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# COMPETITIVE STRATEGIES AND FIRM PERFORMANCE: A COMPARATIVE STUDY OF MALAYSIAN AND INDONESIAN SMALL AND MEDIUM ENTERPRISES

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**ABSTRACT**

*Increased globalisation process since the conclusion of the Uruguay multilateral trade agreement in 1994 has bought about greater competition in the marketplace and renewed interest in competition theory and empirical work on firm performance. This gives rise to a huge number of theories, frameworks and empirical studies just to describe the relationship between some potential explanatory variables and firm performance. Traditionally, small and medium enterprises (SMEs) confine their activities to the region of their presence, and the fact that most of them remain in their national boundaries. Thus, a majority of the actors in less developed countries give little emphasis on some core competitive strategies in order to survive in such a globalised world. Despite this case, SMEs of different countries may give different emphases on competitive strategies and as a result of this they may perform differently. Due to the hardly found empirical studies of the past, this study compares competitive strategies and performance of Malaysian and Indonesian SMEs. A self-administered questionnaire was used to collect data from 386 SMEs in Malaysia and Indonesia. Using an independent-samples t-test, this study found that competitive strategies and firm performance were significantly different between Malaysian and Indonesian SMEs. Mean scores show that the Malaysian SMEs gave more emphasis on firm management and human resource management; whilst the Indonesian SMEs emphasized more on marketing and global orientation. The outward-oriented emphasis of the latter on competitive strategies enabled them to outperform the Malaysian SMEs in nearly all organizational and market performance indicators. The findings in this study prove that firm and human resource managements may be important, but the emphasis on these two competitive strategies is inadequate to enhance performance in the increasingly globalised world.*

***Keywords**:* *Competitive strategies, firm performance, SMEs, Malaysia, Indonesia*

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## 1. Introduction

Unprecedented changes in international business in the recent period have coerced firms in developed and developing countries to reshape their business strategy in order for them to remain competitive. Heavy protection provided by respective national governments a few decades ago has indeed become the thing of the past. Such protection had for a long time enabled local firms, especially small and medium enterprises (SMEs), to focus exclusively on the domestic market. This explained why most SMEs in the past confined their presence in national boundaries of their origin (Ruzzier, Hisrich, & Antoncic, 2006).

However, with the removal of many government's protective measures in the last two decades, the notion that the firms and not the nations compete in the market (Porter, 1998) becomes more obvious. SMEs, which normally inherited many constraints, have to be more concerned with the recent development in the global market environment. They must be globally competitive for their own long-term survival and growth (Karagozoglou & Lindell, 1998). Generic competitive strategies in terms of cost leadership, differentiation and market focus, as envisaged by Porter (1980, 1985), are necessary, but may now not be sufficient for the sector to compete in such a globalised world.

Concomitant with the recent development, many factors associated with firm's performance at the global level have been added to the competitive strategy literature (see Demirbag & Tatoglu, 2008; Cooke, 2008). It suggests that firms with global strategic focus are better able to outperform the firms with little or without such global strategies. This proposition, however, remains unproven if extensive research is not conducted across different industries and geographical areas. Unfortunately, there is a dearth of empirical research on SME's global strategies and performance in developing countries, particularly in Malaysia and Indonesia. Recognising the flaw, this paper attempts to examine competitive strategies Malaysian and Indonesian SMEs; and compare the impact of such a strategic emphasis on SME's performance in the two countries. It is interesting to note that these two neighbouring countries share similar economic structure and activities as well as adopt similar policy options for international trade and investment. Because both of the countries have extensively subscribed to the open market mechanism, SMEs have to depend on their own competitive strategies to outperform the rivals in the open marketplace, which merits an empirical study.

## 2. Profile of Malaysian and Indonesian SMEs

An SME in Malaysia is defined as an establishment having full-time employees not exceeding 150 for manufacturing, manufacturing-related services and agro-based industries; and 50 for services, primary agriculture, and information and communication technology (SME Corp, 2012). In Indonesia, an SME is referred to as a business unit employing less than 100 workers (Mukhamad Najib, 2011). The presence of SMEs is greatly felt in any economy. Due to small capital requirement and little barriers for their creation, SMEs are relatively easy to establish compared to large enterprises. As a result of this, the number of SMEs grows much faster than that of large enterprises at any point of time. As shown in Table 1, SMEs constituted nearly 100 per cent of the total number of establishments in both developed and developing economies. SMEs also provided a large proportion of employment to the labour force of each country. Except for Singapore which is dominated by large

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multinational corporations, SMEs offered more than half of total employment in all other economies (Table 1).

Table 1: SME statistics worldwide

| Country | % of establishment | % of employment | % of GDP |
|---|---|---|---|
| Malaysia | 99.2 | 56.4 | 32.0 |
| Jepun | 99.7 | 71.0 | 55.3 |
| Taiwan | 98.0 | 76.9 | 40.0 |
| Thailand | 99.6 | 69.0 | 38.9 |
| Singapura | 90.0 | 45.0 | 25.0 |
| Jerman | 99.7 | 79.0 | 49.0 |
| Indonesia | 99.7 | 99.6 | 57.0 |
| China | 99.0 | 75.0 | 56.0 |
| Filipina | 99.6 | 70.0 | 32.0 |

Source: Adapted from Rosman and Rosli (2012).

Interestingly, SMEs in Indonesia are more dominant in all the three indicators – establishment, employment and GDP, as compared to the Malaysian counterparts. Indonesian SMEs are clustered around the rural area and involved in natural-based, traditional business activities. The three sectors, which employed most of the workforce were agro-based industries (38.8 million or 43.7% workers), trading and hotels (22.2 million or 25.0% workers), and services (9.4 million or 10.5% workers) (Ministry of Public Welfare, 2007). With respect to the agro-based industry, most SMEs were involved in simple traditional manufacturing activities, such as wood products (including furniture), textile, garments, footwear, and food and beverages, as raw materials for their production come mainly from the agricultural sector (Tambunan, 2000). Only a small share of the total SMEs was engaged in modern manufacturing production, such as machineries, tools and automotive components.

In Malaysia, SMEs are mainly involved in the services sector, accounting for 87% total business SMEs. The biggest share of SMEs in this tertiary sector is in the distributive trade, including wholesale and retail, as well as hotels and restaurants. SMEs in the manufacturing sector and agriculture accounted for only 7% and 6% of total SMEs, respectively. More than half of SMEs in the manufacturing sector are involved in the three key subsectors, i.e. textiles and apparels, metal products and food and beverages (SME Corp, 2010).

## 3. Competitive Strategies and Firm Performance

The last few decades have seen notable development in business policy or lately known as competitive strategy. The way the business conducted in the last two decades is markedly different from the decades before the emergence of the World Trade Organisation (WTO), the free trade patron, in 1995. This phenomenon has triggered the interest of many scholars and practitioners in the field of strategic management and the topics of competitive strategies and advantages. Significant changes in the global business with more opportunities as well as challenges have coerced firms to adapt and respond quickly to the new environment in order for them to survive. Firms in Southeast Asia could

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not run from this phenomenon, but they must adapt their competitive strategies to suit the international pursuit. Pressure for changing in strategic focus will be felt more by SMEs in the region given their tight resource constraints in financial and non-financial terms.

Nevertheless, it should be noted that some scholars had put a great interest in the topic even a few decades before the open market mechanism came into the global picture. Early work on the topic can be traced back to the industrial organization economics perspective, which saw firm profitability (performance) is a function of industrial characteristics (structure) and not organization (Barney, 1986). This industry-level analysis postulates that industry-level factors have the greatest influence on performance. Since individual firms have no or little influence over industry structure, they have to adjust themselves to the industry structure to maximize their success (Parnell, 2006). Nevertheless, this perspective has drawn many criticisms because such explanation is suitable for a market condition with a simple group structure, high concentration, and rather homogeneous firms (Seth and Thomas, 1994); and less applicable for explaining large variances in firm performance in a single industry (Parnell, 2011).

Many business strategy typologies have been developed since then. However, Miles and Snow (1978) and Porter (1980) are the two leading proponents of the research area in the recent period. They saw the need for a firm to position itself ahead its competitors in order to remain competitive in the market. With good competitive strategies, a firm would be able to perform similar business activities differently or to carry out different entrepreneurial activities, against its competitors in the same market. As clearly put by Porter (1980, 1996, 1998a, 1998b), a firm's competitive strategies aim at creating unique and strong capabilities in one or more areas in order to gain a competitive advantage over its competitors. Competitive advantage is "the ability of a firm to outperform its industry, that is to earn a higher rate of profit than the industry norm" (Besanko, Dranove & Shanley, 2000, p. 626); but superior ability is determined by a firm's competitive strategies. Indeed, Miles and Snow's typology and Porter's generic strategies have gained much recognition and criticism in the literature (Wan and Bullard, 2009; Parnell, 2006).

Miles and Snow's (1978) strategy typology defines firms into four categories - prospectors, analysers, defenders, and reactors – based on their strategic actions; whilst Porter (1980) divides competitive strategies into cost leadership, differentiation and market niche as the sources of competitive advantages. The greater focus on firm-level analysis in the later period has given birth to the Resource-Based View (RBV). This approach proposes an inside-out business strategy, where a firm's ability to employ its internal unique resources and capabilities would allow it to outperform its rivals (Barney, 1991). This means that the internal competencies are the basis for a firm to be a strong competitor in the market (Corbett & Wassenhove, 1993). Thus, unsurprisingly when firm performance in the past was typically associated with business functions of the firm (Drucker, 1973; Ettlie, 1997).

Fast development in international business has broadened the scope of competitive strategies into international perspective. With the globalised business environment, Porter's (1980) generic strategies in the form of cost leadership, differentiation and market focus may be useful, but may not be adequate for SMEs to stay competitive. As identified by Demirbag & Tatoglu (2008), international strategies can be divided into political, investment and integration aspects. International strategies through investment could be achieved by low cost resources, global diversification, taking advantage

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of global financial resources, acquiring assets (e.g. brands, technology), and equity-based or non-equity-based market entry. Finally, integration can be pursued by linking various functions of a firm with international environment or into network of operations. Other scholars also argue that to be successful at the global arena, factors associated with international performance, such as business diversification, new markets, greater innovation, and improved international strategic management (Cooke, 2008), leverage of resources through cross-border strategic alliances, partnerships and outsourcing (Yip, 2003). A firm's capability to use resources and experiences of their partners in order to grab opportunities in global operations (Pananond, 2007) is an added value to its competitive advantages.

## 4. Research Methods

### 4.1 Data Source

Primary data were gathered from SMEs in Malaysia and Indonesia. To be qualified for potential respondents, SMEs were selected when they met the following criteria: the firm must have not more than 150 full-time employees; the firm must be in operation for at least three years; the respondent must be the owner or manager of the firm; the major activity of the firm must be in the three industries, i.e. food and beverage, textiles and clothing, and wood-based products.

In the pilot survey, face-to-face interviews with the help of a predetermined questionnaire were conducted in the same industries with 20 non-sample key informants (the owner or manager of the firms), who had sufficient knowledge and experience in the issues under investigation. This exercise was made in order to check time duration taking a respondent to complete the questionnaire and to validate items used for each construct. This strategy would reduce response bias and measurement error (Kumar *et al.* 1993) in the sample. Upon satisfactory with the responses on the ground and preliminary reliability tests (with Cronbach's alpha of more than 0.70 for each construct under the study), an actual survey using a self-administered questionnaire was carried out by the researchers with the assistance of six trained enumerators.

In Malaysia, 284 SMEs all over the country (except Sarawak) participated in the study. In Indonesia, the data were collected from 102 SMEs from the Special Province, Yogyakarta, and the adjacent areas. The questionnaire was comfortably completed by the respondents in 15-20 minutes time. In the case where the respondents were extremely busy entertaining their customers during the first visit, the questionnaire had been left for several days before it was collected in the next visit. Some characteristics of the sample respondents and SMEs are shown in Table 2.

### 4.2 Measures

#### 4.2.1 Independent variables

Five dimensions of competitive strategies as independent variables were proposed in this study, i.e. three in firm's functional areas (firm management, human resource management, and marketing) and two in dynamic capabilities (innovation and global orientation). These strategies should be given

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priority by firms (Chaston *et al.*, 2001; Singh et al., 2010; Jonsson and Devonish, 2009; Cooke, 2008) in order for them to be competitive in the global market.

The respondents were asked, “In the last 3 years, to what extent has your firm emphasised the five-strategic dimensions in order to enhance your firm performance based on a 7-point scale, ranging from ‘1= hardly emphasised’ to ‘7=strongly emphasised’.” The five competitive strategies were firm management (10 items), human resource management (7 items), marketing (6 items), innovation (7 items) and global orientation (8 items). The degree of their emphasis on the strategy was then averaged by calculating the mean score across the number of items for each strategy (see Segev, 1987). A quick check on reliability of each competitive strategy construct produced Cronbach’s (1951) Alpha of more than 0.70, indicating the reliability of the instrument for further use.

Table 2: Some characteristics of the sample

| Characteristics | Country | | | | Total | |
|---|---|---|---|---|---|---|
| | Malaysia | | Indonesia | | | |
| | No. | % | No. | % | No. | % |
| Gender | 284 | 100.0 | 102 | 100.0 | 386 | 100.0 |
| Male | 167 | 58.8 | 73 | 71.6 | 240 | 62.2 |
| Female | 117 | 41.2 | 29 | 28.4 | 146 | 37.8 |
| Highest Education | 284 | 100.0 | 101 | 100.0 | 385 | 100.0 |
| Non-schooling | 8 | 2.8 | 0 | 0.0 | 8 | 2.1 |
| Primary school | 33 | 11.6 | 4 | 4.0 | 37 | 9.6 |
| Secondary school | 169 | 59.5 | 6 | 5.9 | 175 | 45.5 |
| Tertiary education | 68 | 23.9 | 53 | 52.5 | 121 | 31.4 |
| Others | 6 | 2.1 | 38 | 37.6 | 44 | 11.4 |
| Age of Business | 284 | 100.0 | 102 | 100.0 | 386 | 100.0 |
| 3 – 5 years | 61 | 21.5 | 47 | 46.1 | 108 | 28.0 |
| 6 – 10 years | 87 | 30.6 | 34 | 33.3 | 121 | 31.3 |
| ≥ 11 years | 136 | 47.9 | 21 | 20.6 | 157 | 40.7 |
| Types of Industry | 282 | 100.0 | 101 | 100.0 | 383 | 100.0 |
| Food and beverage | 119 | 42.2 | 25 | 24.8 | 144 | 37.6 |
| Textile and clothing | 91 | 32.2 | 41 | 40.6 | 132 | 34.5 |
| Wood-based products | 72 | 25.5 | 35 | 10.7 | 107 | 27.9 |

Source: Based on the sample survey.

### 4.2.2 Dependent variables

Objective performance measures are normally difficult to obtain from SMEs because they do not keep proper records for their business. In this situation, self-assessment of performance by the respondents themselves is more relevant (Love, Priem & Lumpkin, 2002). Moreover, perceived or subjective measures are found highly correlated with objective measures in past studies (Love, Priem & Lumpkin, 2002; Venkatraman & Ramanujam, 1987).

Performance indicators in this study were divided into organisational and market performances. Items for the former included returns on asset, returns on sale, employment growth, labour productivity; whilst the latter comprised the items on sales revenue growth, profitability,

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market share, customer satisfaction, and customer loyalty. This multitude of performance measures is relevant, especially when objective performance measures are unreachable (see, Kellermanns, Eddleston, Sarathy & Murphy, 2010). For each item, the respondents were asked to compare their performance against their competitors in the same industry for the last three years on a 7-point scale ranging from "1=very low" to "7=very high". Such assessment method is regarded reliable benchmarks (Delaney & Huselid, 1996) and taken care of for possible influence of the industry factor. Both performance measures were summed up and then averaged to obtain a performance index for meaningful interpretation.

**4.2.3 Control variables**

Some control variables which commonly appear in the business performance literature were included in the model. Factors, which frequently associated with firm performance are owner's business experience (Mengistae, 2006; Alowaihan, 2004), firm age (Shanmugam & Bhaduri, 2002; Birley & Westhead, 1990) and firm size (Ozgulbas, Koyuncugil & Yilmaz, 2006); Orser, Hogarth-scott & Riding, 2000). Measures for business experience, firm age, and firm size were number of years of owner's experience in business, number of years of business in operation, and number of full-time employees, respectively.

Due to space constraint, correlation matrices of the independent, dependent and control variables were not reported in this paper, but it was found that correlations among independent variables were rather low and the tolerance value for each independent and control variables is not less than 0.10. The VIF value of them is well below the cut-off 10, too. It suggests that multicollinearity assumption is not violated and the regression results are not distorted by this problem (see Pallant, 2007).

## 5. Results and Discussion

### 5.1 Comparing competitive strategies

The emphasis of Malaysian and Indonesian SMEs on each strategic dimension is shown in Table 3. Except for global orientation variable, almost all items for firm management, marketing, human resource management (HRM), and innovation were ranked higher than the mid-rank value of 4 for SMEs in both countries. This indicates that SMEs have been aware of the importance of functional and dynamic competitive strategies in enhancing their performance; thus they diversified their strategies. Nevertheless, the Malaysian and Indonesian SMEs ranked nearly all global orientation items lower than that of the mid-rank value of 4, which was inconsistent with the present development of global business.

Based on the independent-sample *t*-tests, there were significant differences between the Malaysian and Indonesian SMEs in their competitive strategies. These differences can be seen in the mean values of each item across the SMEs of the two neighbouring countries. The last column of Table 3 shows that the significant mean differences in the competitive strategic emphasis of the Malaysian SMEs vis-à-vis the Indonesian counterparts were found higher in firm management (6 *vs.* 2 items) and human resource management (5 *vs.* 0 items). In contrast, the Indonesian SMEs gave more emphasis on marketing (3 *vs.* 0 items) and global orientation (8 *vs.* 0 items). Their emphasis on innovation was compatible because there was no evidence of any significant difference in all innovation items between SMEs of the two countries.

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### 5.2 Impact of different competitive strategies

Results of the multiple regression analysis are shown in Table 4. Model 1 included the control variables only, whilst Model 2 included all the independent and control variables. As shown in Model 2, all the control variables – business experience of owners, firm age and firm size – were not significantly associated with the overall performance of the SMEs. The other independent variables, namely firm management, human resource management and marketing, had no significant relationship with the firm performance, too. On the contrary, innovation ($\beta$ = 0.096, $p$ < 0.01) and global orientation ($\beta$ = 0.097, $p$ < 0.001) were positively and significantly related to the SME's overall performance.

Table 3: Competitive strategies of the SMEs by country

| Dimension | Items | Mean | | *t*-stat | Sig. Mean Difference |
|---|---|---|---|---|---|
| | | Malaysia (N=284) | Indonesia (N=102) | | |
| Firm Management | Profit focus/orientation | 5.65 | 5.59 | 0.507 | M(5)>I(2) |
| | Aggressive action on risk taking | 5.04 | 4.23 | 5.185** | |
| | Ensuring cost/time efficiency in all managerial levels | 5.36 | 5.28 | 0.600 | |
| | Having systematic outcome-oriented planning | 5.16 | 5.51 | -3.225** | |
| | Product quality (striving for GMP, ISO etc) | 4.35 | 5.18 | -5.563** | |
| | Safety first (product, employees, workplace) | 5.55 | 5.10 | 3.384** | |
| | Priority to environment conservation in production | 5.54 | 5.00 | 3.613** | |
| | Cost reduction drive at all levels of production | 5.51 | 5.13 | 2.844** | |
| | Effective utilization of existing production capacity | 5.39 | 5.35 | 0.285 | |
| | Using standard accounting procedures | 4.97 | 4.37 | 3.418** | |
| Marketing | Application of innovative marketing and promotion techniques | 5.17 | 4.96 | 0.519 | M(0)<I(3) |
| | Enhancing company reputation and branding | 5.00 | 5.55 | -4.335** | |
| | Product diversification | 5.08 | 5.43 | -2.650** | |
| | Setting competitive price of products | 5.28 | 5.53 | -2.138* | |
| | Developing niche market | 5.06 | 4.79 | 0.963 | |
| | Developing new market (geography and target group) | 4.90 | 4.88 | 0.106 | |
| HRM | Priority for skill workers in new recruitment | 4.83 | 4.38 | 2.561** | M(5)>I(0) |
| | Providing in-house training for workers | 4.88 | 4.41 | 2.746** | |
| | Encouraging workers to attend skill training outside | 4.48 | 3.80 | 3.625** | |
| | Active worker's participation in production decision making | 4.49 | 4.10 | 2.152* | |
| | Performance-based reward and recognition systems | 4.63 | 4.97 | -0.978 | |
| | Attending courses/ training by government agencies | 4.17 | 3.75 | 2.155* | |
| | Attending courses/training by private agencies | 3.64 | 3.94 | -1.440 | |
| Innovation | Investing in research and development (R & D) | 3.35 | 3.68 | -1.464 | M(0)=I(0) |
| | Introduction of new product | 4.66 | 4.99 | -1.840 | |
| | Application of the latest technology in production process | 4.50 | 4.40 | 0.560 | |
| | Application of the latest technology in product | 4.47 | 4.44 | 0.177 | |
| | Employing the Internet in business | 3.26 | 3.65 | -1.780 | |
| | Materials sourcing from new suppliers/sources | 4.20 | 4.25 | -0.222 | |
| | Using new material combination in production | 4.00 | 4.20 | -0.997 | |
| Global Orientation | Striving for international standard (ISO etc) | 3.19 | 4.34 | -6.179** | M(0)<I(8) |
| | Intensified efforts to penetrate export market | 2.89 | 4.07 | -6.281** | |
| | Striving for meeting foreign consumers and distributors | 2.93 | 4.09 | -6.013** | |
| | Intensified efforts to expand export market | 2.71 | 3.94 | -6.280** | |

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| | | | |
|---|---|---|---|
| Smart partnership with foreign business counterparts | 2.43 | 3.25 | -4.718** |
| Production cooperation with foreign counterparts | 2.46 | 2.98 | -3.203** |
| Market networking with foreign counterparts | 2.43 | 2.95 | -3.226** |
| Outward investment (Investing abroad) | 2.02 | 2.33 | -2.142* |

Note: *Significant at the 0.05 level; ** significant at the 0.01 level; M=Malaysia, I=Indonesia.
Source: Based on the sample survey.

Table 4: Multiple Regression Analysis – dependent, overall SME's performance

| Variables/Statistics | Model 1 | Model 2 |
|---|---|---|
| Constant | 4.479*** | 2.866*** |
| Control Variables: | | |
| Business experience | -0.011 | -0.008 |
| Firm age | 0.005 | 0.004 |
| Firm size | 0.006** | 0.003 |
| Explanatory variables: | | |
| Firm management | - | 0.093 |
| Human resource management | - | 0.029 |
| Marketing | - | 0.065 |
| Innovation | - | 0.096** |
| Global orientation | - | 0.097*** |
| $R^2$ | 0.028 | 0.262 |
| Adjusted $R^2$ | 0.020 | 0.246 |
| $F$ | 3.572** | 16.479*** |

Note: * p<0.05; ** p<0.01; *** p<0.001
Source: Based on the 386 samples survey.

Different performances between the Malaysian and Indonesian SMEs were also evident from the dataset. Based on the independent-sample *t*-tests, Table 5 demonstrates that the Indonesian SMEs were significantly different from their Malaysian counterparts in eight performance indicators, i.e. sales revenue growth ($p$ = 0.01), profitability ($p$ = 0.01), returns on assets ($p$ = 0.01), returns on sales ($p$ = 0.01), market share ($p$ = 0.01), labour productivity ($p$ = 0.05), overall financial performance ($p$ = 0.01), and growth of workers ($p$ = 0.01); and compatible in consumer satisfaction and consumer loyalty. Higher mean values in the eight performance indices for the Indonesian SMEs provide an indication that they outperformed the Malaysian SMEs during the study period.

Table 5: Comparative performances of SMEs by country

| Performance Indicators | Mean | | *t*-stat |
|---|---|---|---|
| | Malaysia (N=284) | Indonesia (N=102) | |
| Growth in Sales Revenue | 4.29 | 4.86 | -4.953** |
| Profitability | 4.27 | 4.82 | -5.015** |
| Returns on Asset | 4.18 | 4.51 | -2.992** |
| Returns on Sales | 4.23 | 4.59 | -3.339** |
| Market share | 4.26 | 4.81 | -5.444** |
| Labour productivity | 4.36 | 4.63 | -2.431* |
| Level of consumer satisfaction | 4.92 | 5.07 | -1.351 |

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| | | | |
|---|---|---|---|
| Overall financial performance | 4.44 | 4.74 | -2.723** |
| Level of consumer loyalty | 4.97 | 4.85 | 1.069 |
| Growth of workers | 3.75 | 4.16 | -3.549** |

Note: *Significant at the 0.05 level; ** significant at the 0.01 level.
Source: Based on the sample survey.

It cannot be denied that Porter's (1980) generic typology and the RBV provide good framework to explain firm performance. Instead of emphasizing on single independent strategy, either cost leadership, differentiation, or market focus as proposed by Porter; the SMEs in food and beverages, textile and clothing, and the wood-based industry in both countries have diversified their strategies. Rapid changing world of business does not allow the SMEs to adopt one particular strategy, while their competitors opt for many ways to outperform the rivals. Therefore unsurprisingly, the Malaysian and Indonesian SMEs emphasized nearly all dimensions of competitive strategies under investigation (except less for global orientation).

To the RBV, internal resources and capabilities are the source of firm performance; but the focus of this view is too much on the resources or position of a single firm (Ritala, & Ellonen, 2010). It was evident from this study that overemphasis of the Malaysian SMEs on internal resources and capabilities, i.e. on firm management and HRM does not pay off since these factors did not significantly improve their performance. In the world of a level playing field, these internal factors may be less relevant because other rivals tend to improve their internal capabilities, too. Finally, no single firm may have internal competitive advantages over the other.

The evidence in this paper shows that innovation and global orientation significantly influenced SME's performance in both Malaysia and Indonesia. More importantly, the Indonesian SMEs significantly outperformed the Malaysian in nearly all performance indicators. It should be reminded again that the strategic emphasis on innovation was not significantly different between the Malaysian and Indonesian SMEs. This means that the competitive advantage of the Indonesian SMEs is more dependent on their global orientation approach. As their emphasis on global orientation was significantly more than the Malaysian counterparts, they were able outperformed the latter in almost all the organisational and market performance indices. This supports the argument that the global competition requires the firms to give more focus on global competitive strategies. The data show that the Indonesian SMEs gave greater emphasis on striving for international standard (mean=4.34), efforts to penetrate export market (mean=4.07) and fulfilling foreign consumers and distributors (mean=4.09).

Improved competitive advantage of Indonesian SMEs can be traced back to the late 1990's financial crisis. Large enterprises and SMEs responded differently to the Asian crisis. The capability of Indonesian SMEs survived from the crisis was found better than that of the larger firms (Berry, Rodriguez & Sandee, 2001). One of the reasons for weak performance of large enterprises, especially the exporters, was due to their heavy reliance on imported materials (Wengel & Rodriquez, 2006). Because of this structural problem, a sudden depreciation of the Rupiah against the US dollar, the large enterprises experienced a sharp increase in input prices, making the recovery difficult to materialise (Zhuang, Edwards & Capulong, 2001). On the contrary, the crisis gave a new competitive advantage to the local SMEs. With a slow demand in the local market, the SMEs had no choice, but

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to find new markets. Many of them switched to international markets, which at the same time forced them to improve their functional areas and collaboration with stakeholders at the global level.

## 6. Concluding Remarks

This study provides the new evidence that the Malaysian and Indonesian SMEs responded differently to the globalised world of competition. While the Malaysian SMEs gave more emphasis on the internal functional dimensions of competitive strategies (firm and human resource management), the Indonesian counterparts gave more priorities not only on the internal functional area (marketing), but also on dynamic capabilities (global orientation) in order to compete in the more dynamic competitive market. Greater emphasis on global orientation proves well since this global strategic factor was found to be positively and significantly associated with the overall performance of the SMEs. In line with the finding, the evidence in this study also shows that the Indonesian SMEs outperformed the Malaysian in nearly all investigated performance indicators.

From the theoretical perspective, emphasis on single competitive factor as proposed by Porter (1980) is outmoded under the present competitive world of business. Firms, in contrast, have diversified their strategies in order to remain competitive in the market. Unfortunately, overemphasis on internal functional areas of firm as stressed by the RBV does not make any significant advantage to firm performance because this strategy is too common an approach in the present day of business. The firms, instead, have to extend their strategy for more global in approach. The favourable performance of the Indonesian SMEs is a testimony to this proposition. Because of their greater emphasis on global orientation, there were able to outperform their counterparts in Malaysia. This provides a clear signal for SMEs to relook into their existing strategies. It reminds them that global strategic focus is no more an option, but a compulsion for them to gain competitive advantage under the open market mechanism nowadays.

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