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## Innovation and Competitive Advantage: Moderating Effects of Firm Age in Foods Manufacturing SMEs in Malaysia

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### Abstract

This paper aims to examine the influence of innovation on competitive advantage in foods manufacturing SMEs in Malaysia and the moderating effects of firm age on innovation-competitive advantage relationship. Given the correlational nature of research, the researchers adopted a random sampling technique in Malaysian foods manufacturing SMEs. Mailed structured questionnaires were employed for the collected 220 foods manufacturing SMEs. Both descriptive and inferential statistics were used to answer the objectives and hypotheses of the study. Finding of the study revealed that innovation has a strong positive impact on the competitive advantage, in which innovation contributes 73.5 percent variance in competitive advantage. The results indicate that SMEs should invest in innovation to gain competitive advantage. The study also found the moderating effect of firm age on the influence of innovation on competitive advantage. The study suggests a framework for analyzing the impact of innovation on competitive advantage to be applied in other settings of Malaysian SMEs. The findings of this study may be used as a guideline for entrepreneurs to establish network with research organization and universities for innovative activities or program which ultimately may gain competitive advantage in the marketplace. This study contributed to the literature by empirically investigating the effect of innovation on competitive advantage, specifically in foods manufacturing SMEs in Malaysia. Findings and implications of the study are also discussed in this paper.

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## 1. Introduction

Recognizing the importance of SMEs to economic growth and their ability to provide job opportunities to the society, especially in rural areas (Abdullah & Mustapha, 2009; Ismail, 2013; Mohamad, Rashed, & Rahman, 2008), many researchers have studied the success factors and failure factors of SMEs to gain competitive advantage. Some researchers suggest that the key determinant of SMEs to gain competitive advantage is the ability of SMEs to develop unique products, and their flexibility in adopting new technology (Williams & Hare, 2012). It implies that the SMEs should involve in innovation in order to gain competitive advantage in marketplace. The other researchers suggest that the continuity of innovation activities (Bayarçelik, Taşel, & Apak, 2014; Higon, 2011; Nausheen, 2007) were constrained due to the smallness of the firms. Small firms are facing barriers to innovate such as lack of internal funds, inadequate managerial skills, lack of labor skills, lack of knowledge and lack of market access (Dada & Fogg, 2014; Mohd Amin, 2001; Nausheen, 2007; Wang & Costello, 2009).

Previous studies related to innovation and competitive advantage, however, mainly focusing on SMEs engaged in export trade and internationalization (Ismail, Domil, & Isa, 2014; Ismail, 2013; Kaleka, 2002). These studies have been carried out within medium- and large-sized firms, in which these kinds of firms have strong financial resources and equipped with sufficient infrastructure to support innovation activities. However, only a limited number of empirical studies (Avermaete, Viaene, Morgan, & Crawford, 2003; Bayarçelik et al., 2014) have focused on innovation-competitive advantage relationship in small firms despite their growing contribution. In Malaysia, studies on the influence of innovation on competitive advantage have been conducted in hotel industry (Asree et al., 2010) and wood industry (Hassan, Yaacob, & Abdullatiff, 2014). The study of the relationship between innovation and competitive advantage in foods manufacturing SMEs, however, is still lacking even though this industry has contributed RM16,729 million to Malaysian GDP in year 2012.

Despite knowledge of the effect of innovation on SMEs' competitive advantage, the more recent research suggests that younger firms are more likely to innovate, thus give even more benefits for competitiveness (Higon, 2011). This researcher suggested that young firms behave more proactive, flexible and aggressive. Other quantitative studies, however, report conflicting findings that the firm age did not give significant effects on the relationship between innovation and competitive advantage (Harris, Rogers & Siouclis, 2003; Zhang, 2006). On the basis of these empirical studies, it shows that there are mixed findings related to the moderating effect of firm age on the innovation-competitiveness relationship. Therefore, the current study intends to examine the moderating effect of firm age on innovation-competitiveness relationship in the context of foods manufacturing SMEs in Malaysia.

As the research related to the influence of innovation on competitive advantage has never been done in the foods manufacturing SMEs and research on the impact of moderator (i.e. the firm age) on such relationship is even rarer, therefore, this study attempts to fulfill the research gaps. This study aims to explore the influence of innovative on competitive advantage in foods manufacturing SMEs in Malaysia and to examine the moderating effect of firm age on such relationship. The research questions at the heart of this study are: Is there a positive effect of innovation on competitive advantage? To what extent firm age may moderates the influence of innovation on competitive advantage? Understanding these issues will shed light in finding answer to whom innovation support should be emphasized, either young or old SMEs. Findings of this study may help policy makers to channel the funds to the appropriate target groups to ensure a profitable return on investment in the future.

To achieve the research objectives, the remainder of this paper is structured as follows: The next section will provide an overview of the relevant literature and concepts that will provide the theoretical lens through which the research is being viewed. The subsequent section of the paper focuses on the research method, findings and ends with a discussion. The implication significance, the limitations and recommendation for future research are then examined. The last section of this paper presents the conclusions.

## 2. Literature Review

Small and Medium Enterprises is defined as manufacturing enterprises or companies providing services related to manufacturing with sales turnover not exceeding RM50 million and employs full-time workers not exceeding 200

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