



SMEs internationalization: The role of product innovation, market intelligence, pricing and marketing communication capabilities as drivers of SMEs' international performance

Mohammad Falahat^a, T. Ramayah^{b,c}, Pedro Soto-Acosta^{d,*}, Yan-Yin Lee^a

^a Faculty of Accountancy and Management, Universiti Tunku Abdul Rahman (UTAR), Bandar Sungai Long, Kajang, 43000 Selangor, Malaysia

^b School of Management, Universiti Sains Malaysia (USM), Minden, 11800 Penang, Malaysia

^c Department of Management, Sunway University Business School (SUBS), No. 5, Jalan Universiti, Bandar Sunway, Selangor 47500, Malaysia

^d Department of Management & Finance, University of Murcia, Campus de Espinardo, Espinardo, 30100 Murcia, Spain



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ABSTRACT

Small and medium enterprise (SME) competitive advantage has been recognized as an important topic for researchers dealing with SME internationalization. Previous studies have long discussed the role of firm competitive advantage as a determinant of international performance, but there are few studies analyzing the determinants of firm competitive advantage and its potential mediating role in the relationship between organizational capabilities and SMEs' international performance. In this paper, we hypothesize four essential export capabilities (market intelligence, product innovation, pricing, and marketing communication) as determinants of competitive advantage for exporting SMEs. Based on a sample of 119 active exporting Malaysian SMEs and using partial least squares (PLS) structural equation modeling, the results revealed that three of the mentioned capabilities lead to competitive advantage. In addition, results indicated that competitive advantage only acts as a mediator between pricing capability and SMEs' international performance. The main conclusions of this investigation can be valuable to SMEs and startups that intend to explore or exploit opportunities in foreign markets.

1. Introduction

Small and medium enterprises (SMEs) play an important role for both economic growth and employment opportunities in Malaysia (Abdul-Halim et al., 2019; Yan Xin et al., 2014). In 2017, 97.3% of business establishments were SMEs and they contributed to 37% of the gross domestic product and 66% of the total employment in Malaysia (SME Corp, 2019). In view that SMEs can expand their market coverage through exporting, the government of Malaysia contently encourages SMEs to explore the international market for potential business growth. However, this has never been an easy task. SMEs need to achieve competitive advantage in order to compete with other industry players around the world.

Most of the export performance literature has investigated the relationships between capabilities and performance, but few studies considered the effects of organizational capabilities on competitive advantage. In addition, studies on the determinants of international performance obtained mixed results regarding the effects of capabilities on firm performance (Beleska-Spasova, 2014). The internationalization

environment is complex and, therefore, the often focus on investigating capability-performance relationships has probably omitted a step-by-step understanding on whether inconsistent capability-performance results are because some of the organizational capabilities fail to produce competitive advantages.

Since firm competitive advantage and business performance are two different concepts, and considering that most of the studies have examined merely capability-performance relationships, there is therefore a need for further research on the capability-competitive advantage relationship (Kaleka, 2002; Lu et al., 2010). In addition, we posit that a possible cause of the mixed findings on the capability-performance relationship may be subject to omitted mediator variables such as competitive advantage. To the best of our knowledge, there is currently limited understanding of the following research questions: what essential capabilities may support the creation of firm competitive advantage for exporting SMEs? Could competitive advantage be a mediator link between these capabilities and SMEs' international performance? In this paper, we aim to shed light on these research gaps by investigating the essential capabilities associated with competitive

* Corresponding author.

E-mail addresses: Falahat@utar.edu.my (M. Falahat), ramayah@usm.my (T. Ramayah), psoto@um.es (P. Soto-Acosta), Lee@utar.edu.my (Y.-Y. Lee).

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