

# Impact of Export Capability on Business Performance through the Mediation Role of Competitive Advantage: Evidence from Algeria's' Entrepreneurial SMEs

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**Abstract:** *The strategic advantage of SMEs' has been identified as a critical subject for researchers studying SME internationalization. Few studies have looked at the impacts of firm competitive advantage and its possible position as a mediator on the relation between Exporting capability and SMES' International performance. The study proposed three marketing strategies as drivers of strategic advantage for marketing SMEs: product creativity, selling ability, and marketing communication. The findings of the (PLS) model on a sample of 100 active exporting entrepreneur SMEs in Algeria, three of the competencies above contribute to competitive advantages. Furthermore, the data revealed that competitive advantage is the only mediator in the relation between price capabilities and export performance for entrepreneurial SMEs in this study. The analysis's significant results may be helpful to SMEs and startups.*

**Keywords:** export capability; business performance; entrepreneurial SMEs; competitive advantage

## 1. INTRODUCTION

SMEs are changing their business models to be more innovative and creative to grow their companies through market expansion due to globalization's effects [1]. Small firms who understand the industry and can differentiate their products will have the potential to reach international markets, making export competitiveness an essential factor to consider [2]. SMEs will likely affect the perpetrators and state revenues via taxes [3]. The existence of added value growth and company productivity can lead to a relatively high economic contribution [4].

SMEs are the essential contributors to GDP growth besides poverty reduction in both developed and developing nations. It also significantly impacts Ethiopia's economic development and job possibilities [5]. SMEs contribute to employment and national income (GDP) at all economic levels [6]. The majority of businesses are small and medium-sized firms (SMEs), which contribute significantly to the employment and economic development of the nation. They are responsible for about 90% of all businesses and more than 50% of all workers in the world [7]. It has never been an easy process, though. SMEs are challenging with obstacles and possibilities in export markets. They must gain a competitive edge to remain competitive with other international companies in the business [8].

Competitive advantage and business performance of companies are two separate concepts [9]. For many businesses, the capacity to internationalize has become a competitive need and a means of ensuring survival and development in the globalization age [10]. Internationalization in SMEs is a learning process that

necessitates a diverse set of skills [11]. Export performance influenced marketing capability [12]. While most research on export performance has focused on the relationship between performance and capabilities, limited studies have looked at the impact of organizational capabilities on competitive advantage. Due to internationalization, under environment is so complex, it is easy to overlook a segment evaluation if there is a link between capability and performance outcomes due to marketing skills failing to provide competitive advantages.

The majority of research has focused on skill-performance relationships, and further research into the relationship between capacity and competitive advantage is needed [13]. Furthermore, we hypothesize that mediator factors like competitive advantage might be a source of the mixed capability-performance outcomes. Moreover, studies on factors of international performance have produced inconsistent effects when it comes to the influence of competencies on business performance [14].

The contribution of critical capabilities in the growth of a company's competitive advantage in exporting SMEs and providing competitive advantage as a correlation between organizational capacity and SMEs' international success would be minimal to study. The current authors hope to fill in these research gaps in this study by focusing on the critical competitive advantage capabilities that may influence SMEs' international performance and whether competitive advantage acts as a mediator between these capabilities and SMEs' international performance. These enterprises will assess their readiness by empathizing with the crucial competencies that contribute to competitive advantage. Policymakers and entrepreneurs should concentrate their capacity growth efforts on closely linked skills to strategic advantage for exporting

SMEs [15]. The rest of the paper is arranging in the following order: The literature review and observations are presenting in the subsequent section. The study techniques then identified are conducted on a survey of 190 Algerian entrepreneurial SMEs that are actively exporting. After then, the data analyzed. The paper concludes with a discussion of the research results, constraints, and recommendations.

## 2. LITRATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Resource-Based View (RBV) holds that the most significant aspect of an organization's performance is its resources. These resources refer to as assets and capabilities. Capabilities, such as talents and knowledge, are intangible assets that may be both tangible and intangible [16]. As a result, intangible assets are viewed as strategic variables [17] and can provide long-term value. By creating and implementing product-market strategies, firms with significant, limited, and non-substitutable capital will gain at least a slight competitive advantage [18]. Competitive edge, we can say, helps a business provide more value for its consumers and hence adds to firm performance. The firm's competitive advantage is determined not only by its capital and skills but also by its ability to respond to changing marketplace conditions and markets. Enterprises may have capital, but they must demonstrate dynamic capabilities or risk losing shareholder value [19]. An exporting company must gain unique advantages to compete in international markets, which must be desirable and uncommon [20]. Internal and external features of a firm's unique configurations and interrelationships accumulate and shape difficult to imitate capabilities [21].

Many studies have performed and explored the link between organizational capacities and corporate performance in the absence of competitive advantage. The function of marketing capacity and competitive advantage studied in manufacturing firms, and therefore in the operation of SMEs' international performance, competitive advantage and marketing capability are positively related [22]. [23] investigated the links among marketing capacity, strategic edge, and firm efficiency.

Others, such as [8], looked at the importance of competitive advantage as a mediating factor in the relationships between entrepreneurial orientation, intangible capital, and absorptive capacities. Although numerous studies have been in recent years, more work is needed to understand the drivers' competitive advantages or mediating influence on different capabilities. Competitive advantages could predict how well SMEs perform internationally. In the logic of exporting enterprises from developing countries like, there were strong relationships between product, pricing, marketing strategy capability, and international performance.

Based on the idea that International performance and competitive advantage are two distinct definitions, The researchers seek to determine if export capabilities and SMEs' international performance are linked positively or if competitive advantage plays a role in the operation. The

researchers' selected four critical strengths following the findings that we believe will assist exporting SMEs acquire a competitive advantage and mediate the link between these skills and their worldwide performance.

Figure 1 depicts the research model and the investigations that support the theory formulation addressed in the following order.

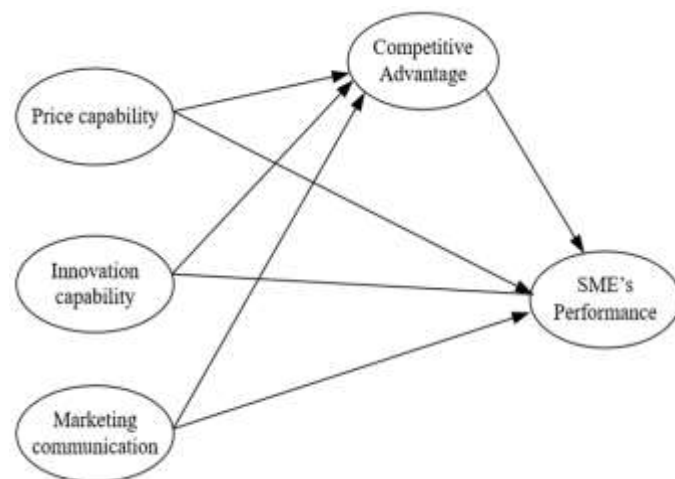


Fig 1. Conceptual Framework Model

### 2.1 Capability of SMEs export performance and competitive advantage

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Critical contributors to modern economies acknowledge SMEs, but we have a limited grasp of how they flourish in an increasingly competitive market and accomplish development [24]. As a result, it is critical to comprehend the factors that influence SMEs' performance. When it comes to exporting, it understands that big companies build up their capital and skills over time. Export success results from a company's ability to exploit its resources and competencies to generate international competitiveness. According to [25], SMEs lack the resources and competencies to solve the hurdles of exporting, and they cannot gain a competitive edge in international marketplaces. To improve their capacity, adapt goods, target various export market segments, handle diverse suppliers, including international distributors, and monitor customers' demands and patterns, exporting companies must identify and comprehend their global competitor's customers and [26. In today's high-turbulence market atmosphere, information has been identified as a dominating basis of

strategic advantage. As a result, companies must grasp, integrate, and utilize new external expertise for commercial purposes to withstand those stressors [27].

Organizational capability and firm performance have been related in numerous studies [28]. A company's competitiveness is determined by its ability to create and deliver new and unique products, particularly in overseas markets. Product innovation capability refers to a company's ability to manufacture and reinvent its product contributions in order to meet customer demand [30]. When launching new technologies, breakthrough ability reduces time to market [31]. Consequently, according to [32], product creativity potential contributes to product superiority. As a result, product creativity potential can be essential and unique, and it can provide a strategic edge when it helps a company respond to evolving consumer demands [33]. These prospects included in the following hypothesis:

## 2.2 Hypothesis formulation

The ability of an enterprise to determine prices under a fair assessment of cost, competition, and customer preferences is referred to as pricing capability [34]. By enabling better customer offerings, companies with more extraordinary pricing skills can gain a competitive advantage. [35]. There are few reports on pricing capability, but companies with greater pricing stability may have the most significant value for investment. The majority of the studies found that a company's pricing power contributes to a strategic edge based on reduced prices than its competitors [36].

**Hypothesis 1.** In SMEs' international performance, Pricing capability and competitive advantage have positively related.

Several studies have discovered a link between organizational innovation and business performance [37]. A company's competitiveness is determined by its capacity to develop and deliver innovative and original products, mainly when operating in international markets. A company's capacity to produce, change, or reinvent its product offerings to suit client needs is referred to as product innovation capability [38]. When releasing new products, product innovation capabilities reduce time to market. As a result, product innovation skill may be essential and uncommon, and it may provide a competitive advantage when it helps a company adapt to changing client demand. These expectations include in the following hypothesis.

**Hypothesis 2** Product innovation capability and competitive advantage positively linked in SMEs' international performance

The capacity of a company to prepare, execute and launch its marketing communication campaign is referred to as marketing communication capability [39]. According to [40], a company with marketing capability outperforms others focused purely on technical skills in terms of financial results. Brand contact assisted a digital technology company in India

in demonstrating its commodity benefits. The ability to distinguish product offers from rivals with a well-executed campaign strategy will add value. Marketing engagement capabilities allow businesses to effectively recognize, communicate with, and serve their target markets, resulting in improved business efficiency [41].

Marketing communication capacity will help companies achieve a competitive edge, especially if they can balance their national and international communication efforts [42]. These expectations incorporated into the following hypotheses:

**Hypothesis 3:** In SMEs' international performance, competitive advantage and marketing communication capability positively related.

## 2.3 Interplay export capability, competitive advantage, and SMEs' international performance

An actual benefit of a product in which a company will outperform its rivals is a competitive advantage [43]. Differentiated services may help a company become more competitive [44]. Despite Porter's assertion that low cost and distinction are mutually exclusive terms, [45] discovered that multiple businesses attempt to achieve both a price and a product advantage simultaneously. In actuality, according to their findings, obtaining a competitive price and product benefit has a beneficial influence on worldwide success. The bulk of past research finds that competitive advantage positively connected to company performance. Others [46] have discovered that comparative advantage has little impact on SME internationalization. As a result, additional research is needed, especially for SMEs, to demonstrate the relation between competitive advantage and international performance. As a result, the following hypothesis constructs.

**Hypothesis 4.** Competitive advantage has a positive relationship with SMEs' international performance.

The international performance of SMEs reveals that there are conflicting judgments on the significance of capabilities in firm performance [14]. According to a current study, neglecting mediator factors like competitive advantage might be a source of the conflicting results on the capability-performance link [47]. As a result, competitive advantage acts as a mediator between the capabilities of exporting SMEs and their export performance. These assumptions incorporated into the following hypothesis:

**Hypothesis 5.** Interaction of SMEs' product innovation capabilities and their international performance mediates with a competitive advantage.

**Hypothesis 6.** Interaction of SMEs' pricing capabilities and export performance mediates with a competitive advantage.

**Hypothesis 7.** Interaction of SMEs' marketing communication capabilities and their international performance mediates with a competitive advantage.

## 3. METHODOLOGY

The enterprises chosen for this research are exporting SMEs from Algerian. In addition to that, the person in charge

of the company's exporting efforts, usually the export managers, was the decision-maker whose opinion the survey seeks to elicit. To ensure that the study included successful and frequent exporting SMEs, only companies that generate at least 25% of their revenue from exports were considered [48]. The Algerian commodity exchange used in the research (ACX). To fill STRATA in enterprise size and enterprise clusters, a random sampling of enterprises from relevant sectors and the population was taken from Algeria. Total of 300 respondents chosen to take part in the research. The Survey tested on five SMEs picked at random from a database, and significant adjustments of the questionnaire was made pro data collection methods.

### 3.1 MEASURES OF VARIABLES

Based on a thorough review of the literature, added measurement items. To analysis easier, previous studies' operationalization was conduct. Measurements were then quantified as inter structures and assessed on a 5-point Likert scale with values ranging from strongly disagree (1) strongly agree (5). A hypothesis creates to quantify SME international performance according to the scale defined by [49]. To assess SMEs international performance, seven things adapt in total. Competitive edge was measured using a seven-item scale developed, while business experience, product creativity, marketing communication capability, and pricing capability were measured employing scales developed.

Table 1 Result of measurement Model Competitive Advantage

Descriptions	Mean	Std	Factor loading	CR	AVE
				0.927	0.512
COA_1	3.28	0.956	0.761		
COA-2	3.49	0.900	0.790		
COA-3	4.08	0.737	0.754		
COA-4	3.74	0.807	0.806		
COA-5	3.72	0.826	0.613		
COA-6	3.72	0.704	0.674		
COA-7	3.81	0.660	0.578		

Note: CA – Competitive Advantage

Table 2 Result of measurement Model Marketing Export Capability

Items	Mean	Std	Factor	CR	AVE
MCC-1	3.40	0.851	0.930		
MCC-2	3.31	0.877	0.940	0.93	0.879

MCC-3	3.36	0.880	0.948		
MCC-4	3.41	0.900	0.933		
PIC-1	3.78	0.870	0.931		
PIC-2	3.84	0.841	0.904	0.894	0.853
PIC-3	3.77	0.864	0.935		
Price-1	3.73	0.862	0.911		
Price-2	3.66	0.876	0.921	0.907	0.825
Price-3	3.76	0.801	0.920		
Price-4	3.75	0.826	0.880		

Note: MCC – Marketing communication capability, PIC – Product innovation capability, Price – price capability

Table 3 Results Measurement Model SMEs' Performance

Items	Mea n	Std	Factor loadin g	CR	AVE
Perf-1	3.61	0.881	0.881		
Perf-2	3.65	0.810	0.767		
Perf-3	3.51	0.980	0.871	0.962	0.735
Perf-4	3.65	0.954	0.902		
Perf-5	3.65	0.760	0.870		
Perf-6	3.55	0.941	0.900		
Perf-7	3.54	0.858	0.803		

Note: Perf – Performance

Table 4 Validity that discriminates

	COA	Perf	MCC	Price	PIC
COA	<b>0.711</b>				
Perf	0.216	<b>0.856</b>			
MCC	0.361	0.307	<b>0.938</b>		
Price	0.400	0.205	0.544	<b>0.908</b>	
PIC	0.366	0.203	0.484	0.554	<b>0.923</b>

Note: COA- Competitive advantage, MCC- Marketing communication capability, PIC- Product innovation capability

Table 5 Hypothesis testing and structural relationships

Path	$\beta$	Std.	t-value	Decision
H1: Price → COA	0.245	0.083	3.156**	Accepted
H2: PIC → COA	0.135	0.084	1.749*	Accepted
H3: MCC → COA	0.105	0.094	1.16	Not Accepted
H4: COA → Perf	0.318	0.08	5.39**	Not Accepted

Note: PIC-product innovation, Price, MCC, marketing communication capability, COA- competitive Advantage, Perf- Performance

**Table 6** Mediation Effect

Path	Std.β	T-value	Decision
H5: Price → COA → Perf	0.072	2.94**	Accepted
H6: PIC → COA → Perf	0.038	1.576	Not accepted
H7: MCC → COA → Perf	0.027	1.068	Not accepted

### 3.2 Measurement model

The structural model was measured, validated, and tested using Structural Equation Modeling (SEM). We used different procedures to test the data set unidimensional and reliability. The extent to which items are free of inadvertent errors produces predictable consequences measured by construct dependability. The study used (CR) index and (AVE) index to assess reliability in this analysis. Both indices outperformed the assessment criterion on all scales, with the CR index scoring 0.7 and the AVE index scoring 0.5.

The accuracy of different structures assessed using convergent validity. As indicated in Table 1, all values were within the required range, proving internal correctness, durability, and concurrent validity [51]. The criteria to assess discriminant validity, the diagonal results of the correlation matrix in Table 4 should be greater than the absolute value of inter construct correlations [52]. This criterion was fulfilled by all concepts, implying that the items had a more significant variation with their hypotheses than with other concepts.

### 4. EMPIRICAL RESULTS

The researchers used subsamples, mean substitution for invalid data, and a one-test for hypothesis testing. Business insight, product growth, and pricing capability are all favorably linked to competitive advantage, as seen in Table 5, H1, H2, and H3 hypotheses supported. In contrast, hypothesis H4 proved because competitive advantage positively linked to SMEs' foreign results. Hypothesis H3 received no assistance, suggesting no statistically significant connection between marketing capability and competitive advantage. The VIF is used to look at issues of multi collinearity. We used bootstrapping protocol to assessing the mediation results. This is the most recommended method for evaluating mediation. Table 6 shows the indirect relationships as well as the hypothesis testing findings. The mathematical study found no evidence to support hypotheses H5, H6, or H7.

According to the findings, the export capability has a potential value that contributes to a competitive edge for Ethiopian exporting SMEs. This study adds to our knowledge of the elements that influence the international performance of SMEs. It underscores the fact that was exporting SMEs depending on both price and product advantages to succeed.

Findings are in line with [45], who focused on asymmetries between distinct competitive advantages. Furthermore, only pricing capability indirectly influences SMEs' worldwide success, according to our findings. This emphasizes the importance of pricing capability in achieving international performance. As a result, while product innovation may provide a competitive edge, an acceptable price may be required to leverage product innovation. Theoretically, this study provides empirical evidence on the competitive advantage component and its mediating role in the research.

According to the firm's RBV, only valued, distinct, and non-substitutable qualities may be a source of competitive advantage. We wanted to see if these three core attributes are "useful" in terms of competitive advantage. As a result, the findings of this study add to the existing study on the link between organizational skills, competitive advantage, and worldwide success. In market understanding, product innovation capability and marketing communication skills are deficient in delivering adequate international commerce outcomes. Exporting enterprises must not forget their price competence to improve their global performance, in addition to attempts to improve product innovation skills for competitive advantages. Increasing pricing capabilities may be accomplished through continuous process improvement, cost management, and the minimization of administrative costs. There fore policymakers should offer additional workshops and seminars on how to improve product and process innovation among exporting SMEs.

There are several significant limitations to this study. First, it considered the three most prevalent competitive advantages examined: pricing, product, and service. As a result, the impact of other potential competitive benefits that may apply to exporting SMEs has been overlooking. Second, only 190 valid replies were obtained due to financial and time restrictions, resulting in a small sample size of 0.15 and a statistical power of 90%. Third, this study only looked at the direct link between capabilities and competitive advantage, not the potential interrelationships between the three capacities. Researchers may investigate expanding the model in future studies by researching the drivers of each competence or researching new skills such as networking and digital ability, which may contribute to SMEs' international success. Moreover, look at the interrelationships between capabilities.

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