



ORIGINAL

## Unlocking New Product Performance Through Market Orientation and Firm Capabilities in Malaysian Manufacturing SMEs

### Desbloquear el rendimiento de los nuevos productos mediante la orientación al mercado y las capacidades de la empresa en las PYME manufactureras malasia

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#### ABSTRACT

In Malaysia, small and medium enterprises (SMEs) are critical to the economic transformation as they form the key domestic source of growth and the bedrock of private sector activity. Moreover, SMEs are also important in stimulating innovation and stabilizing growth during the economic slowdown. Therefore, this paper investigates how the relationships between a firm's market orientation and its new product performance are mediated by such capabilities (marketing and technological capabilities). Embedded in the firm's Resource-based View (RBV), a theoretical framework for new product performance was developed. The data collected was analyzed using SPSS and Structured Equation Modeling (SEM) using AMOS was applied to test the hypotheses. The empirical results demonstrate that a firm's market orientation positively impacts new product performance. Also confirms that marketing capabilities do have a direct impact on new product performance. Besides, marketing capabilities serve as an indirect-only mediator (full mediation) for the relationship between market orientation and new product performance. A clear message for managers and owners is that they should develop strong firm capabilities to achieve superior new product performance.

**Keywords:** Innovation; Smes; Market Orientation; Marketing Capabilities; Technological Capabilities; New Product Performance.

#### RESUMEN

En Malasia, las pequeñas y medianas empresas (PYME) son fundamentales para la transformación económica, ya que constituyen la principal fuente interna de crecimiento y la base de la actividad del sector privado. Además, las PYME también son importantes para estimular la innovación y estabilizar el crecimiento durante la desaceleración económica. Por lo tanto, este documento investiga cómo las relaciones entre la orientación al mercado de una empresa y el rendimiento de sus nuevos productos están mediadas por dichas capacidades (capacidades de marketing y tecnológicas). Se desarrolló un marco teórico para el rendimiento de los nuevos productos basado en la visión de la empresa basada en los recursos (RBV). Los datos recogidos se analizaron con SPSS y se aplicó un modelo de ecuaciones estructuradas (SEM) con AMOS para comprobar las hipótesis. Los resultados empíricos demuestran que la orientación al mercado de una empresa influye positivamente en el rendimiento de los nuevos productos. También confirman que las capacidades de marketing tienen un impacto directo en el rendimiento de los nuevos productos. Además, las capacidades de marketing sirven como mediador sólo indirecto (mediación completa) de la relación entre la orientación al mercado y el rendimiento de los nuevos productos. Un mensaje claro para directivos y propietarios es que deben desarrollar capacidades firmes en la empresa para lograr un rendimiento superior de los nuevos productos.

**Palabras clave:** Innovación; Pymes; Orientación al Mercado; Capacidades de Marketing; Capacidades Tecnológicas; Rendimiento de Nuevos Productos.

## INTRODUCTION

Small and medium enterprises (SMEs) have played an important role in fostering growth, employment, and income in the national economy of Malaysia. This phenomenon is not an exception to Malaysia alone; SMEs are seen as the main actors in both national and regional development in many countries.<sup>(1,2)</sup> In moving towards achieving sustainable economic growth, Malaysia has developed an important group of diverse and competitive SMEs that play an important role and are vital to the economic growth and overall production network.

Ninety-eight percent of business establishments in Malaysia are SMEs. These businesses are responsible for 38,2 percent of the country's Gross Domestic Product (GDP), 59 percent of the country's employment, and nearly 19 percent of Malaysia's exports.<sup>(2)</sup> SMEs also provide steady support for the growth of new industries. SMEs in Malaysia are critical to the economic transformation as they form the key domestic source of growth and the bedrock of private sector activity.

To accelerate the growth of SMEs, it is important to understand the forces that drive the performance of these companies. The SME Masterplan has highlighted six factors that influence the performance of SMEs.<sup>(3)</sup> namely: i) innovation and technology adoption, ii) human capital development, iii) access to financing, iv) market access, v) legal and regulatory environment; and, vi) infrastructure. Innovation has been considered the number one factor in the SME Masterplan. Currently, SMEs are not achieving high performance due to challenges faced in each of these areas.<sup>(4)</sup>

Although all six performance levers in the Masterplan should be enhanced simultaneously, as shortcomings in any one of these levers can prevent SMEs from reaching their full potential, the Malaysian Government considers innovation and technology adoption the uppermost priority.<sup>(3)</sup> They are also important in stimulating innovation and act as stabilizers of growth during an economic slowdown, especially post-pandemic.<sup>(5)</sup> Productivity growth of Malaysian SMEs has slowed significantly after the Asian crisis which caused a decline in private investment, a shortage of skilled workers, and a lack of innovative activity.<sup>(6)</sup> Only through innovation can SMEs become competitive in the global market and among their competitors.

The Ministry of Science, Technology, and Innovation, Malaysia (MOSTI) surveyed manufacturing firms and identified and categorized the innovative status of the companies. Details of the survey conducted are provided by the National Survey of Innovation, Malaysia (NSI). The criteria for innovative and non-innovative firms are:

- i) Innovative - any firm that has conducted any of the innovation activities such as:
  - a) Product innovation;
  - b) Process innovation;
  - c) Marketing innovation; and
  - d) Organisational innovation.
- ii) Non-innovative - any firm that has not undertaken any of the four (4) innovation activities during the period

The main concern is that a third of the two-thirds of manufacturing firms are not innovating. This issue needs to be addressed because innovation can contribute to the positive performance of the company, as measured by its economic development.<sup>(7,8)</sup> Recent evidence suggests that to transform Malaysia into a high-income nation through innovation and a knowledge-based economy, SMEs must be innovative and competitive at the global level as the engine of growth and innovation.

In line with the Malaysian government's objective to maintain economic growth at 6 percent annually and achieve high-income and developed status, several initiatives have been taken including developing an ecosystem that would create opportunities, enablers, and funding for innovations; rationalizing the role of government in business to balance between government and private sectors; developing SMEs; and, creating research universities to assist in creating innovative companies.<sup>(9)</sup>

The analysis of the National Survey of Innovation (NSI) reveals that a majority of innovative companies in Malaysia operate in the services sector, accounting for 62 % of the total. In contrast, the manufacturing sector houses 38 % of innovative companies. However, the trend is reversed for non-innovative companies, with 58 % concentrated in manufacturing and 42 % in services. When examining ownership structures, Private Limited (Sdn Bhd) companies emerge as the most innovative across both sectors. Over 70 % of innovative manufacturing companies and 59 % of innovative service companies fall under this category. On the other hand, partnerships exhibit the lowest proportion of innovative companies in both manufacturing and services sectors. Innovation is crucial for SMEs, particularly manufacturing firms in Malaysia, to survive and thrive in

today's competitive global market.

Innovation is not just a luxury but a necessity for SMEs, especially manufacturing firms in Malaysia. By investing in research and development, adopting new technologies, and fostering a culture of innovation, SMEs can position themselves for long-term success in the competitive global marketplace.<sup>(10,11)</sup>

Embedding innovation within a strategic framework is crucial for SMEs in Malaysia to achieve sustainable growth and long-term success. By strategically aligning their innovation efforts, SMEs can drive competitive advantage through product differentiation and enhanced customer value, boost efficiency and productivity, mitigate risks associated with market volatility and technological disruption, foster a culture of innovation and employee engagement, and strengthen their market position through brand equity and market expansion.<sup>(12)</sup>

The importance of innovation to the national economy and business performance has been highlighted in business literature, reports, and government policy.<sup>(13)</sup> Ample practitioner-oriented literature also suggests that to survive and thrive in hyper-competitive markets, innovation is the only key solution.<sup>(14)</sup> Entrepreneurs or small business owners need to have an edge to compete against larger, well-established competitors through innovation, including product, service, and process innovation and innovation in business models<sup>(15)</sup> as well as open innovation. Ensuring an organization's sustainability means companies must continue to innovate within a context of global competitive pressure, shorten product life cycles, and ease the threat of imitation. Innovation is a major factor that contributes to an organization's survival and sustainability. Nevertheless, innovation research in the Malaysian context is still under-researched. An inadequate effort has been devoted to research on SME innovation.<sup>(16)</sup> It is evident that in an increasingly borderless world economy, which offers both opportunities and risks, only innovative firms, capable of meeting new challenges, can survive.

### Factors Affecting New Product Performance

From an RBV perspective, strategic orientation can be regarded as part of an organizational culture, which is valuable, rare, inimitable, and non-substitutable. The market, entrepreneur, technology, and learning orientations are seen as principles that drive and influence a company's activities and create behaviors to ensure its profitability and efficiency.<sup>(17)</sup> This research examines market orientation in terms of its relationship with innovation and new product performance.

The two capabilities of marketing and technological capabilities and their impact on new product performance have been argued as being the most valuable for firms for their product innovation<sup>(18,19)</sup> and are major drivers of new product performance.<sup>(19)</sup> Marketing and technological capabilities are the core organizational functions responsible for the formulation and execution of business strategies that result in a sustained advantage.<sup>(20)</sup> It is for these reasons that marketing and technological capabilities, and their impact on NPP will be the focus of this research.

Since the inception of the RBV framework,<sup>(21)</sup> the relationship between a firm's capabilities and its performance has been the subject of interest for strategic scholars.<sup>(22,23)</sup> claims there is a positive relationship between capabilities and performance; though capabilities can also contribute to key rigidities and therefore a negative impact.<sup>(24)</sup>

The main effects on the performance of marketing-related and technology-oriented capabilities were significant in both high and low levels of technological turbulence. Yet, the influence on the performance of marketing-related capabilities in the low technologically turbulent setting was stronger. The performance effect of implementing technology-related capabilities was the same for both scales of technological turbulence. That indicates the interaction effect between the two capabilities is significant only in the high turbulence environment. The impact on firm performance is more significant when there is a complementary of marketing resources and marketing capabilities.

### The Underpinning Theory

This study adopts the Resource-based View (RBV) to highlight the importance of resources and capabilities to firm performance. The RBV indicates that a firm can be regarded as a bundle of resources and competencies that play the most critical role and underpin a firm's competitive advantage and organizational performance.<sup>(25)</sup> The two critical assumptions of RBV are resource heterogeneity and immobility. Heterogeneity in resources leads to market equilibrium as companies that are superior in terms of resource endowments and their ability to deploy their resources are more prepared to produce superior product offerings compared to their competitors.<sup>(26)</sup>

RBV has become one of the dominant theoretical perspectives in strategic management and has been widely used in many disciplines, such as human resource management, innovation management, economics, marketing, and international business.<sup>(27)</sup> It is widely agreed that this theory suggests that if the organization has all related resources combined with certain capabilities, it may ease the implementation of the firm's resources and capabilities and enhance performance.

For firms to benefit from their resources, they must-have capabilities that are defined as bundles of skills and knowledge to deliver skills and coordinate their activities in such a way that competitive advantages are

generated. This study asserts that the firm new product performance (NPP) implementation model positively affects the NPP making it critical to identify how organizations utilize their capabilities in this area to enhance their NPP. Thus, this research is needed to better explain the link between resources, competencies, and capabilities within the competitive environment a firm operates.

### Theoretical Framework

Concerning the application of RBV in product innovation and notwithstanding a significant body of research on the market, technology, and entrepreneurial orientations, the nature of the relationship between a firm's strategic orientations (an important part of a firm's culture and resources) and product innovation outcomes remains under investigation.<sup>(28)</sup> Building on the RBV perspective, extant research has shown that a firm's new product performance is primarily affected by its resources and competencies, particularly marketing and technological capabilities.<sup>(29,30)</sup>

A firm's capabilities are its skills to deploy its resources and can be dynamic when the firm implements new strategies to reflect changing market environments by combining and transforming available resources in new and different ways.<sup>(31)</sup> Argued that while possessing valuable, rare, inimitable, and non-substitutable resources may be beneficial, firms also require complementary capabilities to be able to deploy the available resources in ways that match the market conditions and drive firm performance.

### METHOD

A deductive research design was applied through a quantitative survey for its primary data collection as it seeks to develop and validate a theoretical model consisting of testable hypotheses. This paper examines several mediating and moderating effects on new product performance, thereby providing new evidence in support of or contradicting previous work, and generating new knowledge.

The primary survey was carried out and both postal and online self-administered questionnaires were distributed. A purposive sampling method was chosen because it refers to the types of firms included in the invited sample, that is the manufacturing industry, and specifically, the SMEs involved in product innovation. The data collected from the survey was analyzed using IBM SPSS Statistics for the descriptive analysis. Then, structural equation modeling (SEM) using AMOS was applied to test the hypotheses based on the framework of new product development adopted for SEM.

To test the hypotheses on the relationship between the firm's capabilities (marketing and technological) and new product performance, hierarchical multiple regression analyses were conducted. This technique enables a dependent variable to be predicted from multiple independent variables.

### RESULTS

The theoretical framework proposed below outlines the main constructs: the firm's market orientation, the firm's capabilities (marketing and technological), and the firm's new product performance to investigate the relationships between these areas are outlined in figure 1.

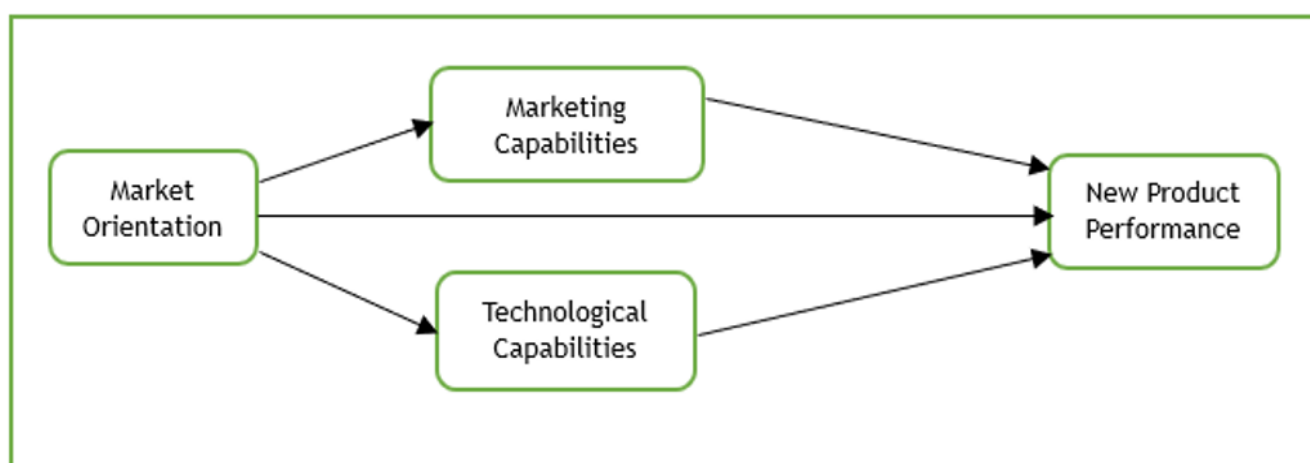


Figure 1. A theoretical framework for new product performance

The direct effects, indirect effects, and total effects from the exogenous constructs to the endogenous constructs in the theoretical framework are presented in table 1.

Path	Direct Effect β	Indirect Effect β	Types of Mediation	Total Effect β
MO -> NPP	,081			,142*
MC -> NPP	,248**			
TC -> NPP	,137			
MO -> MC -> NPP		,063*	Indirect-only/Full mediation	
MO -> TC -> NPP		-,002	Non-mediation	
MO -> MC	,254***			
MO -> TC	-,015			

**Note:** The values for direct, indirect, and total effects in this table are completely standardized solutions from the AMOS 24;  
 \*: significant at  $\alpha = 0,05$  (two-tailed);  
 \*\*: significant at  $\alpha = 0,01$  (two-tailed);  
 \*\*\*: significant at  $\alpha = 0,001$  (two-tailed).

Table 1 shows that the  $\beta$  value for all hypothesized relationships was reported. The total effect of market orientation was positive. Therefore, the hypothesis (H1) was supported by the data in terms of its total effects.

The effect of marketing capabilities on new product performance was positive and significant. However, the effect of technological capabilities on new product performance was not significant, although positive.

#### The Mediating (Indirect) Effects of the Model Constructs

The mediating effect of firm capabilities between market orientation and new product performance indicated indirect effects. The findings presented in table 1 show that marketing capabilities serve as an indirect-only mediator (full mediation) for the relationship between market orientation and new product performance. Thus, the hypothesis is supported. Market orientation shows a statistical and positive indirect effect through marketing capabilities on new product performance ( $\beta = ,063^{**}$ ). However, market orientation does not have a significant direct effect on new product performance ( $\beta = ,081$ ). Instead, market orientation impacts new product performance only through marketing capabilities.

The other four mediating effects of market orientation on new product performance are not statistically significant. Therefore, the hypotheses are not supported. Table 2 summarizes the test results for the hypotheses in the theoretical model.

	Hypotheses	Results
H1	Market orientation has a positive impact on new product performance	Supported
H2a	A firm's marketing capabilities have a positive impact on new product performance	Supported
H2b	A firm's technological capabilities have a positive impact on new product performance	Not supported
H3a	A firm's marketing capabilities mediate the relationship between market orientation and new product performance	Indirect-only/Full mediation Supported
H3b	A firm's technological capabilities mediate the relationship between market orientation and new product performance	Non-mediation Not supported

## DISCUSSION

This finding reveals that market orientation does not have a direct effect on new product performance. However, a full mediation effect was established for the relationship between market orientation and new product performance through marketing capabilities as the mediator. These findings indicate that if firms focus only on market orientation, this orientation will have no impact on new product performance.

It is also demonstrated that capabilities are dynamic when they allow the firm to implement new strategies to reflect changing market conditions by combining and transforming available resources in new and different ways. In this case, the market orientation is linked to the firm's new product performance and indicates that market orientation requires complementary firm capabilities, that is marketing capabilities if its value to the firm is to be fully utilized.

In the case of Malaysian SMEs, possessing valuable, rare, inimitable, and non-substitutable resources can be useful. Firms also require complementary capabilities to deploy available resources in ways that suit market conditions and drive new product performance.

Furthermore, developing new products is important for SMEs particularly if an SME wants to respond to dynamic market needs.<sup>(32)</sup> They need to develop new products that are increasingly nested in new technologies.<sup>(33)</sup> Firms with well-developed technological capabilities tend to be high-performing.<sup>(34)</sup> In the Malaysian SMEs' context, innovation is necessary to safeguard the survival of these firms and enable them to compete among themselves and with their larger counterparts. SMEs need to scan the environment and explore technology. New product performance is driven by technology, particularly the exploration of technological capabilities.

It can, therefore, be assumed that Malaysian SMEs must acquire manufacturing technologies and skills that are entirely new to their firms if they are to develop new products and improve their firms' new product performance. To the extent of our knowledge, this result is a new finding.

## CONCLUSION

The findings from this research have shed light on practices that managers of Malaysian SMEs can implement, one at a time. The synchronization of exploitation and exploration is not within the scope of this research. In general, therefore, the fact that previous studies in mainly Western countries and larger firms differ in terms of available resources and size of the firms. Contrary to prior findings,<sup>(35)</sup> observed that temporal cycling between exploitation and exploration has a positive effect on new product performance.

SMEs tend to be overlooked by management scholars within the context of research into ambidexterity, normally because data about them are not readily available. Instead, the extant literature on firm capabilities ambidexterity has tended to focus on larger firms, leaving a gap in our overall understanding. It is recommended that future investigations undertake more research on SMEs concerning their capabilities and ambidexterity.

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The authors declare that there is no conflict of interest.

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