

## The Impact of Resource Enhancement Strategy on Small Business's Performance

El impacto de la estrategia de mejora de recursos en el rendimiento de las pequeñas empresas

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### ABSTRACT

The objective of this study is to examine the impact of resource enhancement strategy in improving the performance of small business firms in Malaysia. A self-administered survey and simple random sampling technique were conducted by making 221 owners-managers of small business firm as a sample of the study. The data were analysed using a two-stage approach of structural equation modeling (SEM). The results indicated that resource enhancement strategy has a positive and significant impact in improving small businesses performance. The practical findings provide a much clearer conceptualization of how resource enhancement strategy overcomes the issue of competitiveness in a new venture and small business firms.

**Keywords:** Resource enhancement strategy, Small business performance, Small business resources.

### RESUMEN

El objetivo de este estudio es examinar el impacto de la estrategia de mejora de recursos en la mejora del desempeño de las pequeñas empresas en Malasia. Se realizó una encuesta auto administrada y una técnica de muestreo aleatorio simple al hacer 221 propietarios-gerentes de empresas pequeñas como muestra del estudio. Los datos se analizaron utilizando un enfoque de dos etapas del modelado de ecuaciones estructurales (SEM). Los resultados indicaron que la estrategia de mejora de recursos tiene un impacto positivo y significativo en la mejora del rendimiento de las pequeñas empresas. Los resultados prácticos proporcionan una conceptualización mucho más clara de cómo la estrategia de mejora de recursos supera el problema de la competitividad en una nueva empresa y pequeñas empresas.

**Palabras clave:** estrategia de mejora de recursos, rendimiento de pequeñas empresas, recursos para pequeñas empresas.

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## 1. INTRODUCTION

Small and medium enterprises (SMEs) have been recognized as one of the key contributors to the economic developments of a country. In fact SMEs represent 90 percent of businesses population worldwide; contributes 65 percent to employment; and more than 50 percent contribution in gross state output (Alam, Bhuiyan, Jani, & Wel, 2016; Aquilina, Klump, & Pietrobelli, 2006; Sahid & Habidin, 2018; Sahid & Hamid, 2019). While in Malaysia, SMEs represent 97 percent of total business establishment; contributes 60 percent employment and 32 percent in overall gross domestic product (SME Corporation Malaysia, 2012). Thus, SMEs become the significant industry for economic growth in both developed and developing countries. Nevertheless, despite the significant role and contribution of SMEs to the economy, SMEs face various constraints and challenges which directly impact their resilience, growth and business performance. Hence, this paper discusses the firm resources in small business firm and the impact of resource enhancement strategy in improving small businesses performance.

### Resource-based View

Resource-based view (RBV) is a theory that is derived from the strategic management literature. RBV has been used in management studies to discuss the resources of a firm that have the potential in gaining and sustaining firm's competitive advantage; which directly as a key to superior firm performance (J. B. Barney, 2010; Hoopes, Madsen, & Walker, 2003; Sheehan & Foss, 2007; Zubac, Hubbard, & Johnson, 2010). The RBV theory was founded by Penrose (J Barney, Wright, & Ketchen, 2001; Hoopes et al., 2003; Wernerfelt, 1984) which discusses that a firm or business is a "resource group" that plays an important role in competitive strategy. Furthermore, RBV is a strategic management concept that emphasizes the importance of correlation between firm's performance with the resources it has, and how the firm manages its resources to overcome and winning fierce competition in the industry. Among the key discussions of the RBV theory are how the firm's resources can be a tool to the creation of a firm's competitive advantage. RBV focuses on the sources of firms that can differentiate the level of success or business performance among firms competing in the same industry.

The main assumption of RBV holds that resources with characterized as (1) valuable, (2) rare, (3) inimitable and (4) difficult or irreversible; is a key determinant of a firm's success and lead to competitive advantage (Andersén, 2011; J. B. Barney, 2010; JB Barney & Clark, 2007). The firms' sources not only in the form of tangible assets, may also be in the form of intangibles such as knowledge (know-how), reputation, legitimacy, as well as organizational skills capabilities (Newbert, 2007; Ray, Barney, & Muhanna, 2004). While (J. Barney, 1991) states that firm resources include all assets, capabilities, organizational processes, information, and knowledge owned by firms that can be used as a competitive advantage. (Mahoney & Pandian, 1992) argues firms be able to generate better business performance through the resources and capabilities they have. Hence, firms with the ability to analyze and evaluate their strengths and weaknesses will become the basis for their competitive advantage. The ability to identify the potential strategic resources and capabilities allows a firm to differ from its competitors. The advantages in capabilities and information resources may help in generating a unique management capabilities and technical know-how. Hence making it a competitive advantage that needs to be maintained to enable firms to enjoy better business performance. (Chmielewski & Paladino, 2007; Schroeder, Bates, & Unttila, 2002; Tan, Mavondo, & Worthington, 2011) are among the studies that proved positive relationships and significant impacts of the firm's resources and capabilities in improving business performance.

### Resource-advantage Theory

Resource-advantage theory (R-A) is a competition theory introduced by Hunt and Morgan (1995), and has been used in several different disciplines such as marketing, management, economics as well as general business as the basis for discussion of firm competition (Shelby D Hunt, 2012). The aim of R-A is to replace the assumptions that have underlying the economy theory of 'perfect competition' with a set of more realistic conditions (as demand is assumed to be heterogeneous and dynamic; the sources are also heterogeneous and not all are mobile; information is imperfect and costly to get it). R-A theory is one of the theoretical processes of evolving processes in which every firm in an industry is assumed to be a unique entity (S.D. Hunt & Morgan, 1996). Based on R-A theory, competition is a persistent rival among firms to achieve a resources comparative advantage that eventually become a competitive advantage in the market (Morris, Schindehutte, & LaForge, 2002). (Morris et al., 2002) argues that basis of resource advantages is the existence of innovative approaches, which are endogenous or factors to industry competition.

Competition in R-A theory is defined as a process of exploration of knowledge and information. Positions in the market as a result of competition interactions among firms will reflect the efficiency and effectiveness of each firm in the industry. This situation allows firms (with small market shares) to learn how to acquire and mobilize additional resources or how to use existing resources in a more efficient and effective manner (Morris et al., 2002). Hence, motivating firms to neutralize or overcomes competitors in a more efficient manner in managing existing resources as well as acquiring, mobilizing, replicating, and replacing external sources. R-A theory also defines sources as an organizational culture, knowledge, skills, and competencies, and most of these resources can be replaced instead of limited (Morris et al., 2002). While (S.D. Hunt & Morgan, 1996) stated that the comparative advantages in intangible resources (such as competence or new organizational models) able to generate shares or market positions as a competitive advantages to firms. Hence, it helps firms in creating new sources which in turn as a motivation for innovation in the market. R-A theory encourages firms to gain new sources and enhance productivity of existing resources. This can be achieved by; (1) leveraging the external resources, (2) optimization of innovation through a combination of new and current sources (Morris et al., 2002). R-A theory suggests firms need to learn and then improve their capabilities if the existing resources unable to help in the creation of competitive advantages. This means that, in circumstances where the existing resources unable to create competitive advantage, firms need to be able to demonstrate their strategic flexibility, by justifying the role of marketing to enhance firm's strategic flexibility.

### Resource Enhancement Strategy

Firm's resource is one of the main factor to the success of firms in exploiting business opportunities (Karia, Wong, & Asaari, 2012; Li, Lam, Karakowsky, & Qian, 2003; Niu, Wang, & Dong, 2013; Zheng, 2013). Resources will differentiate the success of a firm compared to other firms (Karia et al., 2012). The capabilities of firm's resources is a comparative advantage that has a significant impact on the firm's success (J. B. Barney, 2010). Therefore, high performing firms are often associated with high and diverse resource capabilities (Karia et al., 2012; Sahid, Abdul Hamid, & Md Latip, 2015). Means that firms wanting to remain competitive in the industry need to diversify and enhances their resources. Lack of resources causes firms unable to exploit business opportunities that exist in the market. Resource constraints need to be addressed to ensure the sustainability of SME businesses remain in the industry (Gruber, 2004; Morris et al., 2002).

The uncertain business environment has forced SMEs to learn the market faster to exploit business opportunities (Baron, 2006; Mort, Weerawardena, & Liesch, 2012; Spinelli & Adams, 2012). This situation requires SMEs to be more creative in using resources or business assets, namely by mobilizing, enriching and combining resources (Mort et al., 2012). (Mort et al., 2012) classifies these resources as expansion and merger of resources as a resource enhancement; "[...] ability to identify and mobilize resources from external sources, enrich and extend existing internal resources and to recombine these in novel, elaborated ways with a strategic purpose" [29, p. 552].

The enrichment of internal resources can be achieved by using the proposed approach in RBV theory. The literature shows there is an increase in research that examines how to use RBV theory in exploiting business opportunities (Calantone, Kim, Schmidt, & Cavusgil, 2006; Coombs & Bierly, 2006). The RBV theory suggest that firms should utilize their resources to improve and create their own value. (Penrose, 1959) focusing on the firm's ability to use resources in the creation and performance of competitive advantages. Hence the performance of firms compared to other firms is determined by their ability to develop and maintain competitive advantage over a long period of time. While (J. Barney, 1991) who is also among the pioneers of the RBV theory, stated that RBV is not solely based on business' activity or strategy, but it is a group of tangible and intangible resources owned by the firm. RBV is not build unique thinking, business skills, and capabilities required by a firm to gain competitive edge. (J. Barney, 1991) noted that potential assets or resources of the organization includes specialized knowledge of manufacturing, teamwork, as well as the unique combination of business experience that can assist firms in maintaining their competitive advantage.

Resource mobilization is a resource sharing process between two or more firms to achieve a business objective that may not be possible if only using its own resources (Villanueva, Van de Ven, & Sapienza, 2012). Resource constraints faced by SMEs require them to establish cooperative relationships with other firms to gain access to the resources required. SMEs need to build and maintain a symbiotic or complementary relationship with other firms to gain access to external resources (Izquierdo & Cillán, 2004; Villanueva et al., 2012). SMEs need to maintain strategic relationships by building a mutual dependence and sharing of resources with other larger organizations in achieving common goals.

Relationships with other firms will not only provide market information and resource sharing, but also a platform to gain access to potential customers. Resources within the networking firms enables them in managing business risks and help in distributing resources effectively (Dew, Read, Sarasvathy, & Wiltbank, 2009). Therefore, it can be concluded that entrepreneurship networks are not limited to relationships with suppliers and customers, but also involve competitors in the industrial market. Competitive industry competition is a big challenge for SMEs. Competition not only in the local industry, but also the entry of competitors from global or multinational industries. To compete in such a situation, firms need to have strong resources.

Lack of resources demands SME firms to integrate existing resources to remain competitive in the industry. RBV theory suggests the integration of resources as a firm's ability to build, acquire, and use their resources more efficiently through partnerships between firms (Peteraf, 1993). The ability of SMEs to share resources for mutual benefits in their business network environment depends on how compatible and complementary sources are among firms. Earnings or resource mobilization can also be obtained through strategic alliances. With strategic alliances, firms are capable of expanding their capabilities and knowledge in an effort to increase their market share in the industry (Harris & Wheeler, 2005)

SMEs are usually in short supply, especially when SMEs are eager to expand their business to overseas markets. They also lack experience in technology capacity, management skills and lack of knowledge about global markets. Hence, these problems can be mitigated or overcome by strategic alliances or network connections. Strategic alliances need to be done by SMEs to enable them to mobilize the innovation capabilities and technology capacities owned by the business network. In this way, SMEs can enhance and fortify business resources to remain competitive in the market for a long time.

(Mort et al., 2012) suggesting that the enrichment process of SME resources can be achieved using the efficacy theory introduced by (Sarasvathy, 2001). According to the theory of efficacy, entrepreneurs begin with three categories of "meaning" ie they know who they are, what they know, and who they know. It means entrepreneurs know their character or character, their tastes and their capabilities; know how much knowledge it has; and know the network or social network it owns. At the firm level, the three categories are the physical resources they possess; owned human resources; and organizational sources. With the efficacy approach, SMEs can understand the capabilities and capabilities they have. This will enable SMEs to develop businesses by developing and leveraging resources to create and exploit opportunities. Therefore, the above argument would lead to the following hypothesis:

H1: Resource enhancement strategy has a positive and significant impact on small business performance.

## 2. METHODOLOGY

### Population and Sample

The study was based on quantitative approach using self-administered survey involving owners-managers of small business in Malaysia. The target population considered in this study was all the owner-manager of small business firms appeared on the database supplied by SME Corporation Malaysia, which is the most comprehensive list of SMEs databased in Malaysia. The respondents were randomly selected where each respondent had an equal opportunity to be selected. Thus, the inference process for the study of this specific population could be performed (Saunders, Lewis, & Thornhill, 2009; Sekaran, 2000). The questionnaires were sent to the respondent via mail and online survey with a personalised link. A total of 221 usable questionnaires were return, yielding a response rate of 24 per cent. 70% of respondents are SME owners-managers who have been operating between 5 to 10 years. Majority or 60% of firm earn less than RM 500 thousand sales per year, while the other 40% are companies with annual sales ranging from RM 500 thousand to RM 1 million per year. The details distribution of respondent in the sampling frame and our sample can be seen on Table 1.

Table 1

#### *Responden Profile*

Variable	Frequency	Percentage (%)
<i>Educational Background:</i>		
Primary school	63	28.5
Secondary school	74	33.4
Undergraduate	62	28.1
Postgraduate	22	10.0
<i>Sex:</i>		
Male	137	62.0
Female	84	38.0
<i>Industry:</i>		
Manufacturing	154	69.7
Agriculture	16	7.2
Services	39	17.6
ICT	12	5.5
<i>Age of firm:</i>		
Less than 5 years	73	33.0
5 – 10 years	93	42.1
11 – 20 years	55	24.9
<i>No. of employee:</i>		
Less than 5	86	38.9
5 – 74	117	52.9
75 – 200	18	8.2
<i>No. of sales per year:</i>		
Less than MYR 300k per year	133	60.2
MYR 300k– 14 million per year	73	33.0
MYR 15 m – MYR 50 m per year	15	6.8

### Measurement of variables

Business performance (dependent variable) was measured on a 10 items scale based on Chen and Huang (2009). The 10 items were supposed to measure the respondents' perceptions on both financial and non-financial performance measurement. Some of the items in the questionnaire were modified into a new format and were not taken as they in the original instruments. Resource enhancement (independent variable) measures were assessed using 11 items. The 11 items were developed by the author based on the literature related to. The items have been through three stages of evaluation; [1] sent to 6 experts to evaluate the validity of the content, [2] a pilot study to examined instruments' internal consistency (using an exploratory factor analysis or EFA), and [3] a confirmatory factor analysis or CFA to confirm the items that was measured what it is supposed to measure. The format of the instrument consisted of Likert scale of 7-point with endpoints of "Strongly disagree/Strongly agree"

### Statistical analysis

Data were analyzed using two-stages of Structuring Equation Modeling approach as suggested by Anderson and Gerbing (1988). Stage one involving a confirmatory factor analysis (CFA) to assess the model fitness as well as the reliability and validity of the measurement model. Then, stage two involving structural modeling to assess the hypothesized model

which is an impact of resource enhancement strategy on business performance. To examine the fit of the model to the data, we used the comparative fit index (CFI), the Tucker-Lewis Index (TLI), Chi-Square divided with degree of freedom (ChiSq/df), and the root mean square error of approximation (RMSEA). In general, models with fit indices of .0.90 and a cut-off value close to 0.08 for RMSEA indicate a close fit between the model and the data, whereas fit indices between 0.90 and 0.95 represent a reasonable fit (Byrne, 2010; Hair, Black, Babin, & Anderson, 2010). In line with Anderson and Gerbing's (1988) approach, first we tested the fit of the model's measurement components. The convergent and discriminant validity of the multiple-item measures was assessed by confirmatory factor analyses. All items of each latent variable were included in this measurement model. When this fit was acceptable, we tested the fit of the structural model, including causal pathways between constructs.

### 3. RESULT

#### Assessment of measurement model

Table 1 is the CFA for the measurement model, where the results were revealed to fit the required fit index value criteria. The fit values for Tucker-Lewis Index (TLI) and Comparative Fit Index (CFI) achieved the recommended fit values of .90 and above. The index value for Root Mean Square of Error Approximation (RMSEA) was lesser than .08 and the index value of  $\chi^2/df$  (ChiSq/df) was lesser than 5.0, which also implied that the fit value criteria for each category was achieved. Meanwhile Table 2 is the reliability and validity for the measurement model, requirement for reliability and validity was achieved through the process of; [1] all items was equal or greater than .70 to fulfilled the requirement for unidimensionality, [2] the Cronbach's alpha (AC) values exceeded the criteria of .70 to indicates the internal consistency of items, [3] the composite reliability (CR) values were above the cut-off point of .60, [4] the factor loadings of most items had exceeding .70 and the AVE of all constructs were above the cut-off point of .50 to fulfilled the requirement for convergent validity, [4] the correlation values of both construct were less than 0.85, indicated that the measurement model did have good evidence of discriminant validity. In sum, both constructs in the measurement model had achieved all the requirement for construct reliability and validity and can be proceed to

Table 1. Measurement model

df	$\chi^2$	$\chi^2/df$	RMSEA	CFI	TLI
73	193.575	2.652	0.080	0.951	0.939

Table 2 Reliability and Validity

Construct	Item	Factor loading	CA ≥0.70	CR ≥0.60	AVE ≥0.50
Resource Enhancement (RE)	re2	0.77	0.910	0.930	0.656
	re3	0.86			
	re5	0.72			
	re6	0.84			
	re7	0.81			
	re8	0.87			
	re9	0.79			
Business Performance (BP)	bp1	0.74	0.927	0.960	0.774
	bp3	0.94			
	bp4	0.96			
	bp5	0.87			
	bp8	0.89			
	bp9	0.92			
	bp10	0.82			

Nota: AC: Alfa Cronbach CR: Composite Reliability, AVE: Average Variance Extracted

#### Assessment of structural model (hypothesis testing)

After we had addressed the requirement for unidimensionality, validity and reliability of the latent construct involved in the study, the next step is to model these constructs into structural model or causal path analysis. Before proceeding to structural model assessment, we had been examined the normality of the data set as a part of parametric statistics basic assumptions. The normality assessment can be made by assessing the measure of skewness for every item. The absolute value of skewness in our data set was passed the cut-off values of skewness, which is not exceeding  $\pm 1.0$  to indicates the data is normally distributed (Zainudin, 2014). Objective of the study is to examine the impact of resources enhancement strategy on small business' performance. Thus, the following hypothesis has been tested;

*H1: Resource enhancement strategy has a positive and significant impact on small business performance.*

The result of the structural model is shown below in Figure 1 along with a summary of hypothesis testing in Table 3. The coefficient or  $R^2$  is 0.28, indicates that the contribution of exogenous variables in estimating endogenous variables is 38 percent. While RE's standardized beta estimate on business performance is 0.53, indicates that when RE increases

by 1 standard deviation, business performance increases by 0.53 standard deviation. An unstandardized estimate of 0.997 indicates that when RE increase by 1 unit, business performance will increase by 0.997 units. The probability of getting a critical ratio of 5.914 in absolute value was less than 0.001. In other words, the regression weight for resource enhancement strategy in the prediction of small business performance was significantly different from zero at the  $P < .001$  (two-tailed). Thus, the hypothesis that resource enhancement strategy has a positive and significant impact on small business performance is failed to reject. This result provides sufficient evidence that resource enhancement strategy contributes significantly in improving small business performance in Malaysia. Therefore, this finding supports the research objective and hypothesis of the study.

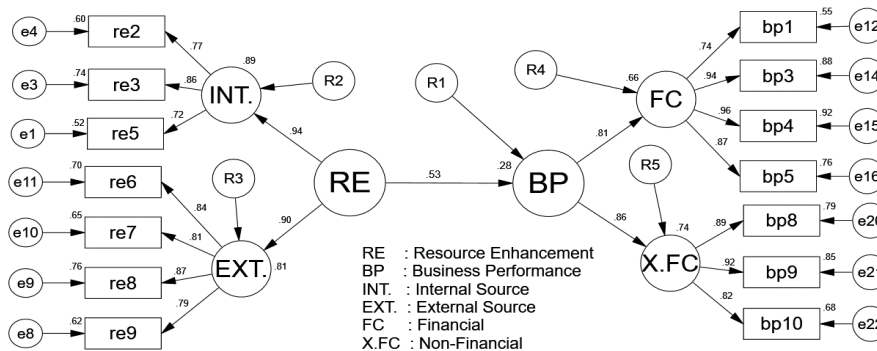


Figure 1 Structural model

Table 3 The Regression Weight for Resources Enhancement in predicting Business Performance

Regression Path	Standardized estimate	Unstandardized estimate	S.E.	C.R.	P
RE → BP	0.533	0.997	0.619	5.914	***

S.E (Standard Error), C.R (Critical Ratio)

\*\*\* indicate a highly significant at  $P < .001$

#### 4. CONCLUSION

The results relating to hypothesis in this study show that the resource enhancement strategy is significantly have impact in improving business performance of small business firm. These results provide a much clearer conceptualization of how resource enhancement strategy overcomes the issue of competitiveness in a new venture and small business firms. The results imply that under condition of lack of resource, small firms need to have a strategic partner to mobilize the external resources for the strategic purposes. A new venture and small business firm need to diversify their resources by growing dan enhancing their existing resources and mobilizing the potential external sources. To enhance firms' resource and capability, one firm need to work together in a strategic way in exploiting a business opportunity that may not be realized if they rely on their own resources. Therefore, builds and maintaining symbiotic relationships with the firm that has a strategic capability will help in sustaining small firms' competitiveness. Through this relationship, both parties have an access on the resources they need. The acquisition or consolidation of resources may also be achieved through strategic alliances. Strategic alliances allow small firm or new venture to develop their capabilities and knowledge to increase their market share in the industry. In fact strategic alliances are needed by small firm and new venture to enable them to leverage the innovation capabilities and technological capabilities of the business network. In this way, they able to enhance and enrich their business resources to remain competitive in the dynamic industry. The findings particularly indicate that the influence of resource enhancement strategy is a strategic way in overcoming not only resource limitations but also liabilities of the smallness and newness of a firm, that is associated with being unknown entities in which there is a lack of trust.

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