Conceptual Framework of Factors Affecting SMEs Manufacturing Business Performance

Review of Integrative Business & Economics Research

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ABSTRACT

The success of SMEs manufacturing business is contingent upon a number of factors. Successful business plays a crucial role in the growth and development of a country. Many studies have been conducted to investigate the success factors, either empirically or theoretically. In many cases only one theory is used at a time to explain the success factors, which leave some gaps in between. However, in this paper a combination of three theories will be used to analyze the success factors of a production unit; Resource Based Viewed (RBV), Resource Dependency Theory (RDT) and Stakeholders Theory (SHT). A unique feature of this paper lies in its attempt to introduce two other key factors that are missing from the previous studies. Furthermore the article links internal and external factors with business success and concluded that the uniqueness in organization resources and capabilities, managing and developing relations with key stakeholders (creating value) and controlling key external resources are critical to the success of the manufacturing business. In sum, the study offers a comprehensive research model for further examination in other industries.

Keywords: Resource Based View; Key Stakeholders; Resource Dependency and SMEs Manufacturing Business Success.

1 Introduction

The role played by manufacturing in job creation, income generation and therefore poverty alleviation has been recognized worldwide (Zindiye, 2008). The role of industrialization on an economic development are as: Higher standards of living, improvement in balance of payments, increase in national income, economic stability, increase employment opportunities, promotes specialization, stimulates progress in other sectors, rise in agricultural production, large scope for technological progress, reduction in the rate of population growth, easy to control industrial activities, lesser pressure on land, increase saving and investment, increase the government revenues and develop markets.

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Rodrik (2009) stated that the faster movement of growth in developing countries is colligated with the transition of resources from traditional to industrial sector.
On the other hand, Chakravarty&Mitra (2009) investigated that manufacturing is still one of the important drivers of economic growth and development. Fagerberg and Verspagen (1999) found that manufacturing is an engine of growth in developing countries. He further concluded that transfers of these activities act as an engine for economic growth and development. This sector earns a good amount of foreign exchange and also changes the pattern of foreign trade. In addition, it provides job opportunities which contribute to poverty alleviation and increase government revenues by paying various kinds of taxes like, Custom duty, Excise duty, Sale Tax, Corporate tax etc.
In this paper, the researcher, take that the main sources of the manufacturing business success (a factor necessary to the success of organizations) are lying in the organization and its task environment. In this conceptual framework, factors relevant to task internal environment will be supported by a Resources base view (RBV) and factors relevant to task external environment will be supported by Resource dependency theory (RDT), and stakeholder theory.

2. Organization of the paper.

This section provides an explanation of our conceptual framework developed on the basis of Stakeholders relation; Resource dependency theory (RDT) and Resource based view (RBV). It organizes as follows. In subsections 2.1, 2.2, & 2.3, we give a summary of the main points of the theories and its links with business success. In section 3, we describe relationship among variables and conceptual model, in section 4 we describe a framework for measuring variables. Section 5 will be the outcomes section and include a conclusion.

2.1 Stakeholder Theory (SHT)

The concept of stakeholders is based on the generalization of the idea of stockholders Freeman (1984). Stockholders have claims on an organization so do the stakeholders have the right to make claims. Freeman and Reed (1983), differentiate stakeholder definition in two senses (narrow and wide). In narrow sense they define stakeholders as, those groups who are crucial to the success and survival of an organization. In the widest sense they define stakeholders as, groups who can affect or is affected by the organization. Clarkson (1995), defines the meaning of the stakeholders as; "without whose participation organization further cannot survive as a going concern". Furthermore, he claims that if key stakeholders withdraw and become unhappy then the organization will be seriously damaged and cannot be continued. Stakeholders narrow definition will be used in this study.
As the owner of the company has a financial stake in their business in the form of shares and bonds and are expecting financial profitability. As well, employees expect the benefits, safety, significant work and wages in Exchange for their jobs, skills, and loyalty. Freeman (1984), suppliers is the key to the success of a company from the stakeholder perspectives. He argues also that company as a valuable provider is involved, rather than just a source of materials to treat. In manufacturing companies, suppliers and agencies have a symbiotic relationship, so that they can rise and fall together Pfeffer & Salancik, (1978). Management and development of relations with major suppliers are essential, because these

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are strategic assets of buying companies and must be needs careful encouragement to fully use their potential for value creation Ivens et al. (2013). According to Aveni (1994) for the successful organization, top quality stakeholder satisfaction is important. Customers provide the lifeblood of the Organization in the form of income.

The focus of organizations on customers worked well and the success depends on customer proximity. Organizations would not risk, a group of people who live in the common in the form of pollution and poisonous waste material (toxic waste) Freeman (1984). More support, when the organization mismanages its relations with the community, is as a citizen who commits the crime. Thus, in stakeholders relation work with the community are essential to overcome the problems. Managing and developing relations with key stakeholders are critical to the success of manufacturing business.

2.2 Resource based view

According to William & et al. (2011) the origin of the resources based view RBV can be traced back to the study of Ricardo of the 19th century. Some believed that the display of RBV appeared in the early work of (Bernerard, 1938) and with the contribution of (Selznick, 1957), (Penrose, 1959) and (Wernerfelt, 1984), but Penrose (1959) work is considered to be a displacement of RBV, as it began with the argument that organization composed of a bunch of productive resources and continued by saying that these resources organizes adequately can only contribute to the growth of the organization.

Apart from that (Wernerfelt, 1984), has determined that resources own their own are unproductive, but the organization must treat raw resources, to make them useful. He said that the performance of the organization depends on its products, but indirectly on resources Wernerfelt (1984), and continued by saying that the products and resources are two sides of the same coin. Resources based View (RBV) is the most widely accepted theory of strategic management Newbert (2007). According to Akio (2005), the resource based view (RBV) focuses on internal resources and capabilities of an organization. In addition, internal resources are the main source of an organization's success.

Recent study by Ghapanchi et al. (2014), the resources of the organization are those that an organization can use to fulfill their strategies. Barney (1991), classified organization resources, also called stable material (tangible assets) and intangible assets into three categories. Human capital resources, Physical capital resources and organizational capital resources; Human capital resources include intelligence, experiences, judgments, education, relationships and an overview of managers and employees in a company.

Physical capital resources includes, the physical technology used in an organization, set up facilities and equipment, access to raw materials and its geographical location. Organizational capital resources include organizing the firm structure, its formal and informal planning, control and coordination of the system, as well as informal relationships between groups within an organization and between the Organization and the environment.

2.3 Dependency Theory

This theory States that the organization is based on the resources of another organization Pfeffer & Salancik, (1978). The involvement of suppliers, distributors and customers is therefore vital for links in the supply chain. Pfeffer&Salancik (1978), further argues that Dependency in the supply chain can affect the performance of the Organization.

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This theory suggests that the Organization depends on the environment and other actors in this environment for success. When organization controls essential resources, such as access to customers or consumers or access to raw materials, other organizations for the supply chain depends more on this entity. Other researchers suggest that the power that supplier put to use depend on the power of its partners Brown et al., (1995).

In manufacturing organizations, manufacturers and suppliers have a unique set of resources that depends on its success. Supplier depend on manufacturer to access to customers, manufacturers, in turn, depend on suppliers to access to the brand and products. Here, we can assume that the Organization depend on their environment for success, organization succeeds, or survive, if organization minimize its dependence on another organization for the supply of scare resource Ulrich et al., (1984).

3 Theoretical framework

The dependent variable is manufacturing business success, which is the variable of primary interest. The independent variables are organization resources and capabilities, resource dependency and business key stakeholders.

Conceptual Model of Factors Affecting SMEs of Manufacturing Business Performance

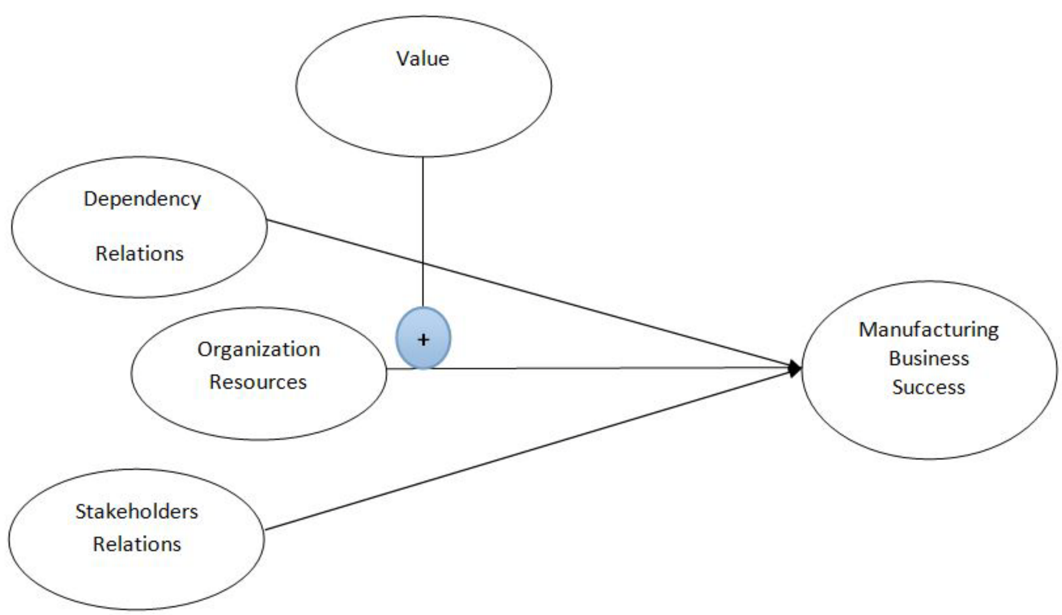

Fig. 1

Source: Modified by authors based on Jay Barney (1991), Pfeffer&Salancik (1978), &R. Edward Freeman (1984).

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In this article we have added to the organization resources and capabilities a unique feature which is the value. Here, we are hypothesizing that the production units whose resources and capabilities are embedded with the value may positively influence manufacturing business success. However, according to Johnes & Johnes (2013), profits can continue to exist in the resources based view of the firm because of heterogeneity. Specifically, valuable and scarce resources are capable to benefit the firms where they bring competitive advantage to them Hulland et al., (2007). According to resource based view, certain assets with certain characteristics will lead to high profit Ford (1998). Resource based view suggests that the resources possessed by a firm are the primary determinants of its performance Wernerfelt (1984). Pfeffer & Salancik (1978), proposed that organization contingent on external environment for resources they need. Finally, according to Freeman (1984) if any, business is to be successful, it has to create value for their stakeholders. In fact, Beringer et al., (2013) has shown that stakeholder management is key to business success.

4 Framework for measuring variables.

4.1 Value, and measurement in stakeholder perspective.

Value means anything that has the potential to be of worth to stakeholders. To create value firm needs to provide a higher level of utility for their stakeholders. A way to get the highest level of utility is through the construct of happiness Wicks & Harrison (2012). Happiness means no satisfaction, but it is happy or very happy at the amount of interest from one or more aspects of their involvement with the firm. Happiness means the way stakeholders feel about the tangible and intangible utility they received through their interaction with the company Haidt's (2006).

Wicks and Harrison (2012), argues that perhaps the most obvious source of utility for stakeholders is found in the physical goods and services provided by the firm, where physical goods also include financial remuneration in a variety of forms Wicks& Harrison (2012).

Psychologists refer happiness as subjective well being and can be measured in a number of ways Dieer et al., (2002). According to Pavat&Diener (1993), the most common method for measuring happiness is self-reported questionnaires mean a researcher is perhaps not able to consult relevant stakeholders directly, that's how happy they are with a company, it may be able to find what makes the undertakings concerned which can realistically be happy stakeholders. In addition, Wicks& Harrison (2012), pointed out that it is difficult to determine provider happiness directly, but if the Organization pays the bills quickly usable as a possible clue for the happiness of the seller.

4.2. Dependency measurement

As mentioned earlier that the goal of Resource Dependency is to minimize its dependence on another organization for the supply of scarce resources. So we want to measure the strength of our organization over the resource. Its depend on two factors

1 How vital is the resource for us

2 What extends the other organizations control the resource

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Therefore, a resource that is not important to the organization and not that much control by other organization cannot create a situation of dependence Pfeffer & Salancik (1978).

4.3. Measurement of value under Resource based perspective

According to Barney (1991), success is the function of firm resources and capabilities and to be successful, firm resources and capabilities must have attributes. Therefore, in this paper the valuable attribute have taken into account from Barney (1991). Resources and capabilities are valuable if they enable a firm to respond to environmental threats and opportunities.

4.4. Business success

A considerable amount of literature has been published on success. In the literature, business success and business performance are used interchangeably, an generally both represent the accomplishment of something planned or desired or the achievements of organization goals and objectives Maidique and Zirger (1985). Performance is the achievement of an outcome from any activity, or the result of an action. According to Pasanen (2003), success in business studies means firm outstanding financial performance. Day et al., (1995), reported that market share and profitability are common dimensions for business success. There are many methods to measure success like assessment of financial performance, assessment of marketing inputs and assessment of effectiveness and efficiency (Neely, 2002). Previous study of Matti Jaakkola (2006) found balance scored (BSC) method for measuring success, which includes four dimensions. Panagiotis Liargovas & Skandalis (2010), success has measure by three variables; return on sale and profit margin, return on assets and return on equity.

For the purpose of this study successful firms are; firms have an above average rate of return (as compared to competitors of the same size and type of business) and have been in business for five and more years.

5 Conclusion

In this paper, we have incorporated stakeholder relationship, dependency relationship and the organization resources and capabilities with a unique feature as a source of business success. To create value for stakeholders, it is concluded that organizations that provides a greater utility for stakeholders are better able to preserve their participation and support. If the interests of the stakeholders are in conflict, it could be a key influencing factor for the success of the business. Thus, manage and develop relationship with key stakeholders are the function of business success. Each organization is an opened system between itself and the external environment. Therefore, controlling key resources is also critical to organization success. For organization resources and capabilities, we identified that an organization will be successful if it has the resources and capabilities with right attribute and characteristic like value as mentioned. Unique feature convert an organization resources and capabilities to superior performance, which in turn leads to business success.

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