The Relationship Between Distinctive Capabilities And The Performance Of Small And Medium-Size Enterprises (SMES) In Malaysia

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ABSTRACT

This study analyzes strategic factors that can influence the performance of small and medium size enterprises (SMEs) in the Malaysian manufacturing sector. The conceptual framework is developed based on the distinctive capabilities and the performance of the SMEs. This study is based on a sample survey of 121 SMEs in the manufacturing sector. Using structured questionnaires, the data is collected by mailing as well as interviews with owner-managers of the SMEs. Using the Statistical Package of Science Social (SPSS) program, the analyses were made to show the relationship between the distinctive capabilities and the performance of SMEs. The findings indicate that there is a significant relationship between distinctive capabilities and the performance of SMEs.

Keywords: distinctive capabilities, small and medium-sized enterprises (SMEs), performance, Malaysia

INTRODUCTION

According to Grilo and Thurik (2006), SMEs is one of the main engines of the contemporary economy, which brings along development and growth. The development of the SMEs sector is widely seen as a key element of a nation's economy. Further, the United Nation stated that SMEs play a significant role in the business system of both developed and developing economics (United Nations, 1993). In Malaysia, a developing country to achieve Vision 2020 and to be economically developed by year 2020, it is estimated that SMEs constituted about 80 percent of total enterprises and the manufacturing sector contributed 35 percent of Malaysia Gross Domestic Product (GDP) in year 2005 as reported by the Ministry of Finance (Ministry of Finance, 2005). According to the Malaysian Economy 3rd Quarter Report by the Department of statistics (2006), the Malaysian economy registered a steady growth of 5.8% in the third quarter of 2006 and the growth in the manufacturing sector remained firm at 7.1%.

In recent years, there are many studies suggest the positive relationship between strategic management and company performance. Strategic management is an advantage for organization in order to achieve goals and objectives. To survive and thrive in the era of globalization and liberalization, an organization needs to be competitive. Competitive organization have to practice strategic management in the organization and be adaptable to the change environment. In this regard, if strategic management is useful as an approach in improving performance of a firm, then a better understanding of strategic management is of great value to owner-managers of small and medium- sized enterprises (SMEs) too. With better understanding of strategic management in SMEs, owner-managers of SMEs can formulate and implement effective strategies based on their strategic capabilities to improve their performances as well as to overcome problems and constraints.

There is therefore a need for more empirical studies that examines strategic management in SMEs. Among the problem faced by SMEs is often seen in the lack of resources (Gemser, Brand and Sorge, 2004). According to Gemser, Brand and Sorge (2004), SMEs often suffers from the lack of those resources that provide economies of scale and reducing cost. Further, the opening of new markets bring about specific difficulties for SMEs (Hollerstein, 2005). Empirical research on these areas would provide more empirical evidence on the impact of strategic management on the performance of SMEs and also be of great benefit for SMEs striving to be more competitive. Therefore, there is a need to study more on SMEs to enhance strategic management on the performance of SMEs.

This study SMEs from the strategic management perspective. It focused on distinctive capabilities and performance, and the model builds upon the previous research which suggests distinctive capabilities can affect SMEs performance. This study investigate firms that met the chosen size criteria (small-sized enterprise is a firm that employs fewer than 50 employees and medium-sized enterprise is a firm that employs between 50 to 199 employees), based on the previous research done by Salleh, M.I. (1990) and Mohd. Asri (1999). This definition is similar to the one used by the World Bank (1984), the United Nation Development Organisation (1986) and the Asian Development Bank (1990) who defined SMEs as small enterprises employing fewer than between 50 employees and medium enterprises as firms employing between 50 to 199 employees.

LITERATURE REVIEW

The Distinctive Capabilities

The literature on strategic management suggests distinctive capabilities or competencies as an important part of an organisation's resources and competitive advantage. According to Mintzberg and Quinn (1991), the distinctive capabilities of an organisation are the source of the competitive advantage of the organization itself. Graig and Grant, (1993) defined a firm's distinctive capabilities or competencies as both tangible and intangible resources, comprising of financial, physical, human, technology, reputation and relationship which a firm owns or has access too.

Aaker (1989) noted that the assets and skills of the firm, which are the basis for competition, provide the foundation for sustainable competitive advantage. Furthermore, Aaker pointed that it is the essence of strategic management to develop and maintain these assets and skills as well as to choose these strategies so that they can be turned into sustainable competitive advantages.

Identifying and classifying resources or assets in a firm is a difficult task (Graig and Grant , 1993). However, basically, resources can be grouped into tangible and intangible assets. Ansoff, (1965), Hunger and Wheellen (1993 and 1995), and Price (1996) classified business functional areas into general administration, operations/ production, marketing, finance, human resource management, engineering and R & D and public relations. Hitt and Ireland (1985) developed distinctive capabilities instrument comprising 55 capabilities grouped according to seven functional areas; a) general administration, b) production/operations, c) engineering, research and development, d) marketing, e) finance, f) personnel, and g) public and governmental relations. The distinctive capabilities variables used in this study are adopted from this literature review.

The Performance

The primary goal of adopting effective management process is improved organisational performance. As such, some methods of measuring organisational performance is needed to determine how well an organisation is functioning as a result of adopting the strategic management process.

Organisational performance can be measured by many criterias. In general, the literature suggests that organisational performance is commonly measured in terms of effectiveness, efficiency, growth and productivity.

However, according to Robinson (1982); Cherrington (1989); and Montanari, Morgan and Bracker (1990), firms tend to focus on effectiveness when measuring their organisational performance.

Montanari, Morgan and Bracker (1990) suggested that organisational effectiveness may be measured in terms of financial measures, operational measures as well as behavioural measures. First, the authors noted that the financial measures such as profitability and growth can be used to access the financial performance of an organisation. Second, the operational measures such as productivity, resource acquisition, efficiency and employee reaction can be adopted to assess the effectiveness of the work flow as well as work support in organisations. Third, behavioural effectiveness measures such as adaptability, satisfaction, absence of strain, development and open communication can be adopted to determine individual performance.

Goodman and Pennings (1977) pointed that there is still disagreement on the meaning of organisational effectiveness. According to the authors, in addition to various definitions by different authors, there is also the tendency among authors to view effectiveness as either one-dimensional or multidimensional.

Goodman and Pennings further claimed that the underlying differences in conceptualising organisational effectiveness resulted from the different views concerning the nature of organisations. According to the authors, the different views concerning the nature of organisations have implicitly or explicitly determined the conceptual definition of organisational effectiveness. The first view sees an organisation as a rational set of arrangements and emphasised toward achieving certain goals defined effectiveness in terms of the goals attainment. Second, the open-system perspective of organisations defined effectiveness as the degree to which an organisation can maintain all its components.

According to Harrison (1996), strategic management of an organisation can help to increase the effectiveness as well as the flexibility of organizations. It is the ultimate concern of organisation to improve their performance.

The process of determining the performance of an organisation requires the selection and the measuring of a set of key variables that can allow the organisation to detect as well as monitor its competitive position in the business it engages. In another words, measuring performance is also one of the important steps in the strategic control process (Griffith, 1987; and Wheelen and Hunger, 1996).

Lee (1987) stressed the use of a composite measure of business performance derived from various indices of financial profitability measures could show the combined effects of various business activities in different business environment. Further, study of Lee (1987) indicated that the composite measure of financial profitability indices such as ROE, ROA, ROI, ROS would be a relatively comprehensive criterion to measure the performance of SMEs in different industries.

This study adopted Lee's study (1987) in measuring the SMEs' performance as the dependent variables. The performance was measured by using average, growth and the business performance composite index (BPCI).

Relationship Between The Distinctive Capabilities And The Performance.

According to Kim and Lim (1988), the ability of an organisation to survive and succeed is influenced by various factors, some of which can and some which can't be controlled. Therefore the performance of an organisation is a function of the controllable and uncontrollable variables.

In this study, the distinctive capabilities variable was based on the seven general functional areas found in most manufacturing firms. The distinctive capabilities variable was measured by using the instrument developed by Hitt and Ireland (1985).

This study looks into the relationship between distinctive capabilities and performance. In assisting the SMEs in Malaysia to cope with the new challenges, the Malaysian government has already began accelerating the operation of the manufacturing firms through various steps such as focusing on quality, encouraging more high technology ventures, introducing further tax cuts, developing efficient operations and upgrading the standards of health and safety. This will influence the distinctive capabilities aspect of the SMEs. Furthermore, the Malaysian government will continue to transform the manufacturing industry into a more dynamic sector with high value added, capital intensive, high technology as well as skilled and knowledge intensive manufacturing industry. This will effect the performance of the SMEs.

This study seeks to advance the understanding of strategic management by empirically examining the distinctive capabilities variable which can influence the performance of SMEs.

THE RESEARCH FRAMEWORK

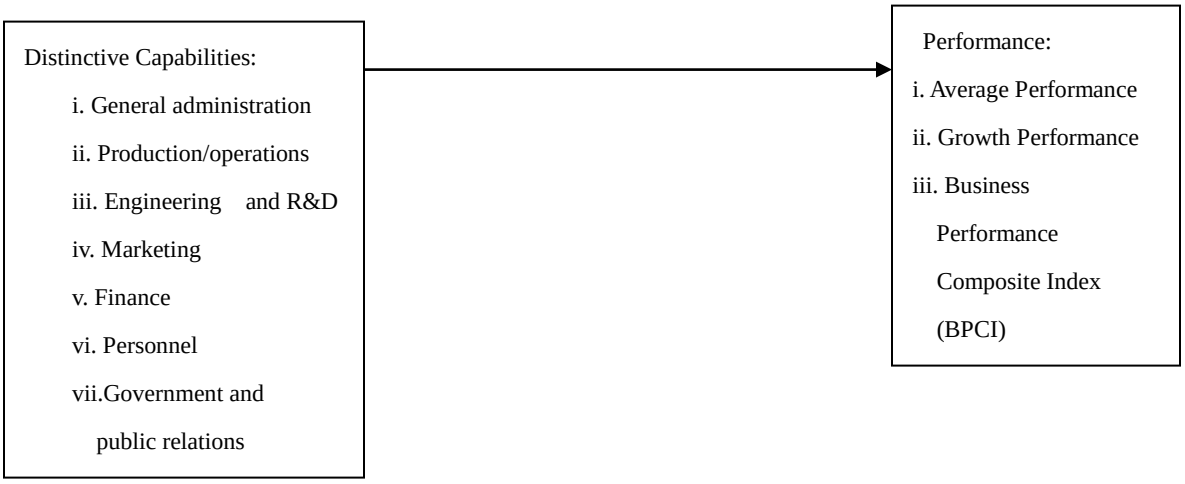

Figure 1.0: The Research Model

1. Independent Variables:
   a. Distinctive Capabilities:
      i. general administration
      ii. production/ operations
      iii. engineering and research and development (R&D)
      iv. marketing
      v. finance
      vi. personnel
      vii. government and public relations

2. Dependent variable:
   a. Performance
      i. average performance
      ii. growth
      i. business performance composite index (BPCI)

RESEARCH METHODOLOGY

SMEs registered in the Ministry of International Trade and Industry (MITI) were used as the sampling frame in the study. The firms selected from the list are those that are involved in manufacturing activities. A total of 532 sets of questionnaires were distributed to the selected firms based on the criteria (firms that employed less than 200 employees). The questionnaires were mailed to the officers of the sample firms requesting them to respond to the questionnaire as well as interviews with them. From the questionnaires collected, only 121 sets are usable for data analysis, which indicates a response rate of 22.7%.

The distinctive capabilities developed by Hitt and Ireland (1985), which grouped into seven functions, were tested in the questionnaires. The seven functions in this study were measured in terms of their levels (degree) in the firms. The levels of the distinctive capabilities were determined by requesting the owners/manager to rate each capability on a five-point numerical scale ranging from "none" to "very high".

The previous research reviews suggest that it is not possible to choose a single performance measures that is equally appropriate for all business firms. Based on the literature, this study concludes that in order to describe SMEs performance more fully, combination or multiple measures are needed so that they are able to provide more definitive answer on how efficiently and effectively SMEs is being managed.

For this study, the measurement of the performance; average and growth (of sales, assets, equity, return on sales (ROS), return on investment (ROI), return on assets (ROA), and the business performance composite index (BPCI) were computed based on the actual figures provided by the respondents for the year 1999 to year 2003.

Statistical Methods Used

Using the Statistical Package of Science Social (SPSS) program, the descriptive analysis and the multiple regression were made to show the relationship between the variables.

Hypotheses

The following hypotheses were tested for this study. They are:

1. There is a significant relationship between distinctive capabilities and the performance of SMEs.

This main hypothesis is further developed into sub-hypotheses as below:

1a) There is a significant relationship between general administration and the performance of SMEs.
1b) There is a significant relationship between production/operations and the performance of SMEs.
1c) There is a significant relationship between engineering and research and development (R&D) and the performance of SMEs.
1d) There is a significant relationship between marketing and the performance of SMEs.
1e) There is a significant relationship between finance and the performance of SMEs.
1f) There is a significant relationship between personnel and the performance of SMEs.
1g) There is a significant relationship between government and public relations and the performance of SMEs.

Results

This study managed to cover 26 of the 35 manufacturing industries identified by the Ministry of International Trade and Industry (MITI). Of the 121 firms in the 26 different industries surveyed, 17 firms (14.0%) were in the food industry, eight firms (6.6%) in the beverage industry, two firms (1.7%) in the agricultural industry,

10 firms (8.3%) *in the building material and related industry, three firms (2.5%) in the stationery industry, six firms (5.0%) in the packaging, labelling and printing industry, two firms (1.7%) in ceramics and tiles industry, one firm (0.8%) in tobacco industry, 10 firms (8.3%) in textile products industry, one firm (0.8%) in wood products industry, six firms (5.0%) in the furniture industry, four firms (3.3%) in the paper products industry, three firms (2.5%) in the chemical industry, and pharmaceutical industry, two firms (1.7%) in rubber products industry, four firms (3.3%) in plastic products industry, one firm (0.8%) in non-metallic industry, 15 firms (12.4%) in electrical and electronics industry, eight* firms (6.6%) in supporting products industry, two firms (1.7%) in souvenir and handicrafts industry, one firm (0.8%) in sports goods and equipment industry, one firm (0.8%) in jewellery and related products industry, two firms (1.7%) in motor vehicle components industry, six firms (5.0%) in household appliances industry, one firm (0.8%) in laboratory equipment industry, and two firms (1.7%) in miscellaneous industries. Table 1 presents the summary of the firms by type of industry.

Table 1: The Sample Firms By Type Of Industry

Type Of Industry	Frequency /(%)
1. Food	17 (14.0)
2. Beverage	8 (6.6)
3. Agricultural products	2 (1.7)
4. Building material & related products	10 (8.3)
5. Stationery	3 (2.5)
6. Packaging, labeling & printing	6 (5.0)
7. Ceramics & tiles	2 (1.7)
8. Tobacco	1 (0.8)
9. Textile products	10 (8.3)
10. Wood products	1 (0.8)
11. Furniture & fixtures	6 (5.0)
12. Paper Products	4 (3.3)
13. Industrial chemical	3 (2.5)
14. Pharmaceutical products	3 (2.5)
15. Rubber products	2 (1.7)
16. Plastic products	4 (3.3)
17. Non-metallic products	1 (0.8)
18. Electrical, electronics products	15 (12.4)
19. Supporting products	8 (6.6)
20. Souvenirs & handicrafts	2 (1.7)
21. Sports goods & equipment	1 (0.8)
22. Jewellery & related products	1 (0.8)
23. Motor vehicles components	2 (1.7)
24. Household appliances	6 (5.0)
25. Laboratory equipment	1 (0.8)
26. Miscellaneous	2 (1.7)
Total	121

The descriptive statistic output for the firm characteristics is presented by Table 2.

Table 2: Firm Characteristics

Firm Characteristics	Frequency /(%)
Founder	23 (19.0)
Cofounder	12 (9.0)
Inherited from family	7 (5.8)
Purchased business not from family	11 (9.1)
Hired or promoted by the company	68 (56.2)
Total	121

As shown by Table 2, most of the respondents, 68 (56.2%) of them hired or promoted by the company. 23 (19.0%) of the respondents are the founder and 12 (9.0%) of them are the cofounder. 11 (9.1%) of the respondents purchased the business not from family and seven (5.8%) of them inherited or purchased the business from the family.

A multiple regression analysis was adopted to examine the significant relationship between distinctive capabilities and the performance of SMEs. Table 3 to Table 9 presents the results for multiple regressions for distinctive capabilities variables on the performance of SMEs.

Table 3: Multiple regressions of general administration variable on the performance of SMEs

Performance	R	R^2	Adjusted R^2	Durbin Watson	F-Value	Sig. F.
(Average)						
i. Sales	0.202	0.041	0.033	2.232	5.083	0.026
ii. Assets	0.321	0.103	0.095	1.874	13.660	0.000**
iii.Equity	0.299	0.089	0.082	1.977	11.648	0.001**
iv. ROI	0.101	0.010	0.002	2.179	1.239	0.268
v. ROS	0.230	0.053	0.045	2.128	6.644	0.011
vi. ROA	0.036	0.001	-0.007	2.096	0.151	0.698
(Growth)						
i. Sales	0.138	0.019	0.011	2.148	2.321	0.130
ii. Assets	0.273	0.075	0.067	1.246	9.621	0.002**
iii. Equity	0.161	0.026	0.018	1.633	3.164	0.078
iv. ROI	0.060	0.004	-0.005	2.068	0.430	0.513
v. ROS	0.291	0.085	0.077	2.218	11.046	0.001**
vi. ROA	0.016	0.000	-0.008	2.033	0.031	0.861
BPCI	0.120	0.014	0.006	2.203	1.727	0.191

** significant at 0.05 level (2-tailed)

The results of the regression analyses in Table 3 indicated that there are significant values for average assets ($p=0.000<0.005$), average equity ($p=0.001<0.005$), growth of assets ($p=0.002<0.005$) and growth of ROS ($p=0.001<0.005$). The R^2 (coefficient of determination) of average assets is 0.103 indicated that 10.3% of the variance in the average assets of SMEs can be explained by the general administration variable. Since the value in Durbin Watson indicated 1.874 and it is close to 2, its successive residuals are not correlated and so it is considered as a good data.

The R^2 (coefficient of determination) of average equity is 0.089 indicated that 8.9% of the variance in the average equity of SMEs can be explained by the general administration variable. Since the value in Durbin Watson indicated 1.977, and it is close to 2, its successive residuals are not correlated and so it is considered as a good data.

The R^2 (coefficient of determination) of growth of assets is 0.075 indicated that 7.5% of the variance in the growth of assets of SMEs can be explained by the general administration variable. The Durbin Watson value indicated 1.246, and it is in the acceptable range.

The R^2 (coefficient of determination) of growth of ROS is 0.085 indicated that 8.5% of the variance in the growth of ROS of SMEs can be explained by the general administration variable. Since the value in Durbin Watson indicated 2.218, and it is close to 2, its successive residuals are not correlated and so it is considered as a good data. As such, Hypothesis 1 a) was accepted in this study.

Table 4: Multiple regressions of production/operation variable on the performance of SMEs

Performance	R	R^2	Adjusted R^2	Durbin Watson	F-Value	Sig. F.
(Average)						
i. Sales	0.069	0.005	-0.004	2.173	0.572	0.451
ii. Assets	0.148	0.022	0.014	1.842	2.655	0.106
iii.Equity	0.190	0.036	0.028	1.969	4.467	0.037
iv. ROI	0.087	0.008	-0.001	2.146	0.902	0.344
v. ROS	0.218	0.047	0.039	2.143	5.931	0.016
vi. ROA	0.010	0.000	-0.008	2.078	0.012	0.912
(Growth)						
i. Sales	0.045	0.002	-0.006	2.146	0.243	0.623
ii. Assets	0.102	0.010	0.002	1.200	1.257	0.264
iii. Equity	0.126	0.016	0.008	1.665	1.920	0.168
iv. ROI	0.021	0.000	-0.008	2.040	0.054	0.817
v. ROS	0.283	0.080	0.072	2.201	10.338	0.002**
vi. ROA	0.024	0.001	-0.008	2.033	0.069	0.793
BPCI	0.099	0.010	0.001	2.167	1.173	0.281

** significant at 0.05 level (2-tailed)

The results of the regression analyses in Table 4 indicated that there is significant value for growth of ROS ($p=0.002<0.005$). The R^2 (coefficient of determination) of growth of ROS is 0.080 indicated that 8.0% of the variance in the growth of ROS of SMEs can be explained by the production/operation variable. Since the value in Durbin Watson indicated 2.201, and it is close to 2, its successive residuals are not correlated and so it is considered as a good data. As such, Hypothesis 1(b) was accepted in this study.

Table 5: Multiple regressions of engineering/research and development (R&D) variable on the performance of SMEs

Performance	R	R^2	Adjusted R^2	Durbin Watson	F-Value	Sig. F.
(Average)						
i. Sales	0.065	0.004	-0.004	2.139	0.512	0.476
ii. Assets	0.251	0.063	0.055	1.838	8.015	0.005
iii.Equity	0.359	0.129	0.122	1.974	17.633	0.000**
iv. ROI	0.158	0.025	0.017	2.134	3.043	0.084
v. ROS	0.136	0.018	0.010	2.074	2.239	0.137
vi. ROA	0.100	0.010	0.002	2.098	1.200	0.275
(Growth)						
i. Sales	0.022	0.000	-0.008	2.135	0.055	0.814
ii. Assets	0.171	0.029	0.021	1.179	3.585	0.061
iii. Equity	0.173	0.030	0.022	1.668	3.677	0.058
iv. ROI	0.095	0.009	0.001	2.044	1.084	0.300
v. ROS	0.176	0.031	0.023	2.070	3.788	0.054
vi. ROA	0.060	0.004	-0.005	2.034	0.425	0.516
BPCI	0.160	0.026	0.018	2.153	3.139	0.079

** significant at 0.05 level (2-tailed)

The results of the regression analyses in Table 5 indicated that there is significant value for average of equity ($p=0.000<0.005$). The R^2 (coefficient of determination) of average of equity is 0.129 indicated that 12.9% of the variance in the average of equity of SMEs can be explained by the engineering/ research and development (R&D) variable. Since the value in Durbin Watson indicated 1.974, and it is close to 2, its successive residuals are not correlated and so it is considered as a good data. As such, Hypothesis 1c) was accepted in this study.

Table 6: Multiple regressions of marketing variable on the performance of SMEs

Performance	R	R^2	Adjusted R^2	Durbin Watson	F-Value	Sig. F.
(Average)						
i. Sales	0.287	0.082	0.074	2.084	10.648	0.001**
ii. Assets	0.418	0.175	0.168	1.646	25.255	0.000**
iii.Equity	0.393	0.154	0.147	1.900	21.691	0.000**
iv. ROI	0.095	0.009	0.001	2.083	1.093	0.298
v. ROS	0.189	0.036	0.028	2.085	4.397	0.038
vi. ROA	0.045	0.002	-0.006	2.069	0.237	0.627
(Growth)						
i. Sales	0.156	0.024	0.016	2.099	2.949	0.089
ii. Assets	0.242	0.059	0.051	1.104	7.425	0.007**
iii. Equity	0.118	0.014	0.006	1.646	1.678	0.198
iv. ROI	0.040	0.002	-0.007	2.025	0.188	0.666
v. ROS	0.234	0.055	0.047	2.061	6.880	0.010
vi. ROA	0.008	0.000	-0.008	2.024	0.007	0.931
BPCI	0.111	0.012	0.004	2.097	1.493	0.224

** significant at 0.05 level (2-tailed)

The results of the regression analyses in Table 6 indicated that there are significant values for average of sales (p=0.001<0.005), average of assets (p=0.000<0.005) and average of equity (p=0.000<0.005). The R^2 (coefficient of determination) of average of sales is 0.082 indicated that 8.2% of the variance in the average of sales of SMEs can be explained by the marketing variable. Since the value in Durbin Watson indicated 2.084, and it is close to 2, its successive residuals are not correlated and so it is considered as a good data.

The R^2 (coefficient of determination) of average of assets is 0.175 indicated that 17.5% of the variance in the average of assets of SMEs can be explained by the marketing variable. Since the value in Durbin Watson indicated 1.646, and it is close to 2, its successive residuals are not correlated and so it is considered as a good data.

The R^2 (coefficient of determination) of average of equity is 0.154 indicated that 15.4% of the variance in the average of equity of SMEs explained by the marketing variable. Since the value in Durbin Watson indicated 1.900, and it is close to 2, its successive residuals are not correlated and so it is considered as a good data. As such, Hypothesis 1 d) was accepted in this study.

Table 7: Multiple regressions of finance variable on the performance of SMEs

Performance	R	R^2	Adjusted R^2	Durbin Watson	F-Value	Sig. F.
(Average)						
i. Sales	0.158	0.025	0.017	2.152	3.037	0.084
ii. Assets	0.290	0.084	0.077	1.861	10.965	0.001**
iii.Equity	0.266	0.071	0.063	1.983	9.047	0.003**
iv. ROI	0.059	0.004	-0.005	2.126	0.422	0.517
v. ROS	0.201	0.040	0.032	2.077	5.010	0.027
vi. ROA	0.020	0.000	-0.008	2.079	0.047	0.828
(Growth)						
i. Sales	0.112	0.012	0.004	2.151	1.500	0.223
ii. Assets	0.236	0.055	0.048	1.224	6.990	0.009
iii. Equity	0.149	0.022	0.014	1.637	2.691	0.104
iv. ROI	0.031	0.001	-0.007	2.040	0.113	0.737
v. ROS	0.244	0.059	0.051	2.116	7.505	0.007
vi. ROA	0.005	0.000	-0.008	2.024	0.003	0.956
BPCI	0.082	0.007	-0.002	2.142	0.812	0.369

** significant at 0.05 level (2-tailed)

The results of the regression analyses in Table 7 indicated that there are significant values for average assets (p=0.001<0.005) and average equity (p=0.003<0.005). The R^2 (coefficient of determination) of average assets is 0.084 indicated that only 8.4% of the variance in the average assets of SMEs can be explained by the finance variable. Since the value in Durbin Watson indicated 1.861 and it is close to 2, its successive residuals are not correlated and so it is considered as a good data.

The R^2 (coefficient of determination) of average equity is 0.071 indicated that 7.1% of the variance in the average equity of SMEs can be explained by the finance variable. Since the value in Durbin Watson indicated 1.983, and it is closed to 2, its successive residuals are not correlated and so it is considered as a good data. As such, Hypothesis 1 e) was accepted in this study.

Table 8: Multiple regressions of personnel variable on the performance of SMEs

Performance	R	R^2	Adjusted R^2	Durbin Watson	F-Value	Sig. F.
(Average)						
i. Sales	0.203	0.041	0.033	2.189	5.096	0.026
ii. Assets	0.300	0.090	0.083	1.894	11.807	0.001**
iii.Equity	0.278	0.077	0.070	2.037	9.995	0.002**
iv. ROI	0.048	0.002	-0.006	2.124	0.279	0.599
v. ROS	0.209	0.044	0.035	2.083	5.414	0.022
vi. ROA	0.010	0.000	-0.008	2.070	0.012	0.912
(Growth)						
i. Sales	0.099	0.010	0.001	2.152	1.173	0.281
ii. Assets	0.246	0.061	0.053	1.228	7.666	0.007
iii. Equity	0.164	0.027	0.019	1.637	3.287	0.072
iv. ROI	0.003	0.000	-0.008	2.032	0.001	0.971
v. ROS	0.248	0.062	0.054	2.131	7.820	0.006
vi. ROA	0.036	0.001	-0.007	2.014	0.157	0.693
BPCI	0.066	0.004	-0.004	2.140	0.517	0.473

** significant at 0.05 level (2-tailed)

The results of the regression analyses in Table 8 indicated that there are significant values for average of assets ($p=0.001<0.005$) and average of equity ($p=0.002<0.005$). The R^2 (coefficient of determination) of growth of ROS is 0.090 indicated that 9.0% of the variance in the average of assets of SMEs can be explained by the personnel variable. Since the value in Durbin Watson indicated 1.894, and it is close to 2, its successive residuals are not correlated and so it is considered as a good data.

The R^2 (coefficient of determination) of average of equity is 0.077 indicated that 7.7% of the variance in the average of equity of SMEs can be explained by the personnel variable. Since the value in Durbin Watson indicated 2.037, and it is close to 2, its successive residuals are not correlated and so it is considered as a good data. As such, Hypothesis 1f) was accepted in this study.

Table 9: Multiple regressions of government and public relations variable on the performance of SMEs

Performance	R	R^2	Adjusted R^2	Durbin Watson	F-Value	Sig. F.
(Average)						
i. Sales	0.046	0.002	-0.006	2.133	0.247	0.620
ii. Assets	0.022	0.000	-0.008	1.809	0.056	0.813
iii.Equity	0.030	0.001	-0.008	1.966	0.105	0.746
iv. ROI	0.064	0.004	-0.004	2.113	0.496	0.483
v. ROS	0.230	0.053	0.045	2.103	6.671	0.011
vi. ROA	0.018	0.000	-0.008	2.076	0.041	0.841
(Growth)						
i. Sales	0.022	0.000	-0.008	2.133	0.058	0.811
ii. Assets	0.074	0.006	-0.003	1.181	0.661	0.418
iii. Equity	0.114	0.013	0.005	1.642	1.574	0.212
iv. ROI	0.054	0.003	-0.005	2.039	0.354	0.553
v. ROS	0.277	0.077	0.069	2.127	9.928	0.002**
vi. ROA	0.016	0.000	-0.008	2.027	0.030	0.864
BPCI	0.090	0.008	0.000	2.128	0.982	0.324

** significant at 0.05 level (2-tailed)

The results of the regression analyses in Table 9 indicated that there is significant value for growth of ROS ($p=0.002<0.005$). The R^2 (coefficient of determination) of growth of ROS is 0.077 indicated that 7.7% of the variance in the growth of ROS of SMEs explained by the public and government relations variable. Since the value in Durbin Watson indicated 2.127, and it is close to 2, its successive residuals are not correlated and so it is considered as a good data. As such, Hypothesis 1 g) was accepted in this study.

Discussion And Conclusion

The study attempted to examine the influence of strategic management variables on the performances of SMEs. More specifically, the primary objective of the study was to examine empirically the influence of distinctive capabilities on the performance of SMEs in the Malaysian manufacturing sector.

As far as this study is concerned, the results suggest that most of the SMEs studied have relatively high level of distinctive capabilities. These findings appear to be consistent with the study conducted by Stoner (1987). According to Stoner, most small firms recognised the need for building and developing distinctive capabilities as a competitive strategy. These findings point out that distinctive capabilities may lead to better performance of SMEs. This evidence reveals that distinctive capabilities is a strong variable to explain the changes in the performance of SMEs. The findings suggest the need for firms to develop their distinctive capabilities to lead to better SMEs performance. These findings appear to add support to the theoretical argument that distinctive capabilities is another key variable for performance of SMEs. This study also suggests that Hitt and Ireland's (1985 and 1986) views of distinctive capabilities as an independent variable (as in this study) is being reviewed.

Based on the findings of the study, the significant relationships were found between distinctive capabilities and the performance of SMEs. This implies that distinctive capabilities is an important variable that must be considered to improve the performance of an organization. It was found that SMEs that emphasize on distinctive capabilities can achieve better performance. It has become increasingly evident that relationships exist between a firm's distinctive capabilities and a firm's performance. The seminal works of Ansoff (1965), Hunger and Wheellen (1993 and 1995); Price (1996), Mohd Khairuddin (2000) testify the relationship between distinctive capabilities and a firm's performance. This study looks into the distinctive capabilities of SMEs in Malaysia and suggests the relationships between the distinctive capabilities and the performance of the SMEs in Malaysia. Following this line of thought, the Malaysian government which wants to promote SMEs, especially in the manufacturing sector, needs to focus on the distinctive capabilities variables and provide guidance and support towards enhancing these capabilities to ensure the performance of the SMEs.

The liberalization of trade and investment under the ASEAN Free Trade Area (AFTA), the ASEAN Investment Area (AIA), the European Union (EU) and the emerging market economics of Eastern Europe, the Malaysian SMEs will face new opportunities as well as challenges that yesterday's SMEs owners and managers did not have to deal with, for example, the need for market expansion, the need for production expansion, the facilitation of resources acquisition, the competitive forces and the technological changes (IT, internet, World Wide Web). YAB Dato Seri Abdulah Haji Badawi, the Prime Minister of Malaysia, at the Neac Dialogue Forum emphasized the important role of SMEs in the economy and clearly indicated the government's full commitment and plans for SMEs sector. The government will continue to pursue policies that focus on the development of SMEs as an engine of growth.

Distinctive capabilities owned by SMEs may provide SMEs with a powerful competitiveness weapon. These will provide new strengths to SMEs in their competitive struggle in global business world to achieve better performance. Therefore, Malaysian SMEs need to concentrate their efforts on distinctive capabilities they posses in the new century to achieve better performance.

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