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Innovativeness and Competitive Advantage among Small and Medium Enterprise Exporters: Evidence from Emerging Markets in South East Asia

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Abstract

Research Aims - This study investigates the impact of innovativeness on competitive advantage along with the role of human capital and entrepreneurship orientation as drivers for innovation.

Design/Methodology/Approach - The sample consists of small and medium sized manufacturers in Malaysia. A total of 193 firms participated. Data were collected via mail and drop-off survey and analysed using multiple regression analysis.

Research Findings - The findings indicate that innovativeness significantly and positively influences competitive advantage. The effect of human capital and entrepreneurship orientation on innovativeness is also positive and significant.

Theoretical Contribution/Originality - The findings of this study also have theoretical implications wherein the results lend support to the appropriate role of innovativeness in creating competitive advantage and its role in the human capital and entrepreneurship orientation towards innovativeness.

Managerial Implication in the Southeast Asian Context - The present study suggests that small and medium enterprises (SMEs) managers should focus on developing organisational value and capacity to encourage the creation of novel business solutions. These resources are entrepreneurship orientation (EO) and human capital. Successful export ventures, with a background of limited resources, can be achieved by employing incremental internationalisation frameworks.

Research Limitation and Implications - This study bears several limitations. First, most of the samples are businesses owned by the Malay and may not be generalised to other ethnicities such as Chinese or SMEs in other emerging countries. Second, the competitive advantage is contingent on the external environment, and the results may vary when factoring in the effect of the external environment.

Keywords - Competitive Advantage, Export, Entrepreneurship Orientation, Human Capital, Innovativeness, SMEs

INTRODUCTION

International business has become increasingly competitive and complex as a result of globalisation. From a market perspective, globalisation means continuing integration and interdependence of countries worldwide (Cavusgil, Knight, & Riesenberger, 2017). Small and medium enterprises (SMEs) from emerging coun-

*The corresponding author can be contacted at: mddaud@ukm.edu.my tries particularly South East Asia that enter the foreign market face challenges due to resource disadvantages (Ren, Xie, & Krabbendam, 2010) and lack institutional support (Rahman, Uddin, & Lodorfos, 2017) and knowledge (Ayob, Shahiri, & Yaacob, 2016). Rising labour cost in the emerging market particularly in the Asia Pacific region (ILO, 2016) also impend the internationalisation of SMEs. Although the growth of international expansion among SMEs from emerging countries in recent years (Senik, Scott-Ladd, Entrekin, & Adham, 2011) demonstrates their superior competitive ability in a foreign market, the challenges mentioned above remain major obstacles and may be further escalated in the future. How SMEs in emerging countries, despite the disadvantages, build a competitive advantage in the international market remains a pressing issue that needs further deliberation.

This study holds that the key to the success of foreign expansion is the ability of SMEs to reconfigure their resources to enable them to meet the needs and expectations of consumers in overseas markets through their offerings and by doing it better than competitors. Similarly, existing studies on emerging markets emphasise innovation capability (e.g. Falahat, Knight, & Alon, 2018) and product innovation success (Boso, Cadogan, & Story, 2012).

Literature studies reveal the belief that companies from emerging markets suffer technological disadvantages, underdeveloped innovation systems and fall behind developed countries in product innovation (for review see Cuervo-Cazurra & Rui, 2017), especially SMEs due to the scarcity of resources. Nevertheless, the growth of SME involvement in the international market leads to the pressing needs of SMEs to overcome the challenges of international expansion as a result of the disadvantages (Higon & Driffield, 2011) and innovation is one of the major driving factors (Cassiman & Golovko, 2011). Nevertheless, we are more sympathetic with Hult and colleagues who advocate the concept of innovativeness (Hult, Hurley, & Knight, 2004) which is related to the organisational cultural values (Tsai & Yang, 2013) that guide managers towards innovative decisions and lead employees to behave in a way that support innovation. This notion is consistent with others (Gkypali, Rafailidis, & Tsekouras, 2015) who testify that positive attitudes towards innovation are intimately related to engagement on export activities. Past studies give empirical evidence on the propensity of firms in emerging market to engage in innovative ideas and demonstrate innovation capability (Aziz & Omar, 2013; Falahat et al., 2018; Kalyar & Rafi, 2013) which is beneficial in engendering solutions to business problems (Hult et al., 2004) and therefore overcoming the challenges of internationalisation.

Despite the overwhelming studies on innovativeness, our understanding about it is still limited. Tsai and Yang (2013) insist that there is a lack of evidence on competitive advantage and performance outcome of innovativeness. Rhee, Park and Lee (2010) emphasise a critical issue that previous research did not investigate all the relevant constructs including the drivers and outcomes of innovativeness. Recently, others (Bortoluzzi, Kadic-Maglajlic, Arslanagic-Kalajdzic, & Balboni, 2018) highlight the inadequacy in the literature due to the lack of research in emerging countries which until recently has not attracted scholarly discourse. The distinctive feature of emerging markets may challenge the existing concepts and theories in international business (Dorson, 2018). Consequently, the robustness and generalisability of findings may be extended by exploring different contexts. In recognising these gaps, this study seeks to address two key questions. First, are the company's capabilities instrumental in developing innovativeness among SMEs in emerging countries and second, to what extent does innovativeness benefit SMEs in terms of competitive advantage in the export market.

One of the most critical issues in research on innovativeness is its interaction with performance. Researchers offer different opinions on the nature of the interaction between innovativeness and performance (Park, Oh, & Kasim, 2017). In this study, our focus is on cross-border activities and, therefore, we aim to examine the export outcome of innovativeness. A recent review of research by Chen, Sousa and He (2016) reveals at least two critical issues in the literature on export performance that need close attention and immediate investigation. First, scholars should pay more attention to how SMEs improve their export performance. Second, the research should focus adequate attention on organisational capabilities and their impact on export performance. Accordingly, this study addresses these issues. In today's competitive business environment, achieving a sustainable advantage is indispensable (Dorson, 2018) because superior export performance is a function of a firm's competitive strategy and advantage (Lages, Silva, & Styles, 2009). Competitive advantage in export context is defined as '… firm's perceived competitive strength relative to competitors in export market' (Navarro, Losada, Ruzo, & Diez, 2010). A company gains a competitive advantage when its products are perceived to have more customer value than that of its competitor (Tsou, Cheng, & Hsu, 2015). Previous studies in performance outcome show that it is a common practice among researchers to observe competitive advantage in terms of performance (for review see Sigalas, 2015). In addition, the innovation process has been defined as a company's internal capabilities that lead to critical competencies (Knight & Cavusgil, 2004). Based on the above discussion and answering the call for research, this study contributes to the literature by providing insight into innovativeness-performance research, and it examines the competitive advantage outcome of a firm's internal capability of innovativeness in the context of SMEs and exporting.

Companies enter foreign markets intending to pursue new opportunities such as greater revenue and profits brought about by the international market due to a more significant customer base. Entering a foreign market implies a new business environment and a higher level of market volatility. Accordingly, firms have to keep abreast of environmental change to create superior customer value (Kevill, Trehan, & Easterby-Smith, 2017), which from a resource perspective can be done through the adaptation of resources (Teece, Pisano, & Shuen, 1997) or dynamic capability (Helfat & Peteraf, 2009). The literature review shows two critical capabilities that are useful in the identification and exploitation of opportunities, entrepreneurship orientation (EO) and managerial human capital (Battisti & Deakins, 2017). These two capabilities support the creation of customer knowledge which ensures that the company offerings meet market requirements (Kachouie, Mavondo, & Sands, 2018).

This study acknowledges the already mentioned gaps in the literature. Also, findings of the previous studies are fragmented, and the relationships among the essential factors mentioned earlier are missing which results in the failure to explain the phenomenon. The literature gives rise to the role of EO and human capital in SME innovativeness which, in turn, may affect the competitive advantage of the export market. However, this role has not been empirically investigated collectively in the same model, particularly in the context of the export market; therefore it is the gap which this paper attempts to fill.

The aim of this study is twofold, that is, to investigate [1] the determinant of SME innovativeness and [2] the effect of innovativeness on the competitive advantage in the export market. We follow the framework of a resource-based view (RBV) and develop a conceptual model based on the notion that competitive advantage is driven by unique and idiosyncratic resources internally owned by a firm (Barney, 2001). A company's resources include capabilities (Helfat & Peteraf, 2009). Specifically, this study examines the key capabilities of SMEs in emerging markets, namely, innovativeness, human capital and EO. This study contributes to the theories in international performance and innovative ability of SMEs from emerging economies by identifying these capabilities as value creation resources and investigating the interactions among them. The present study focuses on SMEs because of the sector's central role in the Malaysian economic growth (Alam, Omar, & Hisham, 2011) and transformation towards achieving a developed country status by 2020 (Juhdi, Hong, & Juhdi, 2015).

The paper consists of the following structure. In the next section, the literature review and hypotheses are discussed. The method is then put forward. The results and discussion are presented. Finally, the conclusion is presented.

LITERATURE REVIEW

In the present study, we agree with Hult, Hurley, and Knight (2004) and view innovativeness as the capability of a firm to engage in innovation, which, in turn, helps foster its ability to meet the dynamic needs of international markets (Cassiman & Golovko, 2011). Innovativeness is essential to company performance (Tsai & Yang, 2013) and growth (Moreno & Casillas, 2008). Notwithstanding the intensity of research on innovativeness, evidence from emerging markets remains lacking. The literature emphasises the need for a contextual element in the study of innovation (Bortoluzzi, Kadic-Maglajlic, Arslanagic-Kalajdzic, & Balboni, 2018) because the distinctive feature of emerging markets may challenge the existing concepts and theories in international business (Dorson, 2018). Moreover, exploring different contexts can create robustness and extend the generalisability of findings.

Innovativeness and Competitive Advantage

Competitive advantage is a crucial concept in strategic management research as it is strongly related to the ability of a company to achieve its performance goals which, in an export context, include export profitability, export sales growth, export sales, export intensity and non-economic measures, such as satisfaction for performance and goal achievement (J. Chen, Sousa, & He, 2016). A company is said to have created a competitive advantage when its output offers customer value that is higher than its competitors (Kaleka, 2002). Employing the concept of positional advantage in export markets, Morgan et al. (2004) explain that the notion of the value-creating strategy pertains to the relative superiority of an export venture's value to its customers and the cost of delivering this realised value. According to this notion, a firm's superior performance does not directly affect its unique resources; instead, unique resources lead to market-positional superiority, which then contributes to superior performance (Li & Zhou, 2010).

Earlier work on innovation suggests that innovativeness creates value and aims to generate competitive advantage (Schumpeter, 1934). Previous research findings indicate the active involvement of SMEs in innovation activities (Terziovski, 2010) and demonstrate evidence of innovativeness among SMEs (Roach, Ryman, R., & Ryman, 2018). Despite the mixed findings of the empirical investigation on innovation-performance relationships among SMEs, a meta-analysis study by Rosenbusch, Brinckmann & Bausch (2011) confirm the performance benefits gained by SMEs from innovation activities. In a cross-border context, innovativeness is closely related to the decision by SMEs to export (Cassiman & Golovko, 2011). Others echo this finding and show that international expansion which includes exporting is the outcome of innovative activities (Chang & Webster, 2019). However, little is known about the connection between innovativeness and competitive advantage in the export market, and empirical evidence is missing; hence, there is a gap in the literature.

Innovativeness leads to organisational sustainability (C. J. Chen, 2018) and the long-term survival of companies (Hult et al., 2004) through their capacity to introduce new ideas and solutions to business problems. The literature provides conceptual and empirical evidence in the context of SMEs on the role of innovativeness in enhancing the ability to meet market demands (Cassiman & Golovko, 2011). It is done by fostering leadership and cultural values that are open to novel approaches, new organisational routines and breakthrough technologies, which in turn augment the firm's ability to adapt to the external environment dynamic (Kreiser, Marino, Kuratko, & Weaver, 2013). Dorson (2018) argues that the strategic fit between an organisation (internal resource and capabilities) and its environment is a function of innovation leadership. Since innovativeness is prerequisite for innovation (as explained earlier), in a dynamic international market environment innovativeness is strategically useful in driving companies' output towards meeting customer expectations and offering better value than their competitors. This notion can also be explained by the view that innovativeness helps in recognising competitive opportunities and threats and, therefore, guides firms to make decisions on product development based on market requirements such as meeting their customers' needs better than their competitors (Barreto, 2010). Therefore, innovativeness is seen as '…indispensable ability that can help a firm to surpass the expectations of customers' (Chen, 2018).

The above argument is consistent with the notion that innovativeness is helpful for international expansion (Bortoluzzi et al., 2018). Knight and Cavusgil (2004) describe international expansion as an innovative process due to the newness of the market. Consequently, in a complex global market, firms need to develop novel ideas amid the newness and imperfect information of the market. Similarly, the literature considers innovativeness to be a company value and believes that it guides managers and employees to act innovatively and is, thus, an essential driver for innovation (Tsai & Yang, 2013) and international expansion (Chang & Webster, 2019).

Empirical investigations and conceptual works strongly support the link between these two variables. Despite the previous research, the findings still do not explain the phenomenon under investigation, and the earlier mentioned missing link has not been addressed adequately. Chen (2018) investigated the interaction between the two variables in manufacturing firms, where almost 80% had over 200 employees. Furthermore, our research is distinct in terms of the competitive advantage in export markets where the complexity of the market due to cultural, economic and political differences may not be explained by existing studies that focus on domestic settings. Accordingly, the following hypothesis is proposed:

Hypothesis 1: Innovativeness positively influences competitive advantage.

Human Capital and Innovativeness

In a dynamic environment, internal capability helps firms to withstand the transformation of market requirements (Teece, Pisano, & Shuen, 1997) as a result of the changing business landscape. According to RBV, the idiosyncratic capability is functional in generating value to the customer and therefore economic rents (Bowman & Swart, 2007). Valuable resources, which include capabilities, also benefit the company in terms of the ability to exploit opportunity (Barney, 1991). Opportunity recognition is a function of market information which is imperfect as the business environment changes rapidly. Due to incomplete information firms cannot correctly predict future market requirements such as how new markets should be served and new technology should be used (Eckhardt & Shane, 2003); it is in these conditions that firms obtain and use resources that can generate profits (Shane & Venkataraman, 2000). According to RBV, a critical capability that is difficult to be imitated is human capital (Bowman & Swart, 2007), and in this study, human capital is defined as '… education, employment or industry experience, and other types of experiences that help to prepare the entrepreneur for the challenges of business ownership' (Coleman, 2007, p. 304) and referred to individuals (Becker, 1964).

There are two types of human capital, general and specific (Becker, 1993). General human capital relates to valuable skills and knowledge that are commonly associated with education and can be easily transferred (Ucbasaran, Westhead, & Wright, 2008). The more valuable, specific human capital is immobile as it links to training and experience (Wiklund & Shepherd, 2008). Work experience can lead to tacit knowledge which is the superior understanding of the tasks and processes specific to the organisation (Bruns, Holland, Shepherd, & Wiklund, 2008). In this study, our focus is on specific human capital.

Ling and Jaw (2006) relate human capital to top management competency. Similarly, in this study, we refer human capital to managers (and in most cases, the manager is also the owner of the SME) who make decisions on export activities. A firm's performance in the international market mainly depends on the top management (Hutzschenreuter & Horstkotte, 2013) whose experience influences their knowledge and ability to process information (Hutzschenreuter & Horstkotte, 2013) which is critical for opportunity recognition and exploitation in the export market. Besides, managers are responsible for interpreting data and therefore determining the conversion of human resources into desirable behaviour (Ling & Jaw, 2006). According to a literature review on exporting, Leonidou, Katsikeas and Piercy (1998) recognise that several managerial factors such as professional experience and foreign exposure as well as perception, attitude and behaviour influence a firm's level of aggressiveness and performance. Therefore, in the context of export market entry, human capital in the form of international experience and skills in related industries and business processes should guide managerial decisions and employees' behaviours to meet the requirements of a new market.

Wiklund and Shepherd (2008) relate human capital to knowledge and skills that assist in new entries, which according to Knight and Cavusgil (2004) is an innovative action. It is innovative because foreign markets are unfamiliar territory for the company and a new entry entails strategic decisions that help deal with the intricacies of the international market. Often this (export) market is fundamentally diverse from the home market which requires a compatible business process and offerings. Since initiation, development, sustenance, and the success of an organisation's export venture are managerial functions (Sousa, Ruzo, & Losada, 2010) where knowledge augments individuals' cognitive abilities (Davidsson & Honig, 2003). Accordingly, human capital allows companies to organise foreign market entry and effectively exploit the advantage of internationalisation (Hitt, Bierman, Shimizu, & Kochhar, 2001).

Based on the above discussion, this study maintains the view that for SMEs, the human capital held by top management leads to the development of organisational value, that is, openness to new ideas, and encourages employees to involve themselves in innovative solutions. Therefore, this study proposes the following hypothesis:

Hypothesis 2: Human capital positively influences innovativeness.

Entrepreneurship Orientation and Innovativeness

According to the literature review, a firm's EO is a clear concept (Casillas & Moreno, 2010). Lumpkin and Dess (1996, p. 136) define EO as '… the processes, practices and decision-making activities that lead to new entry'. Entrepreneurial culture inspires proactive decisions and behaviour pertaining to customer requirements, and employees working in this environment (embedded entrepreneurial values) are likely to embrace risks during customer value creation (Nasution & Mavondo, 2008). Many studies contain the notion that EO consists of three dimensions, which are pro-activeness, risk-taking and innovativeness (Covin, Green, & Slevin, 2006; Ismail, Isa, & Ali, 2013). Two dominant diverging perspectives underpin EO, namely, unidimensional and multidimensional conceptualisations (Lomberg, Urbig, Stockmann, Marino, & Dickson, 2017). The former highlights the shared effect of all EO dimensions, whereas the latter views the dimensions as independent, with each one having its own impact. This study follows the multidimensional conceptualisation and is consistent with researchers who observe innovativeness as a separate construct that is unique and distinct from the two other dimensions. Therefore, like (a small number of) previous investigations (e.g. Hult et al., 2004; Rhee, Park, & Lee, 2010), this study views that EO is configured by two dimensions, namely pro-activeness and risk-taking.

Active entrepreneurs espouse aggressive orientation and consequently demonstrate decisions and behaviours described as risk-taking and strategic actions ahead of competitors (Avlonitis & Salavou, 2007). Nasution and Mavondo (2008) describe active entrepreneurs as risk-takers who tend to explore uncertainties and exploit opportunities in foreign markets by delivering value to customers. Thus, the introduction of new ideas and innovative solutions is the result of proactive decisions to exploit new opportunities in the market or new territories and link to uncertainties and risky organisational behaviour. Atuahene-Gima and Ko (2001) insist that EO is a critical factor that ensures a proactive and aggressive focus on innovation. Accordingly, the following hypothesis is proposed:

Hypothesis 3: EO positively influences innovativeness.

RESEARCH METHOD

The sample for this study consists of SME manufacturers in an emerging economy, Malaysia. The sample is obtained using the purposive sampling technique from the database of the Federation of Malaysian Manufacturers, and it consists of firms that have between 20 and 200 employees. The maximum cut-off number of employee is based on SME Corporation of Malaysia (SMECorp, 2018) who defines a medium-sized firm as having up to 200 employees.

Small firms represent 56.8 of the sample. Firms from the food industry contribute to the biggest percentage (28.9%) of total respondents, followed by those from the metal (9.1%) and plastic (5.3%) industries.

The business population of Malaysia consists of predominantly Malay and Chinese ethnicities. In this study, 60.3 of the respondents are from Malay-owned firms, followed by Chinese (28.6%), and others (11.1%).

Data are obtained by post and drop-off survey. For respondents located outside the research area, the questionnaire was sent via mail. Notification of the forthcoming survey was sent to the respondent followed by post containing the questionnaire. After the first mail, a follow-up reminder of the survey was sent. A drop-off survey was used for respondents located within the area of researchers. Respondent firms received a follow-up call for the survey, and then the researchers personally collected the questionnaire. The different methods of data collection (mail vs drop-off) were compared, and the results of the t-test indicated no significant differences.

A total of 783 SMEs agreed to participate in this study. Finally, we received 193 returned questionnaires, constituting 24.64% (193/783) effective response rate, which is consistent with other studies in an emerging market context (Falahat, Knight, & Alon, 2018).

Scales for all constructs are were adapted from existing studies such as Knight and Cavusgil (2004); Nasution and Mavondo (2008); Zhou (2007); Wang (2008); and Covin and Slevin (1989) for innovativeness, pro-activeness and risk-taking (in total 15 items). The scale for human capital (eight items) was adapted from Huselid, Jackson and Schuler (1997); Ling and Jaw (2006); and Jaw, Wang and Chen (2006). Finally, the scales for competitive advantage consisted of 15 items and were adapted from Kaleka (2002) and Chryssochoidis and Theoharakis (2004).

Before the hypothesis testing, a factor analysis was conducted using principal component analysis and varimax rotation. All factor loadings were above 0.70, indicating that all items explain at least 70% of the variance in the construct (Leonidou, Fotiadis, Christodoulides, Spyropoulou, & Katsikeas, 2015).

To test for internal consistency of the scale, we calculated composite reliability following the method suggested by Fornell and Larcker (1981). The coefficient of the constructs (Table 1) ranges from 0.83 to 0.91, and the scores are much higher than the excepted minimum level of 0.50 (Fornell & Larcker, 1981; Nunnally, 1978).

RESULTS AND DISCUSSIONS

The hypotheses of this study were tested using multiple regression analysis. This

Table 1.
Correlation Matric and Cronbach Alpha

	Alpha (α)	1	2	3	4	5
Innovativeness	0.87					
Competitive Advantage	0.91	0.38***				
Human Capital	0.89	0.54***	0.53***			
Pro-activeness	0.84	0.52***	0.36***	0.46***		
Risk-taking	0.83	0.71***	0.42***	0.50***	0.44***	
Mean		5.34	5.41	5.23	5.41	5.07
Std. Deviation		0.94	0.72	0.77	0.90	0.94
Skewness		-0.62	-0.14	-0.93	-0.51	-0.54
Kurtosis		0.48	-0.30	2.20	0.42	0.23

*p <.05; **p <.01; ***p <.001;

technique is highly flexible (Wampold & Freund, 1987) and is recommended to test the relationships of multiple variables (Evans, 1991). In addition, the method can provide an understanding of the outcome variables and the relative value of each of the predictors (Arnold & Feldman, 1982).

Table 2 provides the results of the hierarchical regression analysis using SPSS version 23. Model 1 shows that control variables explain only one of the variances in competitive advantage (dependent variable). According to the results in Table 2, innovativeness was not influenced by firm size, industry and ownership (regression coefficient for all control variables are not significant in all models). In Model 2, innovativeness is added, and R^2 increases by 14%, indicating that innovativeness explains 14% of the variance in competitive advantage. The results in Model 2 show a positive and significant influence of innovativeness on competitive advantage ($\beta = 0.38$, t-value = 5.58, $p < 0.001$), supporting Hypothesis 1. This result is expected and indicates that innovativeness is an important organisational value that ensures competitive advantage in cross-border markets. At the heart of innovativeness are the creative processes (Lumpkin & Dess, 1996), which enable firms to realise innovation and produce an output which is not only of value to customers but which is also better than that of the competitors. Ultimately, competitive advantage is achieved.

Models 3 and 4 show the results of the direct effect on innovativeness (dependent variable). Control variable explains 0.7% of the variance in innovativeness. Independent variables are added in Model 4, and the results indicate that 27% of the variance in innovativeness is explained by two independent variables, namely, human capital and EO. Model 4 indicates that human capital ($\beta = 0.17$, t-value = 2.88, $p < 0.01$) and EO ($\beta = 0.64$, t-value = 10.59, $p < 0.001$) both positively and significantly influence innovativeness. Therefore, Hypotheses 2 and 3 are supported.

The results mentioned above require further discussion to gain an insight into the relationship between variables. SMEs face competitive pressure in international markets and due to the resource limitations of the SME owner or manager situation

Variables	Direct Effect on Competitive Advantage		Direct Effect on Innovativeness	
	Model 1	Model 2	Model 3	Model 4
Control Variables				
Firm Size	-0.00(-0.10)	-0.01(-0.18)	0.01(0.18)	-0.3(0.61)
Ownership	-0.05(-0.72)	-0.05(-0.72)	-0.08(-0.97)	-0.1(-0.33)
Industry	-0.07(-0.93)	-0.08(-1.27)	0.04(0.63)	-0.00(-0.08)
Independent Variables				
Innovativeness	-	0.38(5.58***)	-	-
Independent Variable				
Human capital	-	-	-	0.17(2.88**)
Entrepreneurship Orientation	-	-	-	0.64(10.59***)
R^2 Change	0.01	0.14	0.007	0.27
F-Ratio	0.57	8.29***	0.45	46.87***

Notes: Values of standardised regression coefficient are reported and t-values are in parentheses; *p <.05; **p <.01; ***p <.001; Durbin-Watson Model 2 (Dependent variable Competitive Advantage) = 1.857; Durbin-Watson Model 4 (Dependent variable Innovativeness) = 2.08

Table 2.
Hierarchical Regression Analysis

they must be cautious in their resource investment to successfully build a competitive advantage in cross-border markets. Many studies empirically and conceptually support the indispensable role of innovativeness in a firm's competitive advantage and the significant effect of human capital and EO in building innovative capability. However, these studies were fragmented and failed to explain the phenomenon. The present study goes one step further and empirically tests all the variables together in one framework. A conceptual model was developed based on the RBV which depicts all hypothesised relationships. Furthermore, unlike previous research, we investigate the links in the context of SMEs in an emerging country and their competitive advantages in the export market. Accordingly, this study addresses two research questions: [1] what are the capabilities instrumental to developing SME innovativeness and [2] to what extent does innovativeness benefit SMEs in terms of their competitive ability in the international market.

In this study, company size, ownership type and industrial background were tested as control variables based on the literature that advocates the importance of these variables for a firm's innovation. However, our findings show insignificant relationships and the owners or managers in our sample do not think that these variables help SMEs to develop innovativeness.

Addressing the first question, the empirical investigation of this study found that human capital and EO are related to innovativeness. The results of the hypotheses testing are consistent with the findings in the literature and concur with existing notions, for example, entrepreneurship theory advocates that human capital leads to export (Robson, Akuetteh, Westhead, & Wright, 2012) because human capital helps firms exploit opportunities (Wheeler, Ibeh, & Dimitratos, 2008) by engaging in innovative activities. Also, this finding also suggests that the competencies of SMEs' managers influence the level of innovativeness, maintaining the central role of the manager in SMEs strategic decisions.

The results also indicate that EO guides SMEs to focus on opportunity exploitation and innovative solutions (Omar, Aris, & Nazri, 2016), which results in a positive association between EO and innovativeness. However, this also means that SMEs should not rely on human capital alone to build innovative capability, as EO, together with human capital, significantly influences innovativeness. This result complements the finding of Rhe et al. (2010) and supports the contention that despite the limitation of tangible resources, SMEs can be internationally competitive by leveraging their intangible capability such as EO (Ismail et al., 2013).

Concerning the second question, the link between innovativeness and competitive advantage in the export market is empirically supported by this study. Some studies found a negative association between innovation and performance because building innovative capability requires substantial resource commitment, and SMEs are limited by resource scarcity. However, this study provides empirical evidence on the presence of innovative capacity among SMEs in emerging markets. By being actively involved in export markets, SMEs can acquire new knowledge and capabilities that further enhance their innovativeness. Nevertheless, the results suggest that innovative capability is instrumental in developing SMEs' competitive advantage in export markets where the competition is greater, and the business environment is more complicated.

MANAGERIAL IMPLICATIONS IN THE SOUTHEAST ASIAN CONTEXT

The managerial implications are that the international market offers immense business opportunities. Expansion into foreign markets allows SMEs in South East Asia to acquire new and better resources, and exploit a bigger customer base. Nevertheless, it has been ascertained that the escalating competition in the international market amid the globalisation of the world economy makes competing in the market challenging for SMEs.

Based on the results, the present study suggests that SME managers should focus on developing the organisational value and capacity that encourage the creation of novel business solutions. However, they should be cautious when it comes to exporting because international business consists of resource-demanding activities. Also, building and maintaining innovative activities is crucial for value creation, and competitive advantage in export markets requires a substantial resource investment which may cause challenges for the SMEs. Evidence from past studies found that some firms demonstrate an adverse effect of innovation on performance due to the high costs associated with innovative activities. Accordingly, SME managers should be cautious in resource allocation to ensure that the profit objective is achieved. By so doing, resource scarcity among SMEs can be addressed with two key resources emerging as useful factors. These resources are EO and human capital. Accordingly, SMEs should invest in capability building and support the development of international exposure and skills for its top management. Also, being proactive and risk-taking is crucial as these dimensions of EO critically help to ensure that innovation capability is developed within the firm. Inherent tangible resource scarcity limits the competitive ability of SMEs in international, so managers of SMEs should carefully plan their investment and focus on the resource and capabilities mentioned above to ensure global competitive advantage.

Alternatively, successful export ventures against a background of limited resources can be achieved by employing an incremental internationalisation framework, a concept outlined in the internationalisation process model. Exporting allows SMEs to secure access to new technologies, management expertise, new ideas and creative processes that are beneficial in terms of enhanced innovative capability. Incremental internationalisation lets SMEs gain knowledge of export markets and gradually increase their resource commitment as they obtain more knowledge and innovative capability. Similarly, at the initial stage of foreign expansion, SME managers may choose to enter a country that is physically close to the home market which requires a lower resource commitment. At a later stage, the SME may gradually expand into a market that is further away and requires greater resource commitment during the subsequent foreign expansion steps.

THEORETICAL IMPLICATIONS

The findings of this study also have theoretical implications as the results lend support to the appropriate role of innovativeness in creating a competitive advantage, and human capital and EO on innovativeness from the SME perspective in South East Asia. The findings provide evidence in an emerging country context and expand the explanatory power of existing theory on innovativeness and RBV. More importantly, this study provides empirical evidence and adds to the stock of knowledge in the area of investigation. For the first time, the variables under investigation: human capital, EO, innovativeness and competitive advantage are tested together in the context of SMEs in an emerging market that wishes to export.

Our finding lends support to the previous studies that postulate the positive effect of innovativeness on performance which is closely linked to competitive advantage. The positive association between SMEs' innovativeness and competitive advantage in export markets may help to explain the performance outcome of innovativeness. Innovation entails new output that benefits firms if the output is better than that of competitors (i.e. competitive advantage). The dynamics of an international market necessitate the continuous development of new ideas and outputs to exploit opportunities. For SMEs in emerging markets, innovativeness guides managerial decisions and employee behaviour towards innovative solutions, resulting in a sustainable competitive advantage in export markets and enhanced performance. Therefore, the results offer empirical support for the nature of the relationship between an SME's innovativeness and competitive advantage in the export market.

Furthermore, despite the resource disadvantage, this study provides evidence on the crucial role of internal capabilities in international competitive building among SMEs in emerging countries. The positive interaction among the variables lends support to the notion that the resource theory is relevant in the context of SMEs in emerging markets and that their competitive advantage is created through internal capabilities and their interaction. Moreover, our study also suggests that human capital and EO are two key SME capabilities that are useful for developing innovativeness. Innovative activity entails resource commitment, and the competitive feature of international business makes the endeavour costly to maintain. However, our study shows that the challenges did not deter the SMEs in an emerging market. They were able to leverage their two key capabilities to build innovativeness which in turn led to a competitive advantage.

CONCLUSION

Innovativeness is an important concept in international business studies. The dynamic and competitive nature of the international (export) market requires a profound competitive strategy, which is led by innovative ideas and business solutions. Innovativeness encourages firms to adopt values that are open to new ideas and processes and which allow employees to behave innovatively. Evidence in the literature, both empirical and conceptual, indicates a strong consensus among researchers that innovativeness is crucial to the success of companies in a dynamic and competitive environment (Rhee et al., 2010), particularly in the international market (Bortoluzzi et al., 2018). The literature highlights the need for further research on innovativeness in the context of emerging markets (Bortoluzzi et al., 2018). Studies on the performance effect of innovativeness is also far from satisfactory because researchers disagree on the nature of the relationship (Tsai & Yang, 2013). This study investigated the impact of innovativeness on competitive advantage in response to the call for additional research on SMEs and export performance (J. Chen et al., 2016) where a competitive edge is often implicitly defined.

Competitive advantage is an important concept for an organisation's strategic actions especially in today's business environment with its complex and increasingly competitive market (Dorson, 2018): it leads to superior performance. Based on the literature review, we acknowledge the need for further investigation on innovativeness and competitive advantage (as a proxy to performance) among SMEs in emerging markets. Accordingly, this study aims to fill the gaps in the literature and develop a conceptual framework grounded on RBV. Moreover, this study investigates the competitive advantage outcome of innovativeness and the effect of human capital and EO on innovativeness among SME exporters in Malaysia.

The findings of this study support all of the three hypotheses mentioned above. Concerning the relationship between innovativeness and competitive advantage, our results emphasise the crucial role of the former in developing competitive advantage among SMEs in the export market. SME managers must be aware that openness to new ideas and engagement of employees in innovative solutions are strategically helpful in developing competitive ability in the dynamic and competitive international market. Parallel to this view, Omar et al. (2016) emphasise the need for innovation capability instead of one-off innovation, which is useful in transforming ideas into a new output and gain sustainable competitive advantage.

This study, also, reveals the critical role of human capital and EO in developing an innovative culture, which, in turn, encourages employees to behave innovatively and engage decisions with new ideas and business solutions. In the international market, compared to larger firms, SMEs are at a disadvantage due to the smallness of their size; the difficulty they face is limited (tangible) resources. Therefore, the critical resources for SMEs' expansion into the international market are intangible resources, EO and human capital (Radulovich, Javalgi, & Scherer, 2018).

This study has several limitations, and, consequently, the results should be interpreted with caution. First, most of the sample consists of businesses owned by Malay people and might not be generalised to other ethnicities such as Chinese or SMEs in other emerging countries. Second, the competitive advantage is contingent on the external environment, and the results may vary when factoring the effect of the external environment. In the case of SME internationalisation, the institutional factor also emerges as an important influencing construct (Senik, Scott-Ladd, Entrekin, & Adham, 2011) which may help to better explain the competitiveness of SMEs in international markets within certain external environmental conditions.

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