MANUFACTURING CAPABILITY AS A FUNCTION OF FIRMS' STRATEGIC ORIENTATION: HOW DO NATIONAL INSTITUTIONS COME INTO PLAY?

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ABSTRACT

Despite the widely accepted role of formal institutions in driving industrialization, there is a paucity of research exploring how firms in low-income developing countries can influence national institutions in favour of their manufacturing capability. This article argues that the resource-based and institution-based views can help to fill that void. The paper applies a partial least squares path modeling method to test strategic predictions on the survey sample of 105 export manufacturers. Additionally the paper employs importance-performance-matrix analysis to identify strategic variables that matter the most. Findings indicate that entrepreneurial orientation and learning orientation are the major antecedents to firms' manufacturing capability. In conclusion, firms are urged to normalize learning by doing in order to enhance their manufacturing capability. Findings based on capabilities would therefore, enhance firms' strategic position and explicitly demonstrate the circumstances under which such capabilities matter. The logic behind capabilities is mainly important for low-income developing countries, whose people are trapped in poverty despite the abundance of natural factor endowments. Generally, this study provides a more convincing explanation why export manufacturers should participate in the formulation of policies that affect their investment, production and trade.

Concepts: *structural equation modeling, firm capabilities, institutional support, importance-performance-matrix analysis, low-income developing countries*

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