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Organization Capability, Innovation and Competitive Advantage: An Integrative Theoretical Framework Review of Literature

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Abstract:
Studies on resource-based view research stressed on the uniqueness of firm resources and capabilities, however the proponents of RBV indicated that capabilities are not sufficient enough to sustain competitive advantage. Sources of competitive advantage solely lies on sets of unique and differentiated products, thus resources on their own alone are not sufficient to lead to competitive advantage. Research on organization capabilities today is quickly shifting their focus on how organizations can be able to develop new capabilities as a critical factor for competitive advantage. Resource based view theory explains how firms are able to gain competitive advantage by using resources available to them through reconfiguration in order to meet the rareness, valuable, inimitability. This can only be implemented by embracing innovation and employing distinctive competences in order to continually renew the capabilities. Therefore, organizations can build and renew their capabilities by reconfiguring their resources in order to attain competitive advantage. These capabilities can be developed in the context of organization resource allocations in a way that they cannot be imitated by competitors. Even though the resource-based view theory has provided valuable insights into sources of competitive advantage, little attention has been paid to the processes of resource creation which can be equated to innovation. In order to gain competitive advantage resources configuration can only be facilitated by innovation and use of distinctive competences which are the backbone for gaining competitive advantage. Existing literature indicates there is lack of integrated theoretical model on how innovation may be operationalized and utilized to renew the organization capabilities and thus creates competitive advantage. This paper proposes a theoretical model linking organization capabilities, innovation and competitive advantage by demonstrating the role of innovation competitive advantage. It is on this background that this theoretical paper seeks to identify the emerging theoretical and empirical gaps in the linkage between organization capabilities, innovation and competitive advantage. Recommendation is that future study should focus on the effect of human capital, innovation and competitive advantage.

Keywords: *Organization capabilities, Distinctive competences, resources based view, firms resources, competitive advantage, dynamic capabilities, new products, competitive advantage, innovation strategies.*

1. Introduction

Turbulent business environment, uncertainty, coupled with volatile market environment, leaves firms with no option but to rethink on how to gain and sustain competitive advantage in a competitive environment. At the same time competition of the firms is coupled with the challenge of responding to customer's demands tastes and preferences this is because uniqueness of organization products and service is not a guarantee of competitive advantage if the products do not met customer's needs and provides the value they are looking for. This has led to the important subject of organization capabilities, innovation and competitive advantage, being questioned as leading factors to competitive advantage, Porter (1980), Barney (1991). This has promoted the use of management concepts in order to juggle around the challenge of firms gaining competitive advantage in turbulent environments.

The resource-based view theory (RBV), emerged and became a very popular theoretical perspective for explaining organization capabilities and performance Newbert, (2007).Scholars historically have used "resources" as a general term to refer to inputs into organizational processes, these strategic resources" are the focus and they have to meet certain criteria- such as valuable, rare and inimitable Barney,(1991) .

The resource based view indicates that firm's resources are core in any organization to achieve
competitive advantage. However, Barney (1991) stated that if resources are mobile and homogeneous across the firms it's then not possible to conceive competitive advantage because any other firm can replicate the same resources, the same superior strategy, and implement it, and equally gain the competitive advantage. To be a source of sustained competitive advantage for a firm, resources must be valuable and rare, as well as inimitable and non-substitutable by rivals, Peteraf (1993). Peteraf (1993), developed specific criteria for strategic resources that allows firms to cultivate strategies that generates sustained competitive advantage and innovation remains the cornerstone.

Organizational capabilities are a firm's capacity to deploy resources for a desired end result as stated by Helfat and Lieberman, (2002: 725). Resource based theory indentified organization capabilities as one of the major source of competitive advantage Barney (1991), Wernefelt (1986), while Amit and shoe Maker (1993) identified that firms can build and make or renew organization capabilities by reconfiguring them to attain competitive advantage. Therefore capabilities can be developed in the context of organization resource allocations and these are behavior patterns which are complex in nature and scholars like Doss (2000) and Mahoney (1996) indicates that capabilities represents experiences and organization learning's of a firms.

Therefore the uniqueness of firm's resources and capabilities are not sufficient enough to sustain competitive advantage but it is the way organization uses and configures their resources to attain competitive advantage Fiol (2001: 692). Penrose 1997 analyzed the distinction between resources and capabilities and noted that capabilities are the source of uniqueness of various firms across the market and once they are configured and deployed, a firm will achieve distinctiveness, which leads to differentiations that becomes a real source of heterogeneity (Penrose 1997). The RBV articulates that resources and capabilities are deployed in bundles to perform particular functions however their effectiveness will be determine by the way they are configured Helfat and Peteraf (2003).

Innovation decisions remains the most strategic decisions any firm that intends to remain competitive can make. This is because innovation is a fundamental instrument for firms to enter new markets, to increase current market share and strengthen edge Gunday et al (2011) and basically the motivation to innovate is basically propelled by the increasing competition the business environment.

Innovation is an outcome in response to highly competitive environment whereby new products, services, technology, creates new business markets and opportunities, Jimenez-jimenez and Sanz-Valle (2011). Therefore, for business to survive and grow in today's turbulent environment efforts should be made towards applying an innovative approach that is supported by top management teams as well as creating a thriving environment for employees to carry out their innovation. According to Damanpour and Evans (1984) there is shortage of literature that emphasizes the importance of innovation to build superior performance and build sustainable competitive advantage even when the outmost interest of every organization is to outsmart their competitors by use of brilliant strategies through gaining competitive advantage.

Despite the many studies done on the subject of organization capabilities innovation and competitive advantage there are many issues that have not been addressed in the existing studies first the related concepts are not clearly understood or distinguished. Secondly scholars are not in agreement on the organization problems firms deal with in order to develop organization capabilities .Thirdly organization capabilities are depicted as a key concept in analyzing firms performance, while innovation is referred to as the backbone of competitive advantage yet little empirical research has been done to identify their role in gaining CA. Fourth organizations ability to keep innovating is of critical importance to the long-term success of the organization yet it is not clearly understood what constitutes to innovation capabilities in an organization and how it can be developed and exploited to translate into competitive advantage (Teece, Pisano and shoven 1997). Researches done in the past shows that there exists a gap as no research has been done purely on the topic of organizational capabilities, innovation and competitive advantage with innovation as the moderating variable and distinctive competence as the mediating variable to understand their role in gaining competitive advantage .

This makes the study very important, which will further examine the theoretical literature on organization capabilities innovation and competitive advantage. This paper will explore the role of organization capabilities and how resources are reconfigured through innovation to gain competitive advantage. The research objective will be to review the extant of the theoretical and empirical literature on the study of organization capabilities, innovation and competitive advantage. The paper will endeavor to identify the emerging theoretical and empirical gaps in the linkage between organization capabilities, innovation and competitive advantage

This study will be important in terms of empirical enhancement since past studies have had limitations in that they were not able to show statistical relationship between organization capabilities, innovation and competitive advantage. The paper will suggest strategies that organizations can use to be able to renew their organization capabilities to enhance competitive advantage and how firms can avoid getting into competitive disadvantage. This paper will provide resourceful knowledge required in the twenty first century competitive environment. The paper will contribute towards research on management of organization capabilities, innovation and competitive management.

1.1. Conceptualization of Key Concepts

The review done on literature based on the supporting theories reveals several key constructs that emerges and the concepts forms the basis of the study on organization capabilities innovation, and competitive advantage. The three concepts are interlinked and lead to competitive advantage. In order for a firm to gain competitive advantage resources are require to be organized in a way that competitors cannot copy or imitate them.

1.1.1. Organization Capabilities

Collis (1994) noted that the conception of organization capabilities has been left vague, some authors refer organization capabilities as the core competences, collective skills, complex routines; best practices while others refer to it as organization capability. There is consensus that capabilities do not represent a single resource but complex process and organization capabilities are conceived to be collectively and socially embedded in nature and they have a collective shared way of problem solving. Organization capabilities can be built on different fields and different levels of organization activities either different levels of organization activities or departments. Scholars historically have used "resources" as a general term to refer to inputs into organizational processes, these strategic resources" are the focus and they have to meet certain criteria- valuable, rare and inimitable Barney, (1991).

Organizational capability entails social engineering of complex social processes such as shared mindset; exceptional management and leadership practices; unique organizational culture, norms and values; teamwork and so on. Capabilities are referred to as key to the role of strategic management in appropriately adapting, integrating and reconfiguring, internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment Teece et al., (1997). Organizational capabilities are a firm's capacity to deploy resources for a desired end result Helfat and Lieberman, (2002: 725). Organizational capabilities are defined in terms of performance outcomes, establishing how capabilities are created and identifying the actions that give rise to capability. Helfat *et al.* (2007) posits that, an organization has a specific capacity to perform a particular activity in a reliable and satisfactory manner a view supported by Amit and Shoemaker, (1993); Helfat et al., (2007) and Winter, (2003) as well as enabling performance of the activities.

Ray et al (2004) stated that capabilities are business process, sets of routines developed to accomplish a task, while winter (2000) stated that capabilities are not easily imitated by competitors, however, the way these unique resources are utilized is what determines competitive advantage of the organizations.

1.1.2. Concept of Innovation

Innovation can broadly be described as the implementation of discoveries and interventions and the process by which new outcomes, whether products, systems or processes, come into being Gloet and Terziovski, (2004). Attempts to define innovation have produced many conflicting opinions as stated by Nelson and Winter (1997) which resulted in the term being ambiguous. Innovation capabilities involves coming up with new products process and services and new business venture to complement the already existing ones. This is based on the notion of problem solving, continuous improvement of products and a radical over haul of the existing products aimed at improving business performance which leads to competitive advantage. Schumpeter (1934) approach to innovation was based on the concepts of new combinations and following his taxonomy new combinations includes new products, new methods of production, new markets , new sources of supplies, and new organizations . Innovation is conceptualized in different ways it can be associated with new products, process and services, exploiting technology, nurturing ideas and bringing them to practical operations; it's also a continuous process of improvement use to compete and to capture new market segments to alienate competitors Tidd et al., (2005). Innovation as application of knowledge creates additional value and wealth for the firms thus leading to competitive edge.

According to Schumpeterian (1934) definition of innovation and interpretation can be implemented in forms related to, implementation of products that are new to consumers, and are of higher quality than their previous counterparts, consist of, new products, services, new use of existing products, new markets for existing products or new marketing methods, Simmonds (1986) that yield new value. The companies that can create competitive advantage are able to improve their activity by using their innovations, gained experience, acquired knowledge new products and processes or services , over time, and they become their the sources of distinctive competences .

1.1.3. Concept of Competitive Advantage

Barney (1991) and Porter (1985) articulated that, firm's resources underlies the ability to achieve competitive advantage and therefore firms should reconfigure their resources and capabilities to ensure that they contribute to superior competitive advantage. Competitive advantage refers to the position of superiority within an industry that a firm has developed in comparison to its competitors. Competitive advantage refers to the capability of an organization to perform their activities in a differentiated way as compared to competitors in such a way that competitors are unable to replicate the competitive strategies executed by the company, Barney (1991). Firm's level of competitiveness indicates a firm's ability to design produce and market products superior to those offered by competitors, where superiority can be evaluated from several factors, like price, quality, technological advancement, Porter (1985). Scholars stated that marketing capabilities that are possessed by a firm enables them to differentiate their products and services from their competitors and therefore builds strong and successful brands that are profitable and leads to competitive advantage.

Competitive advantage entails a variety of company characteristic such as, customer focus, brand equity, product quality and research and Development focus. To be effective and lasting, a competitive advantage must be difficult to mimic, applicable to multiple situations, unique sustainable and superior to the competition Porter, (1998). At the heart of a competitive advantage is a firm's ability to position itself in the market place and firm's should be able to position themselves as it will determines their profitability . According to Porter (1980) are two basic types of competitive advantage a firm can possess, low cost or differentiation and the enable a firm to outperform competitors .However ,Hambrick (1983) argued that differentiation is more profitable than cost leadership strategies as most of the market share leaders compete on the basis of differentiation than low cost.

If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, and will have a command on prices, Porter, (1985). In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers and the reward for the products uniqueness is premium price .Therefore idea is to select one or more attributes that many buyers in an industry perceive as important, and uniquely positions that product to meet those needs (1985). Therefore the generic strategy of differentiation or cost focus competitive can either translates into higher productivity than that of competitors, Porter, (1985).

Further research indicates that a company which goes through the process of growth has variable indicators like customers trusting in the products based on having a good reputation. Firms with high quality brand only when they are geared towards retaining their reputation and they also continuously keep updating, renewing and innovating their products to maintain their product reputation which gives them competitive advantage Keh and Xie (2009), Abdalla (2012).

2. Theoretical Review

The arguments of the paper are anchored on several theories that focus on resources and how the resources are manipulated to achieve competitive advantage but the main theory used by scholars is resource based view theory. According to resource based theory by Barney (1991) resources are bundled and leveraged to create competitive advantage, further Barney (1991) expounded on the theory by arguing that the resources of a firm are its primary source of competitive advantage which in turn confers to performance advantage.

According to Hoffer and Schendel (1978) it is only the resources possessed by a firm that are the primary determinants of the firm's performance and contributes to sustainable competitive advantage. These resources have to be rare, valuable and difficult to imitate by competitors, Barney (1991) and Newbert (2008) indicated that the RBV hypothesized that the exploitation of the valuable, rare, resources and capabilities contributes to firm's competitive advantage which leads to superior performance. Wernerfelt (1984) viewed the firm as a bundle of assets or resources which are tied semi-permanently to the firm. Prahalad and Hamel (1990) also established the notion of core competencies, which focused attention on a critical category of resource i.e. a firm's capabilities. The central view of RBV posited that a firm competes on the basis of the resources and capabilities owned by the firm (Peteraf 1993).

These strategic assets are a set of difficult to trade and imitate valuable and specialized resources and capabilities that bestow a firm with competitive advantage Amit & Shoemaker (1993). According to Powell (2001) business strategy can be viewed as a tool that manipulate such resources to create competitive advantage and these core competencies are distinctive, rare, valuable resources that competitors are not able to imitate, substitute or reproduce ,Barney (1991); Prahalad & Hamel (1994). The resource based view indicates that firm's resources are core in any organization to achieve competitive advantage. The theory articulates that resources and capabilities are deployed in bundles to perform particular functions however their effectiveness will be determine by the way they are configured Helfat and Peteraf (2003).

Wang and Ahmed (2004) while discussing firm's internal assets and capabilities indicated that organizations ability to innovate determines the organization survival and success in the business environment , and therefore the ability to innovate can translates to competitive advantage. Ray et al. (2004) in his study distinguished between tangible and intangible resources and conclude that intangible resources are often the most important ones from a strategic point of view and that intangible resources are more likely to be a source of sustained competitive advantage rather than tangible ones. Other researchers like Barney & Wright (1998); Prahalad& Hamel (1990) treated human resources as the most valuable type of resource. Ray et al (2004) argued that it's difficult for a firm to change its resources and they suggested that redesigning a firm's processes, activities and routines can enable efficient and effective usage of resources and capabilities that can enable an organization to achieve sustainable competitive advantage.

The Resource based theory assumes that resources are heterogeneously distributed in organizations Barney (1991) and its only such firms that are able to generate economic value as they possess strategic resources which cannot be replicated and leads to competitive advantage. At the heart of the RBV are the VRIN variables which are the main principle and that an organization is seen as a collection of resources Bowman & Ambrosini, (2003: 291).

The gap in the theory is that RBV pegs CA to entrepreneurs and managers competences and ability as well as having alertness and superior information on the future value of resources, nevertheless the RBV ignores the role of the individual judgments or mental models of entrepreneurs and managers Foss, Foss, & Klein, (2007). Even with the VRION some firms still fails with certain leaders while others don't. The RBV does not explain the scenario appropriately yet it's clearly understood that leadership remains core to effective utilization of organization capabilities to confer competitive advantage.

Proponents of the capability based theory suggested that firms are endowed with unique capabilities that help them to gain CA through the distinctive capabilities that a firm possess, (Grant 1991), based on Hayes et al (1996) these capabilities should be reinvested and expanded to inhibit imitability Mahoney (1995). Various proponents on this theory distinguished capabilities from resources e.g.(Teece et al (1997), Grant (1991) and their distinction provides a better explanation of the capabilities value creation and service delivery process as a demonstration of firms' timely responsiveness, rapid and flexible product innovation (Teece et al 1997). Organizations do have unique combinations of different organization capabilities which makes firms different from others Nelson (1991) and these resources are built over time and future actions of the organization usually depends on the capabilities acquired in the past Dosi et al (2001) Collis, (1999), Andrew (1971). Different authors used different expressions to describe sources of organization based capabilities that leads to competitive advantage. Most commonly used terminologies in literature are core skills Teece (1996), distinctive capabilities, Snow and Hrebiniak (1987), organization capabilities Collis (1994) dynamic capabilities by Eisenhardit and Martins (2000) and core competences by Prahald and Hamel (1990) equally capabilities are obtainable, Kusonoki et al (1998). Penrose 1959 affirmed that all firms have access to certain resources but capabilities to utilize the resources are not consistent among the firms. Andrew (1971) stated that a firm's capabilities are built on their reputation to produce services, and products in a unique manner. The capability-based perspective suggests that a change in the capabilities of the firms alters its value creation potentials and consequently its performance. Firms are able to achieve competitive advantage through the unique resources configurations in a way that they cannot be imitated, Barney (1991). Dosi et al (2000) indentified that the capabilities are the vital link of transformation, Grant (1991), argued that capabilities are the source of competitive advantage while resources are the source of capabilities, Amit and Shoemaker (1993) adopted a similar position and suggested that resources do not contribute to sustained competitive advantages for a firm, but their capabilities do contribute towards gaining competitive advantage. Like a good cake this happens when they are combined with the ingredient of strategic leadership, as Grant (1991) puts it, as they build and nurture distinctive capabilities needed superior value creating marketing opportunities.

Organization capabilities are perceived as a platform upon which innovation can occur based on the fact that capabilities are not static (Teece 1986). However, with the changing volatile market environment and uncertainties the reliance on certain capabilities have been questioned and focus has changed to quickly developing new organizational abilities as a critical prerequisite for sustaining competitive advantage.

Dynamic Capabilities theory was expanded on two fundamental issues first view was that the firm's have the ability to renew competences so as to adapt to changes in the business environment and the second being the ability of strategic management to use these competences to match the requirements of the environment Teece et al., (1997). According to Eisenhardt & Martin, (2000), dynamic capabilities are a major source of sustained competitive and a contributing factor in competitive advantage. The theory was a response to the question of how and why some firms seem to create and sustain competitive advantage as compared to others in dynamic markets. Dynamic capabilities suggest that intangible assets of the firm like knowledge, employees skills can be reconfigured into routines to create responsive capabilities In essence, the theory make use of competences that are unique to firms to gain competitive advantage by explaining how these competences are developed, deployed and protected by the firm. The competitive advantage that is accompanied by these capabilities can be attributed to the fact that firm specific assets such as values, culture and organizational experience cannot be traded in the market (Teece et al., 1997). This implies that distinctive competences and capabilities must be built within the firm which cannot be replicated as they are unique.

Some scholar's views on dynamic capabilities have clearly indicated that resources and dynamic capabilities when manipulated or configured and utilized in appropriate ways as indicated by (Barney, 1991; Eiesenhard and Martin, (2000); Makadok, (2001) they have the likelihood of conferring competitiveness. Thus emphasis has shifted to the ability to change and quickly develop new organizational capabilities as a critical prerequisite for sustaining competitive advantages. Thus emphasis is devoted to addressing the continuous renewal of organizational capabilities, by accurately matching the demands to the rapidly changing environments.

According to Porter (1985) a firm's relative position within the industry determines its profitability and in the long run leads to sustainable competitive advantage. The model indicates there are two types competitive advantage a firm can have either low cost leadership strategy or differentiation strategy. Porters (1985) argues that firms' can only chose between the two options of differentiation and cost leadership strategy and being stuck in the middle results to failure however firms can integrate both strategies low cost and differentiated products while targeting different types of markets and this can be their source of competitive advantage. Low cost strategy requires a firm to become the lowest cost producer of a product or service while differentiation strategy on the hand involves creating a customer's perception that a product of service is superior to that of other firms based on brand, quality and performance, Porters (1985).

However Miller (1992), states that there is reasonable evidence that many companies consciously operates a hybrid strategy combining low cost with differentiation products or services rather than being stuck in the middle. Mintzberg (1988) argued that low cost alone cannot be a variable to sell products and services, these products must possess quality perceived by customers as desirable and full of value which can be the basis of differentiation and customer's satisfaction, Porter (1985)

Another major criticism on Porters generic framework is that it can only be applicable under stable conditions Hamel and Prahalad (1994) Ghoshal and Bartlett (1997), nevertheless Porter (1990) notably took cognizant of the importance of innovation in creating and sustaining competitive advantage. Porter (1990) while discussing the importance of differentiation stated and suggested that competitive advantage stems out of improvements through innovation and change.

2.1.1. Relationship between Organization Capability, Innovation and Competitive Advantage

Businesses are today faced with dynamic fast changing environment and therefore organizations need to develop new competitive advantage in order to keep up with the highly changing technologically driven business environment and the only strategy to use is innovation to cope with the changing environment .

Resource based theory highlights firm innovativeness as a resource, Barney (1991) , the RBV literature proposed that a firm should leverage its variant resources to satisfy customer needs in order to gain a continuous competitive advantage Peteraf, (1993); Peteraf & Barney, (2003) . This is why firms adopts innovation, invest and devout all their energies to ensure that firms gains effectiveness in their performance, Damanpour, (1991). However, in any case, the firm must alter its resources based on the market changes to sustain its competitive advantage from time to time Barney, Wright, & Kitchen, (2001). These RBV perspectives never the less suggest that innovativeness of a firm can be or may be affected by certain environmental situations Tsai & Yang, (2013). Yeung 1999 stated that competition is a key driver to competitive advantage that results from innovation. This was affirmed by Lundval et al 2007 by stating that when firms are faced with tough competition in the market the only option is to innovate new products that are matches customers needs tastes and preferences so as to remain competitive.

Studies show that, competitive advantage is based on internal capabilities of organization. In this conception, resources change through the action of adaptation, learning, and change processes as all capabilities have the potential to accommodate change (Helfat et al., 2003). THIS can be done by altering the resource base by creating, integrating, recombining and releasing resources Eisenhardt & Martin, (2000). Teece et al., (1997) posited that innovation capability is one of most important dynamic capabilities that orientate the organization to adapting with environmental opportunities. Companies should embrace innovation strategies in order to renew their products and process and thus be competitive and they may be required modify their organizational cultures to embrace and support innovation. Therefore the above review of literature on relevant theories and key constructs reveals that there is a possible relationship between organization capabilities innovation and competitive advantage.

3. Empirical Review

Taun and Takahashi (2010) studied on organizational capabilities competitive advantage and performance in supporting industries in Vietnam. The paper focused on applying resource based view to explain performance in supporting industries in Vietnam. The study refereed to RBV perspective that is mostly used to explain performance in organizations as propagated by Newbert (2007). The RBV assumes firms possesses and controls a pool of resources and capabilities and these resources which are different from other firms create competitive advantage which improves performance Newbert (2008), Grant (2002).

A multivariate analysis survey was done in 102 firms belonging to supporting industry in Vietnam and findings indicated that organization capabilities are related to CA and that competitive advantage is related to performance. The study was limited in that there was no secondary data and had limited target population. The study used self report data from owners and managers. Future research should be done on those organization capabilities which are created and to test them using RBV.

Brem et al (2014) carried out a study on competitive advantage and innovation in food and beverage industry, the purpose of the paper was to describe how Nespresso achieved competitive advantage through innovation by just changing the rules of the game in the market to gain CA. The Methodology used to analyses the research was based on secondary data that was available in combination with related academic concepts related with innovation and competitive advantage. In their findings it was observed that the company succeeded through the application of a strategy that was aligned to the company environment and they enabled the company to reach the unique market position.

Nespresso applied Porters generic strategy of cost leadership differentiation focus. The industry had unique distinctive competences, in production, channels of distribution, high skilled top management team that drove and propelled the vision of the company for a time. Following Porter (1990:75) they used new technology and were doing things differently to achieve competitive advantage and had powerful leadership principles. The conclusion of this study was that Nespresso gained competitive advantage and survive in the if their business as they had models which could not be imitated. The studies weakness was that there was no primarily data collected, thus future studies should be done to prove their generalization in a different industry where primary data is collected. Therefore their results may not be generalized as no there was no statistical evidence.

Nurul and Samand (2016) carried out their study on innovation, competitive advantage, the moderating effect of firm's age in food manufacturing SMES in Malaysia. The study aimed at examining the influence of innovation on competitive advantage in foods manufacturing SMES in Malaysia and the moderating effects of the firm's age on innovation and competitive advantage relationship. The study adopted random sampling techniques and they used descriptive and inferential statistics, and structured questionnaires were mailed to 220 manufacturing SMES.

The findings of the study revealed that innovation has a strong positive impact on competitive advantage. The research consensus was that small firms are not able to innovate as compared to large firms which have diverse resources and capabilities. Their conclusion and findings were that although competitive advantage has been an area widely researched only very few researches were done to identify capabilities needed to build competitive advantage in manufacturing SMES in Malaysia. From their theoretical perspective it was indicated that the greater the innovation the greater the opportunity to gain competitive advantage. In their conclusion they observed that the influence of innovation in larger firms is greater than in smaller firms, however the younger the firm the stronger the influence to innovate.

This paper has empirical gaps in that they did not discuss the innovation strategies that firms can use in order to gain competitive advantage instead they just mention the capabilities required but how they are to be configured is not discussed. The study was done in foods manufacturing SMES in Malaysia future research can be done in other countries to understand how innovation may influence competitive advantage in other firm s and in other countries.

3.1. Proposed Theoretical Framework

The proposed theoretical framework below demonstrates the linkage between the organization capabilities innovation and competitive advantage and it articulates the role played by innovation as a strategic choice that leads to competitive advantage

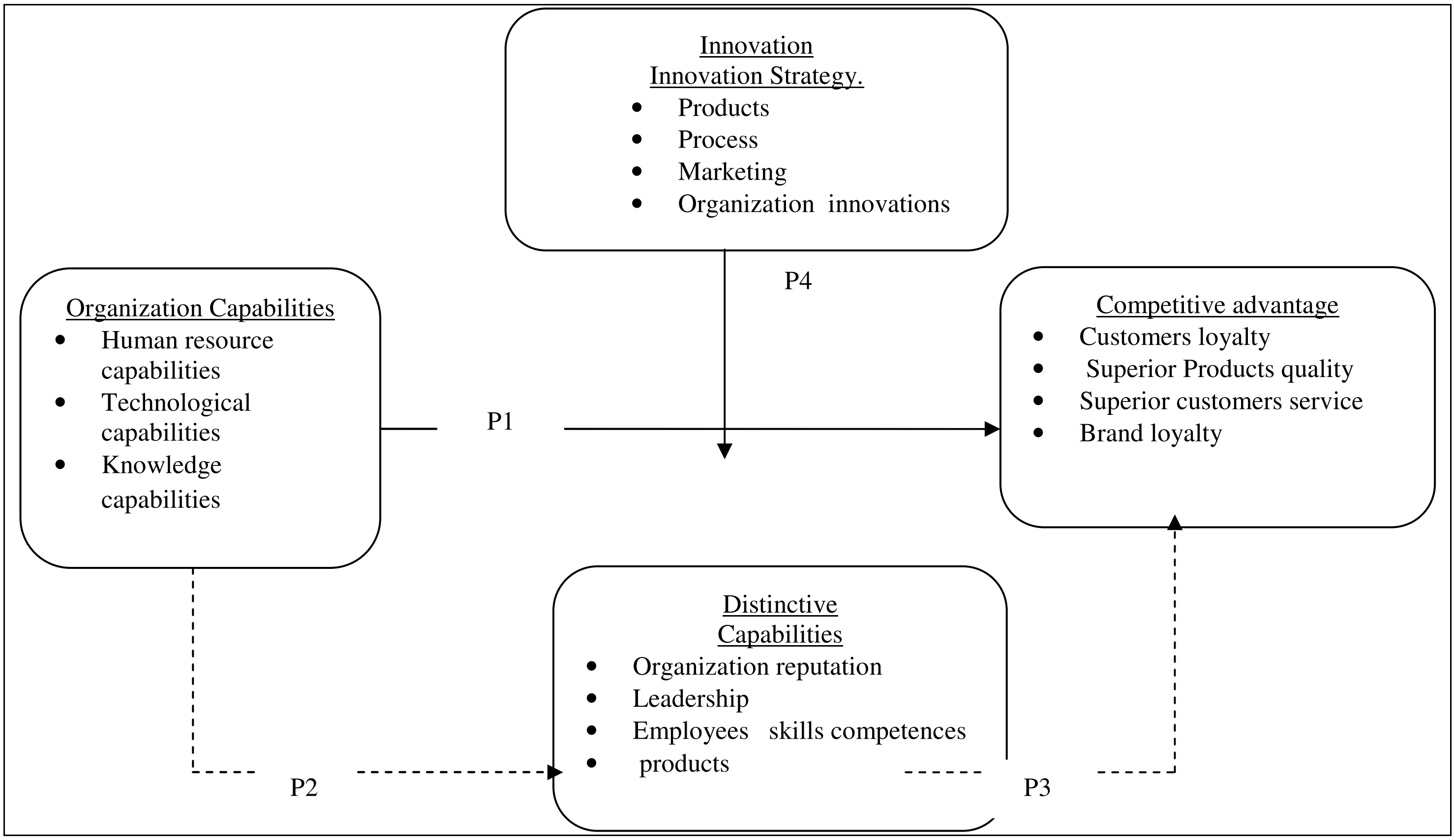

Figure 1: Theoretical model linking organization capabilities innovation and competitive advantage
Source: Author 2016

3.1.1. Organization Capabilities and Competitive Advantage

Firms are able to achieve competitive advantage through unique resources by configuring them in a way that they cannot be imitated. These resources are created through continuous long term learning, they are developed over time, and they have the potential to give firms competitive advantage. Organization capability provides a company with an advantage in the market place , this only happens when an organization continues to create new capabilities and develop the existing ones and the capabilities that provides competitive advantage includes new products, human resource capabilities and innovative designs among others and , skilled employees . Only the intangible resources confers competitiveness and this include among others human capital, financial assets technology, knowledge and skills and distinctive competences. From the study it became very clear that in order to gain competitive advantage; firms should quickly be able to respond to rapidly changing market conditions by renewing and continuously developing new capabilities from the existing resources.

- Proposition 1 Organization capabilities do have a positive influence to competitive advantage.

3.1.2. The Role of Innovation Strategies in Competitive Advantage

Companies continue to pursue innovation with the idea of creating new products and markets as a way of responding to the turbulent market environment. The role of innovation as a mediating variable in gaining competitive advantage cannot be under estimated. In order for firms to gain competitive advantage firms should have an innovative strategy that provides development and implementation of new products services. This is in agreement with Teece et al (2007) stated that innovation capability is the most important dynamic capability that leads to competitive advantage. Therefore, effective implementation and realization of innovation as an outcome response to highly competitive environment, leads to new products, services, processes and markets development. Innovation capabilities are closely related to organization capabilities and organizations focus is towards indentifying the innovative capabilities. Firms focus should be quickly shifting to how organizations can be able to develop innovation capabilities as a critical factor that has a positive effect on competitive advantage.

In order for firms to remain competitive they are faced with fundamental questions on the kind of innovation and innovation strategies to embrace. In reference to Schumpeter classification of types of innovation, OECD (2005) distinguished between four basic types of innovation namely product proves marketing and organization innovation and basically these represents four innovation strategies that firms can use. Porter (1990) stated that firms can survive competitive struggles not just by varying on the price and quality but by innovating new products and services. Teece (2010) recognized that strategies and mechanisms which are key to innovating firms and can help solve problems, create new organization capabilities and to improve their business performance that turns out to be competitive advantage.

- Proposition 2 Innovation capabilities and innovation strategy do have a positive influence on competitive advantage.

3.2. Distinctive Competences Role in Competitive Advantage

Organizations do have unique distinctive competences and these are capabilities that their competitors do not have. Some organization could be having competences in production, marketing, cost management, and quality of customer care, technology, business process customer's satisfaction or just being the first to innovate and come up with a product. This is to say that these competences are heterogeneous in nature. These are things that firm will do exceptionally well compared to competitors, by embracing a set of unique capabilities that a firm possesses and results into improved production, new market entry in order to gain competitive advantage. Distinctive competences are built over time by either hiring competent and qualified professionals, exploiting an ignored market niche, others firms can gain competitive advantage by their superior and strong management, or manufacturing products with superior quality.

Top managers CEOS have the responsibility of building these distinctive competences as a prime function of leadership Selzick (1957).This is to say that the success of any firm is based on their capabilities that have attributes which cannot be replicated. Firm's should have the ability to renew competences so as to adapt to changes in the business environment and equally to match the requirements of the environment. Teece et al., (1997) noted that this is the only way in which dynamic capabilities becomes the source of sustained competitive advantage. Firms can develop these competences over time and turn them to be non- imitable such that competitors have no access to their patents, can't match their caliber of employees and managers or even to be able to understand how the firm works around their capabilities.

- Proposition 3 Distinctive competences determine the strength of the relationship between organization capability and competitive advantage by mediating the relationship.

4. Conclusion

The purpose of this theoretical paper was to review both extant and empirical literature, on the linkage between organization capabilities innovation and competitive advantage. The paper sorts to indentify, emerging theoretical and empirical gaps, on the linkage between organization capabilities innovation and competitive advantage. The extant literature reviewed indicates that innovation is a leading factor into firms gaining competitive advantage, innovation is the moderating variable and distinctive competences are the mediating variables. The study reveals that different firm have differing types of capabilities but not all resources will lead to competitive advantage only those that are reconfigured and applied in each organization and this is what makes the capabilities to be unique and advantageous.

The literature identified that there is a direct relationship between organization capabilities and competitive advantage The study also noted that the distinctive competences are very important to a firm as they endow the firm with superior position and they are used by firms in such a way that competitors cannot be able to copy or imitate and this state that confer competitive advantage to the firms.

Further to contributing to the literature on the linkage between organization capabilities innovation and competitive advantage the paper indentified the emerging gaps that may require further research. Future research should be done on the role of competence, senior managers and their ability to innovate in order to gain competitive advantage. .The paper indentified a gap on literature development in that only internal variables were considered in the study; a study should be done in future to indentify the role of external knowledge from other firms like licensing of patents as a leading factor to competitive advantage. Further studies can be done on the effect of human capital in competitive advantage.

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