

Conference on Business Management 2017
School of Business Management, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia,

The Effect of Business strategy on Innovation capability, Absorptive capacity and Performance of SMEs in Pakistan

Muhammad Zulqarnain Arshad ^a, Darwina Arshad ^b

^aSchool of Business Management, Universiti Utara Malaysia, Malaysia
Email: Muhammad_zul@oyagsb.uum.edu.my

^bSchool of Business Management, Universiti Utara Malaysia, Malaysia
Email: darwina@uum.edu.my

Abstract

Small and medium enterprises (SMEs) play a vital role in the development of the economy of any country. In Pakistan SMEs hold about 90 percent of the total businesses. The performance of SMEs depends upon many factors. The purpose of this study is to investigate the relationship between Innovation Capability, Absorptive Capacity and Performance of SMEs in Pakistan. This conceptual paper also extends to the vague revelation on Business Strategy in which act as a moderator between Innovation Capability, Absorptive Capacity and Performance of SMEs. Conclusively, this study proposes a new research directions and hypotheses development to examine the relationship among the variables in the context of SMEs in Pakistan.

Keywords: Innovation Capability, Absorptive Capacity, Business Strategy and Performance of SMEs

INTRUDUCTION

The small and medium-sized enterprises (SMEs) play a crucial role in county's economic growth and a key contributor in country's GDP. In the emerging economies, more than half of the employment is generated by SMEs and are the major contributor to the national economic development (Irfan, Kee, Qureshi, & Hussain, 2014). It is a view that that large firm contributes largely to the economic development and foreign exchange earnings. This point of view has been changed now because countries like Japan, Korea, and Taiwan has developed their economies by Small and Medium Enterprises businesses (Ali Shah, Mehmood, Aamir Hashmi, Maqsood Shah, & Muhammad Shaikh, 2011).

Despite generous contribution and economic support towards development, it is acknowledged that SMEs performance remains below the expectation level in the developing countries (Arinaitwe, 2006). The low performance of SMEs contributing factors comprise of critical economic conditions, poor infrastructure support, inconsistent public policies, financial constraints, high operating cost and corruption (Ogbo & Nwachukwu, 2012; Sunny , Ifeanyi, & Sunny, 2015). Researchers, scholars, and practitioners underlined well about the significance and importance of small and medium enterprises, but still studies argued some significant weaknesses that exist with SMEs and their performance relationship. Various studies indented many constraints and barriers for the SMEs performance (Shah, Othman, & Mansor, 2016).

No doubt that SMEs are playing an important role in the economic development of every nation. However, the ratio of SMEs collapse is very high and alarming situation for developing, emerging as well as developed countries. Past studies acknowledged that within the five years of the business operation, significant numbers of new SMEs fails in this duration (Kuratko, 2005; Mbonyane & Ladzani, 2011). Several studies from USA, Australia, and England exposed that approximately 80% to 90% of SMEs fail to survive within 5-10 years (Ghobakhloo, Hong, Sabouri, & Zulkifli, 2012; Kuratko, 2005; Patterson).

However, Pakistani SMEs failure rate is approximately 90-95% at initial stages (Ullah, Dean, & Kaleem, 2011).

The SME performance of the developing countries remains at a lower level compared to the developed countries (Ihtasham ul Haque, 2016; IMF, 2016). Accordingly, the low level of performance in the SMEs is the critical issues for most of the developing economies because it is expected that SMEs play a vital role in their economic development. Planning, Development and Reform Minister of Pakistan Ahsan Iqbal has urged the World Trade Organization (WTO) to support Pakistan in the progressive development of small and medium enterprises (SME) sector. He said the country progression depends upon the growth of SMEs (Daily Times, 2016). Three years in a row, Pakistan missed the projected GDP (Pakistan Economic Survey, 2016). The GDP growth of Pakistan is slow as compared to some ASIAN countries. Thus, Pakistan's SMEs' performance is critical to stay abreast that help to boost GDP back on the right track.

LITERATURE REVIEW

SMEs Performance

The term firm performance is generally used to denote the organizational success. It is considered as the achievement of expected organizational outcomes such as goals and objectives. The firm performance has been defined as "the comparison of the value created by a firm with the value owners expected to receive from the firm" (Alchian & Demsetz, 1972'). Another definition of the construct viewed it as "The way organization carries its objectives into effect" (Flapper et al., 1996'). Firm performance is made up of the actual outcome of an organization measured against its input. Performance measurement enables organizations to focus on units that need improvement by evaluating the level of work progress in terms of cost, quality and time as well as consolidating in areas with higher output (Tomlinson, 2010).

Ireland, Hitt, and Sirmon, (2003) revealed that the concept of performance measurement is largely ill understood and misconceived by SMEs which usually fail to envision the potential merits of developing and .Implementation of performance measurement. Firm performance can be evaluated via two broad approaches; the objective approach and subjective approach. Acquiring objective data pertaining to performance with respect to SMEs/entrepreneurial firms is a very hard task as those private firms are not legally bound or required to unveil their financial details to general public (Dess & Robinson, 1984). The equality and suitability of utilizing subjective measures in contrast to objective measures has been proposed and supported in the scholarly literature about entrepreneurial performance. Dess and Robinson, (1984) opined that in case of non-availability of objective data, the performance of a firm can be precisely evaluated by asking respondents to make subjective comparison of their firm's performance with the performance of those firms who are considered as close competitors

Innovation Capability

An organization's innovation capability is the key motive for fostering innovation so as to lead to an organization's success. Studies have defined innovation capability in different ways, since innovation capability varies from organization to organization, and it also differs according to the type of innovations and the multiple effective factors (Saunila et al., 2013).

As detailed by Perdomo-Ortiz, González-Benito, & Galende, (2006), from the perspective of the RBV and Dynamic Capabilities, "to innovate, a firm requires the capability for innovation". Moreover, innovation capability facilitates firms to achieve and sustain superior performance and competitive advantage (Panayides, 2006; Yang, Lee, & Lin, 2012). On average, it has been found that firms with high levels of innovation capability are two times more profitable than other firms (Tidd, Bessant, & Pavitt, 2001). Therefore, developing innovation capability is crucial as innovation is viewed as fundamental for the survival and growth of organizations (Hurley & Hult, 1998).

Most of the research studies on innovation capability and performance linkage in SMEs are done in developed countries like Canada (Ifinedo, 2011; Snider, Silveira, & Balakrishnan, 2009), United States

Conference on Business Management 2017
School of Business Management, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia,

of America (Snider et al., 2009; Wolff & Pett, 2006), Netherlands (Wolff & Pett, 2006), England (Hippel, de Jong, & Flowers, 2012), New Zealand (Clark, 2010), Europe (Parida, Westerberg, & Frishammar, 2012) and Turkey (Murat & Baki, 2011). In the developing nation, policymakers considered the findings while designing the policy measures, but the formulated theoretical models in the developed countries context cannot be implemented or replicated in the developing countries SMEs context (Haroon Hafeez, Noor Mohd Shariff, & Lazim, 2013).

To conclude, with reference to empirical research, despite of some conflicting evidences (Hage & Aiken, 1967; Armour & Teece, 1978; Kimberly & Evanisko, 1981; Darroch, 2005; Rogers, 2003), majority of the studies have demonstrated the positive relationship of innovation with firm performance (Balslev, Haghighi, Version, & Synthesis, 2015; Farrukh et al., 2015; Purwanto & Raihan, 2016).

Absorptive Capacity

The concept first emerged as significant in the 1980s, with the acquisition and application of new knowledge as the fundamental role in business competitiveness. The contribution by Cohen and Levinthal, (1990) is generally accepted as the founding paper. They define absorptive capacity as the ability of a firm to recognize the value of new external information, assimilate it, and apply it to commercial ends. More recently, Zahra and George (2002) re-conceptualized absorptive capacity as a set of organizational routines and processes. Scholars further differentiate two types of absorptive capacity—potential and realized, where the former consists of acquisition and assimilation and latter of transformation and exploitation. Zahra and George (2002) provided a general model that conceptualizes absorptive capacity as a dynamic construct.

Absorptive capacity has been recently identified as a crucial dynamic capability in knowledge-based competition (Fosfuri & Tribo, 2008) and gradually become a key driver of a firm's competitive advantage (Nowak, 2013). Absorptive capacity has been investigated in a number of performance models in prior research, and many of these studies have proven positive relationship with firm performance (Nagati & Rebolledo, 2012; Zahra & George, 2002; Ali, Seny Kan, & Sarstedt, 2016; Ben & Greve, 2012; Bolívar-ramos, García-Morales, & Martín-Rojas, 2013; Tzokas, Kim, Akbar, & Al-Dajani, 2015; Umrani et al., 2015).

Regardless, there are some studies which have insignificant, weak and mixed findings between absorptive capacity and performance (Volberda, Foss, & Lyles, 2010; Wales, Parida, & Patel, 2013; Ali & Park, 2016; Schildt, Keil, & Maula, 2012; Lichtenthaler, 2016). Most studies on absorptive capacity concerned to large organizations with a strong R&D orientation and sophisticated structures. Very few studies focuses the theory of absorptive capacity in the view context of small and medium size organizations (Gray, 2006; Becheikh, 2013; Filippini et al., 2010; Guo & Wang, 2014; Herath & Mahmood, 2014; Kamal & Flanagan, 2012; Tzokas et al., 2015). In the SME performance models, the role of absorptive capacity has more to be clarified (Herath & Mahmood, 2014).The study should consider knowledge absorption in the wider context of SMEs in developing countries (Kamal & Flanagan, 2012).

Business Strategy

Strategy matters because it provides precise directions to a firm. The impact of business strategy on organizational performance is a subject of great significance, in the face of increasing globalization and intense market competition. As Gibcus and Kemp, (2003) put it, strategy plays a crucial role in the performance of a firm because it helps to define the direction along which a firm intends to move and how the firm is going to get there. Thus, a firm performance is also dependent on its business strategy and how effectively the strategy is implemented by the firm (Olson & Bokor, 1995). Earlier, Olson & Bokor, (1995) has noted that SMEs are supposed to adopt different types of strategies in order to make it easier to measure organizational performance rather than relying on a single strategy applied over a long-term. Small and Medium-size Enterprises (SMEs) thus, are to strategically pursue their vision in order to sustain their businesses, and to become more innovative and competitive both locally and internationally (Liebeskind, 1996).

Conference on Business Management 2017
School of Business Management, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia,

Competitive advantage is critical in order for a firm to perform above average within a given industry. It indicates that a firm is capable of producing value that is seen as superior to that of its competitors. Porter (1980) states that business strategy (competitive strategy) enables a firm to defend itself in a given industry. A strategy, therefore, should be based on a firm's unique and individual advantages, capabilities, and circumstances.

The performance of an organization is dependent on the business strategy adopted and implemented (Blackburn, Hart, & Wainwright, 2013). Findings by a number of researchers have also established relationships between business strategy and organizational performance (Acquaah, 2013; Anwar & Hasnu, 2017; Anwar, Shah, & Hasnu, 2016; Siavwe, Isiavwe, Ogbari, Ogunnaike, & Ade-Turton, 2015; Yuliansyah, Gurd, & Mohamed, 2017).

Several studies have been done to empirically explore the subject of firm performance that fit with business strategy in their particular ways, i.e. in Taiwan (Chen, 1999), in Malaysia (Ho, Ahmad, & Ramayah, 2016), and in several countries of Europe and USA (Guarda, Santos, Pinto, Augusto, & Silva, 2013; Parnell, Lester, Long, & Ali, 2014). Nevertheless, countries like Pakistan have some scarcity regarding this association, especially in SMEs of Pakistan.

Rationalize of Business Strategy as a Moderator

The idea on the effect of business strategy on organization performance is widespread in generic management literatures. Business strategy represents a process that alters the impact of the independent variables on firm performance in the context of resource base theory. This variable could be potential variable as moderating effect (Kim & Huh, 2015; Martinette, Obenchain-Leeson, Gomez, & Webb, 2014; Su, Guo, & Sun, 2017; Vidija, Obonyo, & Ogutu, 2016).

Study conducted by Mcgee, Dowling, & Megginson, (1995) demonstrated that the moderating role of business strategy was examined between corporate strategy and new venture performance among 210 manufacturing companies. The result shown that business strategy moderates the relationship between corporate strategy and business performance.

Vidija et al., (2016) attempted to build up a moderating effect of competitive strategy between employee outcomes and firm performance of listed companies in Nairobi-Kenya. The questionnaire was distributed among 60 firms. The result showed that the employee outcomes and performance relationship is moderated by competitive strategy positively.

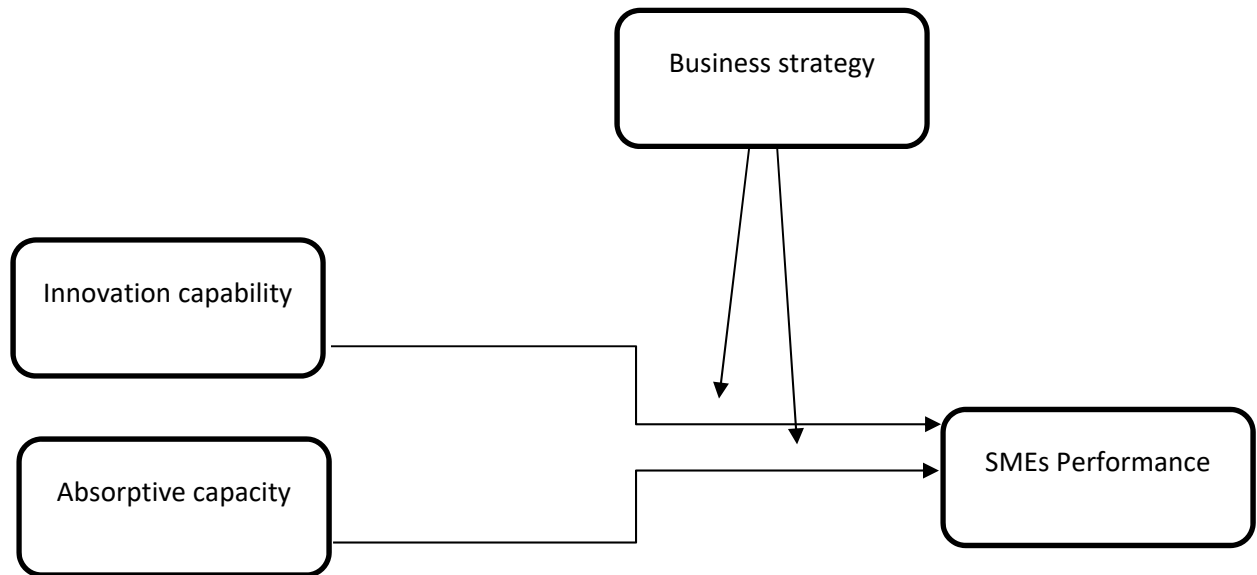
Su et al., (2017) examined the moderating effect of business strategy including differentiation and cost-leadership strategies on the relationship between exploration and firm performance. The data was gathered from 273 Chinese firm and the results shown that differentiation strategy moderated the relationship between exploration and firm performance while cost leadership did not moderate the relationship.

Huo, Qi, Wang, & Zhao, (2014) also examined the impact of supply chain integration on firm performance by the moderating role of strategy in Chinese manufacturing firm. The data was gathered among 604 manufacturing firms and the results showed that business strategy moderated the relationship between the supply chain integration and financial performance and did not moderate the relationship between the supply chain integration and operational performance.

From the above discussion, it is postulated that business strategy is a potential moderator in the resource- capability and performance link.

CONCEPTUAL FRAMWORK

Figure 1: Proposed Conceptual Framework



Drawing from above literature discussion, a conceptual framework is proposed, illustrated in Figure 1. It depicts innovation capability and absorptive capacity having a positive and significant relationship with performance, which is moderated by business strategy.

PROPOSED HYPOTHESIS

H1: Innovation capability has a significant effect on performance of SMEs

H2: Absorptive capacity has a significant effect on performance of SMEs.

H3: Business strategy moderates the relationship between innovation capability, absorptive capacity and performance of SMEs.

CONCLUSION AND RECOMMANDATION

A review of prior literature indicates that two organizational capability i.e. innovation capability and absorptive capacity have a significant effect on the performance of SMEs. The proposed research framework further posits that business strategy moderated the relationship between innovation capability, absorptive capacity and performance of SMEs. This conceptual paper employs the RBV theory to support this framework. The direction for future research should be empirically test to what extend innovation capability, absorptive capacity and business strategy are related and impacting SMEs performance in the emerging economy like Pakistan. If the framework empirically validated, the finding will offer an important insight to academics, policymakers and practitioners into the significant effect of innovation capability, absorptive capacity, business strategy and performance of SMEs in Pakistan.

REFERENCES

- Abimbola, T. (2001). Branding as a Competitive Strategy for Demand Management in SMEs. *Journal of Research in Marketing and Entrepreneurship*, 3(2), 97–106. <http://doi.org/10.1108/14715200180001480>
- Acquaah, M. (2013). Management control systems, business strategy and performance: A comparative analysis of family and non-family businesses in a transition economy in sub-Saharan Africa. *Journal of Family Business Strategy*, 4(2), 131–146. <http://doi.org/10.1016/j.jfbs.2013.03.002>
- Agyapong, A., & Acquaah, M. (1991). The Direct and Indirect Effects of Innovative Capability on Firm Performance : Evidence from Micro and Small Family Businesses in Ghana, 175–204. <http://doi.org/10.1057/978-1-137-36143-1>
- Ali, M., & Park, K. (2016). The mediating role of an innovative culture in the relationship between absorptive capacity and technical and non-technical innovation. *Journal of Business Research*, 69(5), 1669–1675. <http://doi.org/10.1016/j.jbusres.2015.10.036>
- Ali, M., Seny Kan, K. A., & Sarstedt, M. (2016). Direct and configurational paths of absorptive capacity and organizational innovation to successful organizational performance. *Journal of Business Research*. <http://doi.org/10.1016/j.jbusres.2016.04.131>
- Annarajula, M., Nandialath, A. M., & Mohan, R. (2012). Innovation capabilities and international performance of firms : a quantile regression approach. *Int. J. Business Innovation and Research*, 6(6), 615–635.
- Anwar, J., & Hasnu, S. (2017). Business Strategy and Firm Performance : A Multi-Industry Analysis. *“Business Strategy and Firm Performance: A Multi-Industry Analysis,”* 9(3), 361–382. <http://doi.org/10.1108/JSMA-09-2015-0071>
- Anwar, J., Shah, S., & Hasnu, S. (2016). Business Strategy and Organizational Performance : Measures and Relationships. *Pakistan Economic and Social Review*, 54(1), 97–122.
- Arinaitwe, S. K. (2006). Factors Constraining the Growth and Survival of Small Scale Businesses. A Developing Countries Analysis. *Journal of American Academy of Business*, 8(2), 167–178.
- Armour, H. O., & Teece, D. J. (1978). Organizational structure and economic performance: A test of the multidivisional hypothesis. *Bell Journal of Economics*, 9, 106–122. <http://doi.org/10.2307/3003615>
- ASIAN Development Bank Institute. (2015). SMEs Internationalization and Finance in Asia SMEs Contribute Much to Economic Activity but Less to Trade in Asia. *ASIAN Development Bank*, (February), 1–42.
- Balslev, S., Haghighi, M., Version, D., & Synthesis, Q. M. (2015). Determination of Innovation Capability of Organizations : Qualitative Meta Synthesis and Delphi Method. *In Proceedings of RESER2015 - Innovative Services in the 21st Century*.
- Becheikh, N. (2013). The Impact of Knowledge Acquisition and Absorptive Capacity on Technological Innovations in Developing Countries: Evidence From Egyptian Small and Medium-Sized Enterprises. *Journal of African Business*, 14(3), 127–140. <http://doi.org/10.1080/15228916.2013.843997>
- Ben-Oz, C., & Greve, H. R. (2012). Short- and Long-Term Performance Feedback and Absorptive Capacity. *Journal of Management*, 41(November 2012), 0149206312466148-. <http://doi.org/10.1177/0149206312466148>
- Blackburn, R. A., Hart, M., & Wainwright, T. (2013). Small business performance: business, strategy and

Conference on Business Management 2017
School of Business Management, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia,

- owner?manager characteristics. *Journal of Small Business and Enterprise Development*, 20(1), 8–27. <http://doi.org/10.1108/14626001311298394>
- Bolívar-ramos, M. T., García-Morales, V. J., & Martín-Rojas, R. (2013). The effects of information technology on absorptive capacity and organisational performance. *Technology Analysis & Strategic Management*, 25(8), 905–922. <http://doi.org/10.1080/09537325.2013.823152>
- Bommer, M., & Jalajas, D. (2002). The innovation work environment of high-tech SMEs in the USA and Canada. *R&D Management*, 32(5), 379–386. <http://doi.org/10.1111/1467-9310.00269>
- Chan, R. Y. K., He, H., Chan, H. K., & Wang, W. Y. C. (2012). Environmental orientation and corporate performance: The mediation mechanism of green supply chain management and moderating effect of competitive intensity. *Industrial Marketing Management*, 41(4), 621–630. <http://doi.org/10.1016/j.indmarman.2012.04.009>
- Chen, W.-H. (1999). The Manufacturing Strategy and Competitive Priority of SMEs in Taiwan: A Case Survey. *Asia Pacific Journal of Management*, 16(3), 331–349. Retrieved from <http://dx.doi.org/10.1023/A:1015408114144>
- Chen, Y.-S., Lin, M.-J. J., & Chang, C.-H. (2009). The positive effects of relationship learning and absorptive capacity on innovation performance and competitive advantage in industrial markets. *Industrial Marketing Management*, 38(2), 152–158. <http://doi.org/10.1016/j.indmarman.2008.12.003>
- Clark, D. (2010). Innovation management in SMEs: active innovators in New Zealand. *Journal of Small Business and Entrepreneurship*, 4(4), 601–619. Retrieved from <http://scholar.google.com/scholar?hl=en&btnG=Search&q=intitle:Innovation+Management+in+SMEs+:+Active+Innovators+in+New+Zealand#5>
- Daily Times. (2016). Dailytimes | Ahsan Iqbal urges WTO to support SMEs, facilitate CPEC, p. 1. Retrieved from <http://dailytimes.com.pk/business/03-May-16/ahsan-iqbal-urges-wto-to-support-smes-facilitate-cpec>
- Darroch, J. (2005). Knowledge management, innovation and firm performance. *Journal of Knowledge Management*, 9(3), 101–115. <http://doi.org/10.1108/13673270510602809>
- de Jong, J. P. J., & Vermeulen, P. a. M. (2006). Determinants of Product Innovation in Small Firms: A Comparison Across Industries. *International Small Business Journal*, 24(6), 587–609. <http://doi.org/10.1177/0266242606069268>
- Dess, G. G., & Robinson, R. B. (1984). Measuring organizational performance in the absence of objective measures: The case of the privately-held firm and conglomerate business unit. *Strategic Management Journal*, 5(3), 265–273. <http://doi.org/10.1002/smj.4250050306>
- Farrukh, M., Butt, S., & Mansori, S. M. (2015). Innovation capability: The role of Islamic work ethics. *Journal of Asian Business Strategy*, 5(7), 125. <http://doi.org/10.18488/journal.1006/2015.5.7/1006.7.125.131>
- Filippini, R., Güttel, W. H., & Nosella, A. (2010). *Enhancing the inflow of knowledge: elaborating the absorptive capacity cycle in SMEs. Advances in Applied Business Strategy* (Vol. 12). Elsevier. [http://doi.org/10.1108/S0749-6826\(2010\)0000012006](http://doi.org/10.1108/S0749-6826(2010)0000012006)
- Fosfuri, A., & Tribo, J. (2008). Exploring the antecedents of potential absorptive capacity and its impact on innovation performance. *Omega*, 36(2), 173–187. <http://doi.org/10.1016/j.omega.2006.06.012>
- García-Morales, V. J., Ruiz-Moreno, A., & Llorens-Montes, F. J. (2007). Effects of Technology Absorptive Capacity and Technology Proactivity on Organizational Learning, Innovation and Performance: An Empirical Examination. *Technology Analysis & Strategic Management*, 19(4), 527–558. <http://doi.org/10.1080/09537320701403540>
- Ghobakhloo, M., Hong, T. S., Sabouri, M. S., & Zulkifli, N. (2012). Strategies for Successful Information Technology Adoption in Small and Medium-sized Enterprises. *Information*, 3(1), 36–67. <http://doi.org/10.3390/info3010036>
- Gibcus, P., & Kemp, R. (2003). *Strategy and small firm performance. Organizational Development Journal* (Vol. 24). Retrieved from www.eim.nl/smes-and-entrepreneurship
- Gray, C. (2006). Absorptive capacity, knowledge management and innovation in entrepreneurial small firms. *International Journal of Entrepreneurial Behaviour & Research*, 12(6), 345–360. <http://doi.org/10.1108/13552550610710144>
- Guarda, T., Santos, M., Pinto, F., Augusto, M., & Silva, C. (2013). Business Intelligence as a Competitive Advantage for SMEs. *International Journal of Trade, Economics and Finance*, 4(4), 187–190. <http://doi.org/10.7763/IJTEF.2013.V4.283>
- Guo, B., & Wang, Y. Q. (2014). Environmental turbulence, absorptive capacity and external knowledge

Conference on Business Management 2017
School of Business Management, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia,

- search among Chinese SMEs. *Chinese Management Studies*, 8(2), 258–272.
<http://doi.org/10.1108/cms-03-2014-0051>
- H.Nagati, C. R. (2012). The role of relative absorptive capacity in improving suppliers' operational performance. *International Journal of Operations & Production Management*, Vol. 32(No. 5), 611–630. Retrieved from www.emeraldinsight.com/0144-3577.htm
- Hage, J., & Aiken, M. (1967). Program change and organizational properties. A comparative analysis. *AJS; American Journal of Sociology*, 72(5), 503–519. <http://doi.org/10.1086/224380>
- Haroon Hafeez, M., Noor Mohd Shariff, M., & Lazim, H. bin M. (2013). Does innovation and relational learning influence SME performance? An empirical evidence from Pakistan. *Asian Social Science*, 9(15), 204–213. <http://doi.org/10.5539/ass.v9n15p204>
- Hashim, M. K., & Zakaria, M. (2010). Business strategy and performance of small and medium manufacturing firms in Malaysia. *World Review of Entrepreneurship, Management and Sustainable Development*, 6(1/2), 125–134. <http://doi.org/10.1504/WREMSD.2010.031642>
- Hassan, M. U., Malik, A. A., Hasnain, A., Faiz, M. F., & Abbas, J. (2013). Measuring employee creativity and its impact on organization innovation capability and performance in the banking sector of Pakistan. *World Applied Sciences Journal*, 24(7), 949–959.
<http://doi.org/10.5829/idosi.wasj.2013.24.07.13253>
- Haswell, S., & Holmes, S. (1989). Estimating the Small Business Failure Rate: a Reappraisal. *Journal of Small Business Management*, 27(3), 68–74. Retrieved from
<http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=5266805&site=ehost-live>
- Herath, H. M. A., & Mahmood, R. (2014). Strategic orientations and SME performance: Moderating effect of absorptive capacity of the firm. *Asian Social Science*, 10(13), 95–107.
<http://doi.org/10.5539/ass.v10n13p95>
- Ho, T. C. F., Ahmad, N. H., & Ramayah, T. (2016). Competitive Capabilities and Business Performance among Manufacturing SMEs: Evidence from an Emerging Economy, Malaysia. *Journal of Asia-Pacific Business*, 17(1), 37–58. <http://doi.org/10.1080/10599231.2016.1129263>
- Huo, B., Qi, Y., Wang, Z., & Zhao, X. (2014). The impact of supply chain integration on firm performance. *Supply Chain Management: An International Journal*, 19(4), 369–384. <http://doi.org/10.1108/SCM-03-2013-0096>
- Hurley, R. F., & Hult, G. T. M. (1998). Innovation, Market Orientation, and Organizational Learning: An Integration and Empirical Examination. *Journal of Marketing*, 62(3), 42.
<http://doi.org/10.2307/1251742>
- Hurmelinna-Laukkanen, P., Olander, H., Blomqvist, K., & Panfilii, V. (2012). Orchestrating R&D networks: Absorptive capacity, network stability, and innovation appropriability. *European Management Journal*, 30(6), 552–563. <http://doi.org/10.1016/j.emj.2012.03.002>
- Iffinedo, P. (2011). An empirical analysis of factors influencing internet/e-business technologies adoption by SMEs in Canada. *International Journal of Information Technology & Decision Making*, 10(4), 731–766. <http://doi.org/10.1142/S0219622011004543>
- Ihtasham ul Haque. (2016). Fast collapsing textile sector | Pakistan Observer. Retrieved August 16, 2016, from <http://pakobserver.net/fast-collapsing-textile-sector/>
- Impact of Knowledge Sharing on Organization Performance : The mediating role of Innovation Capability
Impact of Knowledge Sharing on Organization Performance : The mediating role of Innovation Capability Submitted by : Muhammad Atif Supervisors : Adil Bil. (2016). *THESIS*, (September 2015).
<http://doi.org/10.13140/RG.2.1.2301.6564>
- INTERNATIONAL MONETARY FUND. (2016). IMF World Economic Outlook (WEO) Update, January 2016: Retrieved January 1, 2016, from <http://www.imf.org/external/pubs/ft/weo/2016/update/01/>
- Ireland, R. D., Hitt, M. A., & Sirmon, D. G. (2003). A model of strategic entrepreneurship: The construct and its dimensions. *Journal of Management*, 29(6), 963–989. [http://doi.org/10.1016/S0149-2063\(03\)00086-2](http://doi.org/10.1016/S0149-2063(03)00086-2)
- Kafetzopoulos, Dimitrios Psomas, E. (2015). *The impact of innovation capability on the performance of manufacturing companies. Journal of Manufacturing Technology Management The* (Vol. 26).
<http://doi.org/10.1108/jmtm-12-2012-0117>
- Kamal, E. M., & Flanagan, R. (2012). Understanding absorptive capacity in Malaysian small and medium sized (SME) construction companies. *Journal of Engineering, Design and Technology*, 10, 180–198.
<http://doi.org/10.1108/17260531211241176>
- Kim, G., & Huh, M. (2015). Innovation and survival in Korean SMEs: the moderating effect of competitive

Conference on Business Management 2017
School of Business Management, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia,

- strategy. *Asian Journal of Technology Innovation*, 23(1), 107–119.
<http://doi.org/10.1080/19761597.2015.1019183>
- Kimberly, J. R., & Evanisko, M. J. (1981). Organizational Innovation: The Influence of Individual and Contextual Adoption Factors on Hospital of Technological and Administrative. *The Academy of Management Journal*, 24(4), 689–713. <http://doi.org/10.2307/256170>
- Kitching, J., Blackburn, R., Smallbone, D., & Dixon, S. (2009). Business strategies and performance during difficult economic condition. *Urn 09/1031*, 68.
- Kostopoulos, K., Papalexandris, A., Papachroni, M., & Ioannou, G. (2011). Absorptive capacity, innovation, and financial performance. *Journal of Business Research*, 64(12), 1335–1343.
<http://doi.org/10.1016/j.jbusres.2010.12.005>
- Kuratko, D. F. (2005). The emergence of entrepreneurship education: development, trends, and challenges. *Entrepreneurship Theory and Practice*, 29(5), 577–598. <http://doi.org/10.1111/j.1540-6520.2005.00099.x>
- Lee, S.-C., Liang, H., & Liu, C.-Y. (2010). The effects of absorptive capacity, knowledge sourcing strategy, and alliance forms on firm performance. *The Service Industries Journal*, 30(14), 2421–2440.
<http://doi.org/10.1080/02642060802635551>
- Liao, H., Liu, X., & Wang, C. (2012). Knowledge spillovers, absorptive capacity and total factor productivity in China's manufacturing firms. *International Review of Applied Economics*, 26(4), 533–547. <http://doi.org/10.1080/02692171.2011.619970>
- Lichtenthaler, U. (2016). Absorptive capacity and firm performance: an integrative framework of benefits and downsides. *Technology Analysis & Strategic Management*, 28(6), 664–676.
<http://doi.org/10.1080/09537325.2015.1131258>
- Liebeskind, J. P. (1996). Knowledge, strategy, and the theory of the firm. *Strategic Management Journal*, 17(S2), 93–107. <http://doi.org/10.1002/smj.4250171109>
- Martinette, L. A., Obenchain-Leeson, A., Gomez, G., & Webb, J. (2014). The Relationship Between Learning Orientation And Business Performance: The Moderating Effect Of Sources Of Competitive Advantage. *International Business & Economics Research Journal*, 13(4), 779–792.
- Mbonyane, B., & Ladzani, W. (2011). Factors that hinder the growth of small businesses in South African townships. *European Business Review*, 23(6), 550–560. <http://doi.org/10.1108/09555341111175390>
- Mcgee, J. E., Dowling, M. J., & Megginson, W. L. (1995). Cooperative strategy and new venture performance: the role of business strategy and management experience. *Strategic Management Journal*, 16(September 1994), 565–580.
- Murat Ar, I., & Baki, B. (2011). Antecedents and performance impacts of product versus process innovation. *European Journal of Innovation Management*, 14(2), 172–206.
<http://doi.org/10.1108/14601061111124885>
- Nagati, H., & Rebolledo, C. (2012). The role of relative absorptive capacity in improving suppliers' operational performance. *International Journal of Operations & Production Management*, 32(5), 611–630. <http://doi.org/10.1108/01443571211226515>
- Nowak, R. (2013). Enhancing Organizational Knowledge: The Antecedents of Potential and Realized Absorptive Capacity. *Academy of Management Proceedings*, 2013(1), 10333–10333.
<http://doi.org/10.5465/AMBPP.2013.10333abstract>
- O'Cass, A., & Sok, P. (2014). The role of intellectual resources, product innovation capability, reputational resources and marketing capability combinations in firm growth. *International Small Business Journal*, 32(8), 996–1018. <http://doi.org/10.1177/0266242613480225>
- Ogbo, A., & Nwachukwu, a G. U. C. (2012). The Role of Entrepreneurship in Economic Development : The Nigerian Perspective. *European Journal of Business and Management*, 4(8), 95–106. Retrieved from <http://iiste.org/Journals/index.php/EJBM/article/view/1937>
- Olson, P. D., & Bokor, D. W. (1995). Journal of small business management. *Journal of Small Business Management*, 33(1), 34. Retrieved from <https://www.questia.com/library/journal/1G1-16787405/strategy-process-content-interaction-effects-on-growth>
- PAKISTAN ECONOMIC SURVEY 2016. (2016). | Ministry of Finance | Government of Pakistan |. Retrieved July 1, 2016, from http://www.finance.gov.pk/survey_1516.html
- Panayides, P. (2006). Enhancing innovation capability through relationship management and implications for performance. *European Journal of Innovation Management*, 9(4), 466–483.
<http://doi.org/10.1108/14601060610707876>
- Parida, V., Westerberg, M., & Frishammar, J. (2012). Inbound Open Innovation Activities in High-Tech

Conference on Business Management 2017
School of Business Management, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia,

- SMEs: The Impact on Innovation Performance. *Journal of Small Business Management*, 50(2), 283–309. <http://doi.org/10.1111/j.1540-627X.2012.00354.x>
- Parnell, J. A., Lester, D. L., Long, Z., & Ali, M. (2014). How environmental uncertainty affects the link between business strategy and performance in SMEs: Evidence from China, Turkey, and the USA. *Management Decision*, 50(4), 546–568. <http://doi.org/10.1108/00251741211220129>
- Patterson, R. a, Kozmetsky, G., & Ridgway, N. M. (1983). Perceived Causes of Small Business Failures: A Research Note. *American Journal of Small Business*, 8(1), 15–19. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=5748392&site=ehost-live&scope=site>
- Perdomo-Ortiz, J., González-Benito, J., & Galende, J. (2006). Total quality management as a forerunner of business innovation capability. *Technovation*, 26(10), 1170–1185. <http://doi.org/10.1016/j.technovation.2005.09.008>
- POURMOZAFARI, A., HEYRANI, F., & MOEINADIN, M. (2014). The Examination of Relationship between Intellectual Capital and Financial Performance According to the Modulating Role of Competitive Advantage. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 4(1), 188–200. <http://doi.org/10.6007/IJARAFMS/v4-i1/584>
- Purwanto, U. S., & Raihan. (2016). The Relationship Between of Manufacturing Flexibility, Innovation Capability, and Operational Performance in Indonesian Manufacturing SMEs. *IOP Conference Series: Materials Science and Engineering*, 114, 12074. <http://doi.org/10.1088/1757-899X/114/1/012074>
- Rogers, E. M. (2003). *The Diffusion of Innovations*. *Diffusion of Innovations*. <http://doi.org/citeulike-article-id:126680>
- Saunila, M., Pekkola, S., & Ukko, J. (2014). The relationship between innovation capability and performance: The moderating effect of measurement. *International Journal of Productivity and Performance Management*, 63(2011), 234–249. <http://doi.org/10.1108/IJPPM-04-2013-0065>
- Saunila, M., Pekkola, S., Ukko, J., Saunders, M. N. K., Gray, D. E., & Goregaokar, H. (2013). Journal of Advances in Management Research Innovation capability for SME success: perspectives of financial and operational performance. *Journal of Advances in Management Research International Journal of Productivity and Performance Management Management Research Review Iss European Journal of Training and Development*, 11(12), 163–175. Retrieved from <http://dx.doi.org/10.1108/JAMR-11-2013-0063> <http://dx.doi.org/10.1108/IJPPM-04-2013-0065> <http://dx.doi.org/10.1108/EJTD-07-2013-0073>
- Schildt, H., Keil, T., & Maula, M. (2012). The temporal effects of relative and firm-level absorptive capacity on interorganizational learning. *Strategic Management Journal*, 33(10), 1154–1173. <http://doi.org/10.1002/smj.1963>
- Sepúlveda, J., & Vasquez, E. (2014). Multicriteria Analysis for Improving the Innovation Capability in Small and Medium Enterprises in Emerging Countries. *American Journal of Industrial and Business Management*, (April), 199–208. <http://doi.org/10.4236/ajibm.2014.44027>
- Shah, M. H., Othman, A. R. B., & Mansor, M. N. bin. (2016). Moderating Role of Environmental Turbulence on the Relationship between Innovative Practice, Mentoring, Social Capital and Small Business Performance. *Asian Journal of Multidisciplinary Studies*, Vol.4(Issue 8), 202–219.
- Siavwe, D. T., Isiavwe, D. T., Ogbari, M. E. I., Ogunnaike, O. O., & Ade-Turton, D. (2015). The Role of Business Strategy in Accomplishing Organization Mission in Nigerian Manufacturing Companies. *European Journal of Business and Management*, 7(32), 120–127.
- Simpson, M., Taylor, N., & Barker, K. (2004). Environmental responsibility in SMEs: Does it deliver competitive advantage? *Business Strategy and the Environment*, 13(3), 156–171. <http://doi.org/10.1002/bse.398>
- Snider, B., Silveira, G. J. C. Da, & Balakrishnan, J. (2009). ERP implementation at SMEs: analysis of five Canadian cases. *International Journal of Operations & Production Management*, 29(1), 4–29. <http://doi.org/10.1108/01443570910925343>
- Su, Z., Guo, H., & Sun, W. (2017). Exploration and Firm Performance: The Moderating Impact of Competitive Strategy. *British Journal of Management*, 0, 1–15. <http://doi.org/10.1111/1467-8551.12218>
- Sunny O, ible, Ifeanyi, M., Sunny, A., & C, M. (2015). Financing options for Small and Medium Enterprises (SMEs): Exploring non-bank financial institutions as an alternative means of financing. *Journal Of Education Policy and Entrepreneurial Research*, 2(9), 28–27.

Conference on Business Management 2017
School of Business Management, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia,

- Tidd, J., Bessant, J., & Pavitt, K. (2001). Managing Innovation - Integrating Technological, Market and Organizational Change. *Managing Innovation: Integrating Technological, Market and Organizational Change*. [http://doi.org/10.1016/S0166-4972\(98\)80033-3](http://doi.org/10.1016/S0166-4972(98)80033-3)
- Tseng, C.-Y., Pai, D. C., & Hung, C.-H. (2011). Knowledge absorptive capacity and innovation performance in KIBS. *Journal of Knowledge Management*, 15(6), 971–983. <http://doi.org/10.1108/13673271111179316>
- Tzokas, N., Kim, Y. A., Akbar, H., & Al-Dajani, H. (2015). Absorptive capacity and performance: The role of customer relationship and technological capabilities in high-tech SMEs. *Industrial Marketing Management*, 47, 134–142. <http://doi.org/10.1016/j.indmarman.2015.02.033>
- Ullah, H., Dean, B. S., & Kaleem, M. (2011). A Study of Owner's Inherited Factors Affecting Entrepreneurial Orientation in Khyber Pakhtunkhwa-Pakistan. *Interdisciplinary Journal of Contemporary Research in Business*, 3(1), 712–725. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=70547951&site=ehost-live>
- Umrani, W. A., Ahmed, U., & Memon, P. A. (2015). Examining the absorptive capacity construct: A validation study in the Pakistani banking context. *Management Science Letters*, 5, 1053–1058. <http://doi.org/10.5267/j.msl.2015.10.0010>
- Vidija, E., Obonyo, P. K., & Ogutu, M. (2016). Moderating Effect of Competitive Strategy on the Relationship between Employee Outcomes and Performance of Firms Listed on the Nairobi Securities Exchange. *International Journal of Sciences: Basic and Applied Research*, 4531(January 2015), 211–224.
- Volberda, H. W., Foss, N. J., & Lyles, M. A. (2010). PERSPECTIVE—Absorbing the Concept of Absorptive Capacity: How to Realize Its Potential in the Organization Field. *Organization Science*, 21(4), 931–951. <http://doi.org/10.1287/orsc.1090.0503>
- von Hippel, E., de Jong, J. P. J., & Flowers, S. (2012). Comparing Business and Household Sector Innovation in Consumer Products: Findings from a Representative Study in the UK. *Ssrn*, 58(9), 1–29. <http://doi.org/10.1287/mnsc.1110.1508>
- Wales, W. J., Parida, V., & Patel, P. C. (2013). Too much of a good thing? Absorptive capacity, firm performance, and the moderating role of entrepreneurial orientation. *Strategic Management Journal*, 34(5), 622–633. <http://doi.org/10.1002/smj.2026>
- Wang, C., & Han, Y. (2011). Linking properties of knowledge with innovation performance: the moderate role of absorptive capacity. *Journal of Knowledge Management*, 15(5), 802–819. <http://doi.org/10.1108/13673271111174339>
- Wolff, J. A., & Pett, T. L. (2006). Small-firm performance: Modeling the role of product and process improvements. *Journal of Small Business Management*. <http://doi.org/10.1111/j.1540-627X.2006.00167.x>
- Yang, C.-H., Lee, C.-M., & Lin, C.-H. a. (2012). Why does regional innovative capability vary so substantially in China? The role of regional innovation systems. *Asian Journal of Technology Innovation*, 20(October 2013), 239–255. <http://doi.org/10.1080/19761597.2012.741393>
- Yuliansyah, Y., Gurd, B., & Mohamed, N. (2017). The significant of business strategy in improving organizational performance. *"The Significant of Business Strategy in Improving Organizational Performance ,"* 33(1), 56–74. <http://doi.org/10.1108/H-06-2016-0049>