposo and Mario (2017) mentioned that export is viewed as the vital contribution to economic growth and wellbeing. Prusa and Besedeš (2011) and Fugazza and Molina (2011) pointed out that developed countries are more likely to sustain their export relationship compared to developing countries. A study by Nicita, Shirotori and Tumurchudur (2013) found that the length of time that exports continue from a country in the countries that classified as least developed is influenced by the comparative advantage with the survival rates of the products declining over time and not reflecting the countries' comparative advantage.

### ***Managerial Capability***

Parnell, Long and Lester (2015) described managerial capabilities as the overall set of skills held by senior management, the workforce and members of the organization. Mbithe (2021) mentioned that competencies are derived from expertise gained through training, organizational learning, technical skills, and personal qualities. Ali, Zwetsloot and Nada (2019) defined managerial capabilities are the skills of management to combine organizational resources and expertise effectively. Nada and Ali (2014) mentioned that managerial capabilities can be conceptualized across three dimensions such as approach to management, decision-making processes and employee growth. Adusei, Akomea and Poku (2017) carried a study in reviewing the management gender diversity towards firm financial performance and found out that management team should boost the number of women in management roles that can improve financial performance. Besides that, Sethibe and Steyn (2015) mentioned that managerial capabilities play an important role towards organizational innovation as the management style helps to encourage employees to stimulate creativity.

***Organizational Capability***

Helfat and Peteraf (2003) also defined organizational capabilities as a company's capacity to carry out specific tasks and efficiently use its resources to reach desired goals. Koufteros, Xenophon & Verghese, Anto & Lucianetti, Lorenzo. (2014) pointed out that organizational capabilities include strategic management, the ability to engage with external stakeholders and operational capabilities. Organizational capabilities strengthen the link between a company's resources and its performance (Obeidat, Bader & Abdallah, Ayman & Aqqad, Noor & Akhoershiedah, Abdel & Maqableh, Mahmoud, 2017). Parnell, Long and Lester (2015) mentioned that organization capabilities must be effectively maintained to ensure the firm attainment. In short, organizational capability allows the organization to make unique contributions that drive desired performance. In addition, Nayeemunnisa and Gomathi (2020) described organizational capabilities as a firm's ability to strategically manage its resources.

***Global Mindset***

A global mindset is defined as the multidimensional organizational capability that involve viewing the world as interconnected and diverse Yin, Johnson and Bao (2008). Galhanone, Rocha, spers and Rodrigues (2020) mentioned that global mindset can also be classified into individual level and organizational level, and it was thought there is a strong correlation between individual and corporate levels, depending on the characteristics and skills of the company's manager. In prior research by Lappe and Doreenbacher (2016) has shown that the SME managers' global mindset has a linkage towards the success of organization's internationalization. A recent study by Kyvik, Saris, Bonet, and Felicio (2013) found a significant positive link exists between a global managerial mindset and the company's action towards internationalization. The similar connection between a global managerial mindset and organization's internationalization effort was identified by Felicio, Duarte and Rodriquez (2016).

***Proposed Theoretical Framework***

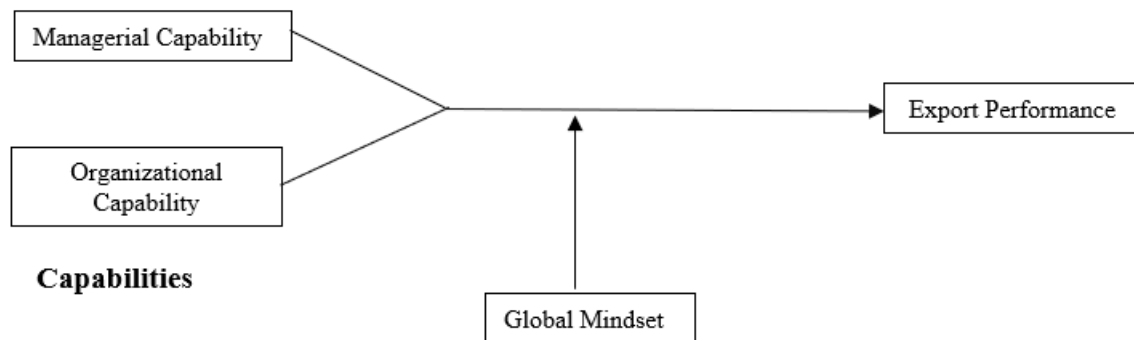
The proposed framework consists of three constructs. There are variables (IV), namely organizational capability and managerial capability while export performance works as the dependent variable (DV) in the study. At the same time, global mindset works as the mediator of the study. Based on the past research, P1, P2, and P3 are developed to understand the relationship between capabilities and export performance among SMEs in Malaysia.

Proposition 1 : Managerial capability shows a positive relationship with export performance among SMEs in Malaysia.

Proposition 2 : Organizational capability exhibits a positive relationship towards export performance among SMEs in Malaysia.

Proposition 3 : A global mindset demonstrates a significant mediating relationship with export performance among SMEs in Malaysia.

### Proposed Theoretical Framework



*Figure 1 Conceptual Framework of Capabilities and Business Performance among SMEs in Malaysia*

### Methods

Extensive exploration of academic databases was conducted to access pertinent literature for this research. The focus concentrated on factors affecting the export performance of SMEs and the competitive advantage of these organizations. Multiple databases, including ScienceDirect, utmj.org, nih.gov, nchi.edu.tw, and Palgrave-journals were examined. Export performance, small and medium enterprises, organizational capability, managerial capability, and technological capability are the keywords that were employed to retrieve literature. Besides that, academic resources were obtained through Google Scholar search engines and institutional databases such as web of science, Scopus etc. Those resources were utilized to obtain academic literature related to the study. In addition, scientific research database like ScienceDirect, sage pub and tamu.edu were consulted in identifying and elaborating on the research variables that used in conceptual model. To obtain the accurate data, statistics and estimations concerning on the Malaysian SMEs' export performance, a diverse range of sources including industry publication, government reports, market research reports, media reports and internet sources were examined. High quality of scientific literature was considered when retrieving literature related to the variables.

### Discussion and Conclusion

This study aimed to explore how capabilities, mediated by global mindset, affect the export performance of small and medium enterprises in Malaysia. This study highlights the importance of Malaysian food processing SMEs to get competitive edge in the global market. It also sets as benchmark for SMEs which could help in quality and competence enhancement. Consequently, the findings of the study can be advantageous and serve as a guideline for SMEs that interested in focusing on capabilities such as organizational capability and managerial capability. Besides that, it can provide a foundation for understanding on how global mindset influences the relationship between capabilities and export performance. Additionally, this study also can contribute to valuable insights into the significance of capabilities in influencing export performance among SMEs in Malaysia. If the capabilities are effectively harnessed, it can lead to enhancement of organizational performance. Furthermore, this study can serve as a valuable resource for other academics and researchers that seek for reference for further research related to capabilities and export performance among SMEs. Additionally, it can also serve as the starting point for upcoming research on the same topic. The findings of the research will also provide valuable insight to all SMEs and potentially serve as a source of business

consulting to the SMEs in Malaysia. By the end of the study, the model will be formed in determining the key capabilities that could help in Malaysian SMEs to succeed as well as enhance their export performance. Besides that, this could guide the Malaysian SMEs to learn on how to penetrate the global market. Additionally, this study can contribute valuable insights into the significance of global capabilities in influencing the business performance of SMEs in Malaysia.

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