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Development of internal resources and capabilities as sources of differentiation of SME under increased global competition: A field study in Mexico

Daniel Maranto-Vargas ^{*}, Rocío Gómez-Tagle Rangel

*Graduate School of Business Administration and Leadership (EGADE), Tecnológico de Monterrey (ITESM),
Ave. Rufino Tamayo esq. Ave Fundadores s/n, Valle Oriente, 66269 San Pedro Garza Garcia, Mexico*

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Abstract

This paper draws on the resource-based view of the firm and contributes to our understanding of how the development of internal resources and capabilities in SMEs can provide sources of competitive advantages in the international arena and improve their business performance.

This research found statistical evidence to suggest that business performance measured by growth rate, efficiency, productivity and shareholder's financial returns, is positively related with the development of internal capabilities such as soft technology (methods and processes that support the firm) and hard technology (externally acquired equipment, in-house development of machinery and innovation in raw materials) and a strategy of continuous improvement, innovation and change.

A number of relevant contributions are proposed in this piece of research that expands our understanding of how SMEs can compete in the international context: (1) firms whose explicit business strategy emphasizes innovation and knowledge creation have been able to successfully participate in global contexts; (2) even though financial resources are important for a firm to leverage performance it was found that development of internal capabilities has been more important than limited financial resources in order to develop competitive advantages to compete with larger and multinational competitors; (3) results of this research support the proposition that from an associational economy perspective the development of a geographical region or

^{*} Corresponding author. Tel.: +52 81 8625 6164/8625 6172; fax: +52 81 8625 6098.

E-mail addresses: dmaranto@itesm.mx (D. Maranto-Vargas), rgomeztagle@itesm.mx (R. Gómez-Tagle Rangel).

country should be an interaction among a number of constituents namely government policies, the firms themselves and universities and research centers among others.

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1. Introduction

The research reported in this paper aims to advance our understanding of how small and medium-sized-firms (SMEs) develop resources and capabilities that allow them compete in international settings. Based on a sample of 55 SMEs located in Central Mexico (and operating in international markets) it was found that most of the firms' competitiveness is explained by a combination of tangible and intangible assets (66%). Industry-related factors accounted for 34%. These findings suggest that firms that defined their strategic intent, invest in knowledge creation and diffusion, and develop soft technology are able to compete independently of industry conditions. Interestingly financial resources do not appear to play a significant role in the long term. However, clear government industry policies account for a significant explanation of intervening external factors conditioning a firm's competitiveness.

2. Theoretical framework

An important body of literature that studies strategies for multinationals competing in globalized contexts [1,2] has been developed over time. However, this body of knowledge should be expanded to include how small and medium sized firms (SME) can compete in international markets.

Mexico has experienced, since the last fifteen years, a movement from a relatively closed economy to a very open one. This has posed important challenges for SME which for the most part were used to almost non-existing competition. Strategies followed by these firms could be understood in the context of two major groups [3]: those firms that have gone out of business, that were sold to other firms or those that searched for some sort of government support. However, other firms have pursued more proactive strategies [3], for example finding a niche within the industrial cluster or differentiating their product or service from larger competitors within a clearly stated strategic intent [4].

This paper draws on the resource-based view of the firm [5] and contributes to our understanding of how the development of internal resources and capabilities in SME can provide sources of competitive advantages in the international arena and improve their business performance.

3. Research questions

Based on these arguments, relevant questions addressed in this research are:

1. How have these firms been able to find a niche or differentiate their products or services?
2. How can SME compete under increased multinational competition?

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