THE IMPACT OF MARKET ORIENTATION AND IT CAPABILITY ON THE COMPETITIVE PERFORMANCE OF A COFFEE ENTERPRISE IN NORTHERN THAILAND: THE MEDIATING ROLE OF DYNAMIC CAPABILITY

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Abstract: In the context of digital transformation and intensified global competition, market orientation (MO) and IT capability (ITC) are considered critical drivers for enhancing firms' competitive performance (CP). This study, grounded in dynamic capability theory, investigates how MO and ITC influence CP in coffee enterprises in Northern Thailand, focusing on the mediating role of dynamic capability (DC). The results indicate that ITC significantly enhances DC, which in turn drives CP. However, MO has a negative impact on DC, suggesting that an overemphasis on market responsiveness may hinder the development of internal integration capabilities. This study advances the understanding of dynamic capability theory by revealing the complex interplay among MO, ITC, DC, and CP. It also provides practical guidance for firms in emerging markets, emphasizing the need to balance market orientation with internal capability development and leverage IT investments to build dynamic capabilities for competitive advantage.

Keywords: Market Orientation, IT Capability, Dynamic Capability, Competitive Performance, Empirical Analysis

Introduction

Driven by the waves of globalization and digitalization, the business environment for enterprises is undergoing profound changes. The rapid iteration of technology, dynamic shifts in consumer demands, and the complexity of competitive landscapes compel firms to respond flexibly and agilely to market challenges. Against this backdrop, market orientation, and IT Capability, as critical components of firms' core competencies, have attracted increasing attention from academia and industry. The acceleration of globalization has tightened the interconnectedness of national economies, offering enterprises unprecedented opportunities for market expansion. However, globalization has also intensified market competition, especially for emerging markets and small and medium-sized enterprises (SMEs). With limited resources and capabilities, these firms struggle to respond to market

changes, making survival and growth increasingly challenging. Therefore, strategically integrating resources and enhancing capabilities to build competitive advantages in a globalized context has become crucial for SMEs.

Industry Background: Challenges for Coffee Enterprises in Northern Thailand

With its unique geographical environment and climatic conditions, Northern Thailand has become an important coffee-growing region in Southeast Asia. However, small and medium-sized coffee enterprises in this region face numerous challenges. These challenges include lagging brand development, limited market promotion, and weak digital foundations. Although coffee products from this region possess certain competitive qualities, the lack of systematic market orientation and IT capabilities creates bottlenecks in expanding into global markets. For example, many local coffee enterprises struggle with underdeveloped branding strategies, limited market reach, and inefficient supply chain management. The absence of a robust digital infrastructure further exacerbates these issues, limiting their ability to leverage digital technologies for competitive advantage.

The Role of Market Orientation and IT Capability

In this context, market orientation and IT capability are critical drivers for enhancing competitive performance. Market orientation helps firms identify customer needs and market changes, enabling them to develop products and services that better meet consumer demands. On the other hand, IT capability provides the technological means to integrate resources, optimize internal processes, and enhance market responsiveness. For instance, big data analytics can help coffee enterprises extract value from vast datasets to gain insights into consumer behavior patterns. IoT technologies can optimize supply chain management and improve operational efficiency. AI-driven intelligent marketing can significantly enhance customer experience. By enhancing market orientation and IT capability, coffee enterprises in Northern Thailand can more effectively identify market opportunities, integrate resources, and improve competitive performance.

Dynamic Capability Theory: A Theoretical Framework

The dynamic capability theory offers a theoretical framework for understanding how firms achieve sustained competitive advantage in rapidly changing environments. This theory posits that firms must be able to sense changes in the external environment quickly, integrate internal resources, and adjust strategic directions. Market orientation and IT capability are vital components of dynamic capabilities. Market orientation helps firms identify customer needs and market changes, while IT capability provides the technological means for resource integration and strategic adjustments. By enhancing dynamic capabilities, firms can better adapt to market changes, optimize resource allocation, and drive innovation.

Research Motivation and Contribution

Combining the digital economy's rapid development and the global market's competitive landscape, this study focuses on the impact of market orientation and IT capability on firms' competitive

performance. Through the lens of dynamic capability theory, it explores how market orientation and IT capability influence firms' competitive advantage via the mediating role of dynamic capabilities. Using coffee enterprises in Northern Thailand as a case study, this research aims to provide theoretical guidance and practical support for SMEs in their strategic choices within the digital economy. This study contributes to the existing literature by extending dynamic capability theory to SMEs in emerging markets and providing empirical evidence on the role of market orientation and IT capability in enhancing competitive performance.

Research Objective (s)

This study aims to explore the impact of market orientation (MO) and IT capability (ITC) on competitive performance (CP) through the lens of dynamic capability (DC). The primary objectives of this research are as follows:

1) The study examines the direct effects of market orientation and IT capability on competitive performance. By analyzing survey data from coffee enterprises in Northern Thailand, this research will determine whether MO and ITC enhance a firm's competitive edge directly. This objective is crucial for understanding the independent contributions of these two key drivers to firm performance.

2) The study aims to verify the mediating role of dynamic capability in the relationship between market orientation, IT capability, and competitive performance. Specifically, it will investigate whether MO and ITC influence competitive performance indirectly through the development of dynamic capabilities. This objective will provide insights into how firms can leverage MO and ITC to achieve sustainable competitive advantages.

3) The research will assess the potential interaction between market orientation and IT capability. It will explore whether the combined effect of MO and ITC on competitive performance is greater than the sum of their individual effects, thereby revealing any synergistic impact these two factors may have.

4) The study will provide strategic recommendations for SMEs in the context of the digital economy. It will offer practical guidance on how firms can build dynamic capabilities under resource constraints by enhancing market orientation and IT capability. Additionally, the findings will serve as a theoretical and practical reference for coffee enterprises in Northern Thailand and other emerging markets, supporting their efforts to navigate globalization and digital transformation.

Literature Review

In Market Orientation and Its Impact on Competitive Performance

Market orientation refers to a firm's ability to acquire, disseminate, and respond to market information through customer orientation, competitor orientation, and interdepartmental collaboration (Kohli & Jaworski, 1990; Narver & Slater, 1990). Early research focused on its direct impact on

customer satisfaction, innovation capability, and market share, emphasizing its positive effect on firm performance (Randhawa et al., 2021). With theoretical advancements, studies have gradually explored its indirect role in forming dynamic capabilities (Day, 1994) and its extension to digital transformation, where big data and real-time information enhance market responsiveness (Liu et al., 2011). Market orientation lays a foundation for firms to develop dynamic capabilities and improve competitive performance. However, recent studies have also highlighted potential drawbacks, such as the over-allocation of resources to market responsiveness, which may inhibit the development of internal integration capabilities (Teece et al., 1997).

IT Capability and Its Role in Dynamic Environments

IT capability is critical for firms to optimize resource allocation and enhance innovation through IT infrastructure, data analytics, and information integration (Bharadwaj, 2000). Research has shown that IT capability supports efficient market information capture and drives business process innovation, playing a dual role in resource integration and innovation in dynamic environments (Kim et al., 2011). With the development of big data, artificial intelligence, and the Internet of Things (IoT), IT capability has become a cornerstone for building dynamic capabilities and improving competitive performance (Wade & Hulland, 2004). In the digital economy, IT capability significantly enhances firms' market responsiveness and innovation efficiency, making it a key driver of competitive advantage.

Dynamic Capability: The Core Mechanism for Competitive Advantage

Dynamic capability refers to a firm's ability to integrate, build, and reconfigure resources in response to uncertainty in rapidly changing environments (Teece et al., 1997). Studies have shown dynamic capability enhances innovation and adaptability through sensing, integration, and resource reconfiguration (Eisenhardt & Martin, 2000). In recent years, dynamic capability theory has been widely applied to digital transformation and high-velocity market environments, emphasizing its core role in resource integration and technological innovation (Mennens et al., 2018). Moreover, dynamic capability plays a key mediating role between market orientation, IT Capability, and competitive performance, revealing pathways for firms to achieve competitive advantages in complex environments.

Competitive Performance: Measurement and Driving Factors

Competitive performance measures a firm's market competitiveness and resource integration capability, encompassing financial indicators such as profitability and market share, as well as non-financial dimensions like customer satisfaction and innovation capability (Venkatraman & Ramanujam, 1986). With more profound research, scholars have gradually shifted from a single financial perspective to a multidimensional evaluation, including market, innovation, and adaptability dimensions (Doyle & Wong, 1998). Dynamic capability, IT Capability, and market orientation have recently been widely recognized as key drivers of competitive performance. Particularly in the digital

economy and globalization context, these capabilities synergistically enhance firms' market responsiveness and long-term competitive advantages (Wade & Hulland, 2004).

Theoretical Foundation: Dynamic Capability Theory

This study draws on dynamic capability theory, the resource-based view (RBV), market orientation theory, resource dependence theory (RDT), and value co-creation theory to construct a logical framework linking market orientation, IT Capability, dynamic capability, and competitive performance. Dynamic capability theory emphasizes how firms achieve sustained competitive advantage in rapidly changing environments by sensing opportunities, integrating resources, and reconfiguring capabilities (Teece et al., 1997). This theory connects market orientation, IT Capability, and competitive performance, enhancing resource integration efficiency and market adaptability (Eisenhardt & Martin, 2000).

Relationships Among Key Variables

Market orientation and IT capability are critical drivers of competitive performance, influencing it directly and indirectly through various mechanisms. Market orientation enhances firms' market sensing capabilities through customer orientation, competitor orientation, and interdepartmental collaboration, improving market responsiveness and customer satisfaction via dynamic capabilities (Narver & Slater, 1990; Day, 1994). IT Capability, leveraging IT infrastructure, data analytics, and information integration, optimizes operational efficiency and innovation capacity while supporting the development of dynamic capabilities (Bharadwaj, 2000; Wade & Hulland, 2004). Dynamic capability plays a pivotal mediating role between market orientation, IT Capability, and competitive performance (Teece et al., 1997). By sensing, integrating, and reconfiguring resources, dynamic capability significantly enhances firms' innovation capacity and adaptability, enabling them to maintain competitive advantages in dynamic markets. Studies suggest that market orientation and IT capability amplify their impact on competitive performance through the indirect pathway of dynamic capability, especially in highly dynamic industries (Eisenhardt & Martin, 2000).

Conceptual Framework

Based on the above literature review, this study constructs a conceptual model that explores the logical relationships among market orientation, IT capability, dynamic capability, and competitive performance. The model proposes that market orientation and IT capability directly influence competitive performance and enhance resource integration and adjustment capabilities through the mediating role of dynamic capability. Dynamic capability serves as a crucial mechanism, effectively translating the effects of market orientation and IT capability into competitive advantages in dynamic environments. See Figure 1.

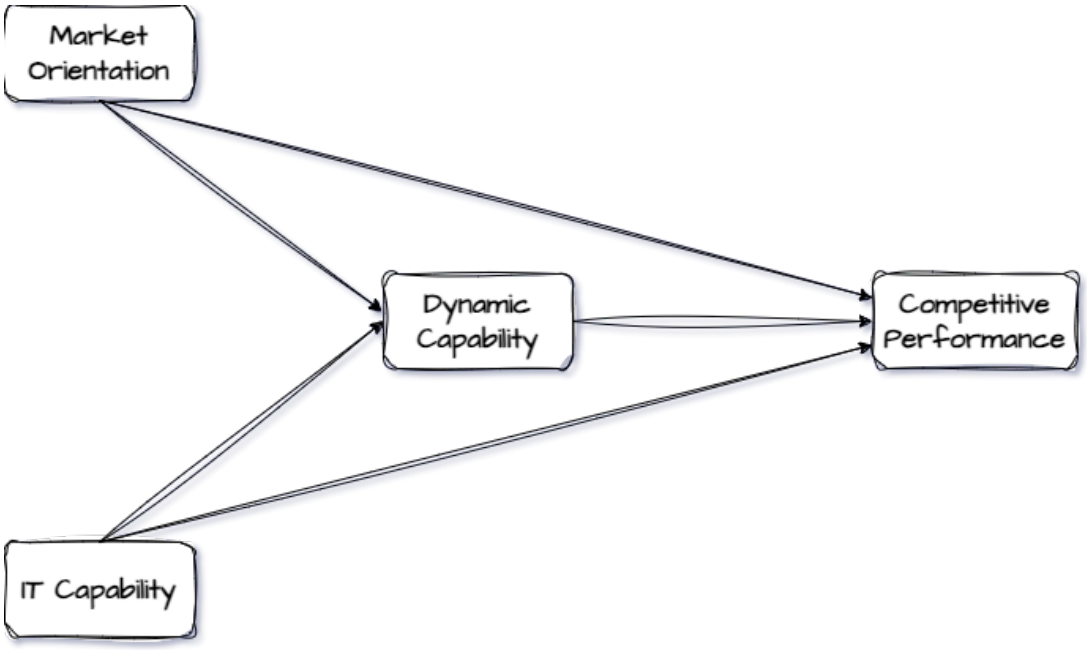

Figure 1 Conceptual Framework

Methodology

Research Model and Hypotheses

This study develops a theoretical model based on dynamic capability theory, the resource-based view (RBV), and market orientation theory. The model examines the direct and indirect effects of market orientation (MO) and IT capability (ITC) on competitive performance (CP) through the mediating role of dynamic capability (DC). The proposed hypotheses are as follows:

H1: Market orientation (MO) positively impacts dynamic capability (DC).

H2: IT capability (ITC) positively impacts dynamic capability (DC).

H3: Dynamic capability (DC) positively impacts competitive performance (CP).

H4: Market orientation (MO) positively impacts competitive performance (CP).

H5: IT capability (ITC) positively impacts competitive performance (CP).

H6: Dynamic capability (DC) mediates the relationship between market orientation (MO) and competitive performance (CP).

H7: Dynamic capability (DC) mediates the relationship between IT capability (ITC) and competitive performance (CP).

Measurement Scales and Design

The measurement scales for the core variables were developed based on established literature and validated through pre-testing. The scales used in this study are as follows:

Market Orientation (MO): Based on the MKTOR and MARKOR frameworks, this scale includes three dimensions: customer orientation, competitor orientation, and cross-functional

collaboration. The reliability (Cronbach's α) is 0.977, composite reliability (CR) is 0.972, and average variance extracted (AVE) is 0.806.

IT Capability (ITC): Referencing Bharadwaj (2000), this scale measures IT infrastructure capability, resource integration capability, and technology application levels. The Cronbach's α is 0.978, CR is 0.978, and AVE is 0.801.

Dynamic Capability (DC): Drawing on the theoretical framework of Teece et al. (1997), this scale focuses on a firm's ability to sense, integrate, and reconfigure resources. The Cronbach's α is 0.859, CR is 0.883, and AVE is 0.581.

Competitive Performance (CP): This scale evaluates competitive performance holistically, incorporating market performance, financial performance, and innovation capability. The Cronbach's α is 0.937, CR is 0.934, and AVE is 0.626.

All scales adopt a five-point Likert design, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

Sample Design and Data Collection

The study focuses on a chain coffee enterprise in Northern Thailand, selected for its representativeness in the local coffee industry. The sample includes management personnel and key employees directly involved in the firm's strategic decisions and operational activities. A stratified random sampling method was employed to ensure representativeness across different organizational roles and levels. Data were collected through online questionnaires and on-site interviews, yielding 407 valid responses with an effective response rate of 90.4%.

Data Analysis Methods

The study employs a multi-method approach to analyze the data:

Descriptive Statistics: To summarize the essential characteristics of the sample, including gender, age, educational background, and work experience.

Reliability and Validity Testing: Cronbach's α coefficients were used to assess the internal consistency of the scales. Confirmatory Factor Analysis (CFA) was conducted to verify the structural validity of the scales.

Correlation Analysis: Calculate the correlation coefficients between market orientation, IT capability, dynamic capability, and competitive performance.

Structural Equation Modeling (SEM): To test the proposed hypotheses and examine the direct and indirect effects among the variables. The SEM analysis was conducted using the Maximum Likelihood estimation method.

Bootstrap Method: To test the mediating effect of dynamic capability, providing robust estimates of the path relationships. The Bootstrap method was applied with 5000 resamples to generate confidence intervals for the mediation effects.

Methodological Value

The methodological design of this study combines theoretical grounding with scientifically rigorous data analysis, providing a solid foundation for validating the theoretical model and hypotheses. This study offers new perspectives on market orientation, IT, and dynamic capability through systematic research design and meticulous data processing. It provides practical guidance for firms to formulate competitive strategies in digital transformation.

Results

Demographic Characteristics

The sample for this study consists of 407 respondents from a leading coffee enterprise in Northern Thailand. The demographic characteristics of the sample are as follows:

Gender: 44% male and 56% female, indicating a balanced representation across genders.

Age: 24% under 30 years, 49% aged 31-40, and 27% over 41 years, reflecting a diverse age distribution with a majority in the 31-40 age group.

Education Level: 63% with a high school diploma or lower, and 37% with a college degree or higher, showing a mix of educational backgrounds.

Work Experience: 37% with 0-1 year, 27% with 2-5 years, and 36% with over 6 years of experience, indicating a balanced distribution across different levels of work experience.

These characteristics ensure that the sample is representative of the coffee industry workforce in Northern Thailand.

Confirmatory Factor Analysis (CFA)

Confirmatory Factor Analysis (CFA) was conducted to assess the reliability and validity of the measurement scales for the four core variables: Market Orientation (MO), IT Capability (ITC), Dynamic Capability (DC), and Competitive Performance (CP). The results indicate high reliability and validity for all scales:

Table 1: Confirmatory Factor Analysis

Variables	Cronbach's α	CR	AVE
Market Orientation	0.977	0.972	0.806
IT Capability	0.978	0.978	0.801
Dynamic Capability	0.859	0.883	0.581
Competitive Performance	0.937	0.934	0.626

Market Orientation (MO): Cronbach's α = 0.977, Composite Reliability (CR) = 0.972, Average Variance Extracted (AVE) = 0.806.

IT Capability (ITC): Cronbach's α = 0.978, CR = 0.978, AVE = 0.801.

Dynamic Capability (DC): Cronbach's α = 0.859, CR = 0.883, AVE = 0.581.

Competitive Performance (CP): Cronbach's α = 0.937, CR = 0.934, AVE = 0.626.

These results confirm that the scales are reliable and valid for further analysis.

Correlation Coefficients

Correlation analysis was conducted to examine the relationships among the core variables. The results are summarized in Table 2:

Table 2: Correlation Coefficients

Term	MO	ITC	DC	CP
MO	1.000	-	-	-
ITC	0.283**	1.000	-	-
DC	0.018	0.634***	1.000	-
CP	0.045	0.330***	0.361***	1.000

The correlation coefficients indicate a significant positive relationship between IT Capability (ITC) and Dynamic Capability (DC), as well as between Dynamic Capability (DC) and Competitive Performance (CP). However, market orientation (MO) shows a weak correlation between dynamic capability (DC) and competitive performance (CP). These results suggest that IT Capability (ITC) is a strong predictor of Dynamic Capability (DC), which in turn significantly influences Competitive Performance (CP).

Structural Equation Modeling (SEM)

Structural Equation Modeling (SEM) was used to test the proposed hypotheses and examine the direct and indirect effects among the variables. The results are summarized in Table 3:

Table 3: SEM Test Results

Path	Estimate	Std. Error	Z-value	P-value	Sig
DC~MO	-0.179	0.038	-4.669	0.000	***
DC~ITC	0.549	0.053	10.377	0.000	***
CP~DC	0.324	0.084	3.841	0.000	***
CP~MO	-0.019	0.053	-0.361	0.718	
CP~ITC	0.243	0.071	3.430	0.001	***

*Note: *p < 0.05, **p < 0.01, ***p < 0.001*

The SEM Results Indicate the Following:

Market Orientation (MO) and Dynamic Capability (DC): MO has a significant negative impact on DC (β = -0.179, p < 0.001). This suggests that a strong focus on market orientation may

lead to an over-allocation of resources toward market responsiveness, weakening the ability to integrate and reconfigure internal resources.

IT Capability (ITC) and Dynamic Capability (DC): ITC has a significant positive impact on DC ($\beta = 0.549$, $p < 0.001$). This indicates that improving IT capability can significantly enhance dynamic capabilities.

Dynamic Capability (DC) and Competitive Performance (CP): DC has a significant positive impact on CP ($\beta = 0.324$, $p < 0.001$). This suggests that firms can improve their competitive performance by enhancing their dynamic capabilities.

Market Orientation (MO) and Competitive Performance (CP): MO has no significant direct impact on CP ($\beta = -0.019$, $p = 0.718$). This suggests that the effect of market orientation on competitive performance is mediated by dynamic capability.

IT Capability (ITC) and Competitive Performance (CP): ITC has a significant direct impact on CP ($\beta = 0.243$, $p = 0.001$). This indicates that IT capability directly enhances competitive performance.

Mediation Analysis

The study conducted mediation analysis using the Bootstrap method with 5000 resamples to examine the mediating role of dynamic capability further. The results confirm that dynamic capability significantly mediates the relationship between market orientation and competitive performance (indirect effect = -0.032, 95% CI = [-0.064, -0.008]) and between IT capability and competitive performance (indirect effect = 0.179, 95% CI = [0.132, 0.236]). These findings highlight the critical role of dynamic capability in translating market orientation and IT capability into competitive advantages.

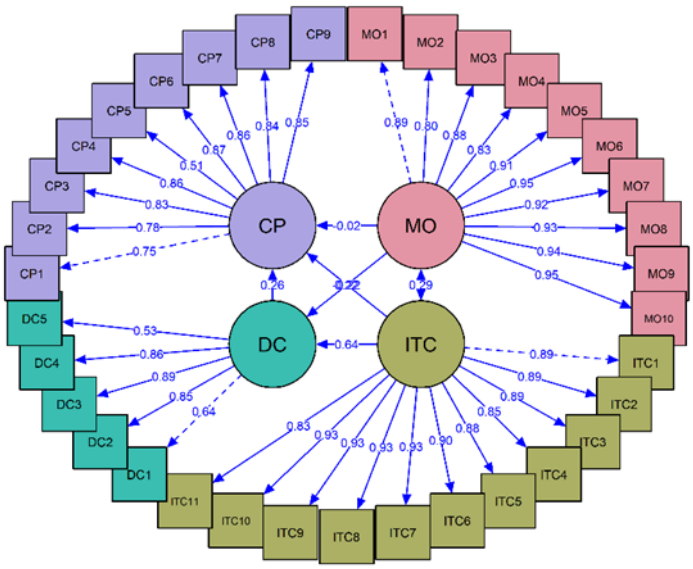

Figure 2: Path Diagram

Discussion

Interpretation of Findings

This study examines the relationships among market orientation (MO), IT capability (ITC), dynamic capability (DC), and competitive performance (CP) using structural equation modeling (SEM). The results reveal several key insights:

Market Orientation and Dynamic Capability: The study finds that market orientation (MO) has a significant negative impact on dynamic capability (DC) ($\beta = -0.179$, $p < 0.001$). This counterintuitive finding suggests that an excessive focus on market orientation may lead to the over-allocation of resources toward market responsiveness, weakening the firm's ability to integrate and reconfigure internal resources. This result challenges the traditional view that market orientation uniformly enhances firm performance and highlights the need for firms to balance market responsiveness with internal capability development.

IT Capability and Dynamic Capability: IT capability (ITC) significantly positively impacts dynamic capability (DC) ($\beta = 0.549$, $p < 0.001$). This finding underscores the critical role of IT infrastructure and digital technologies in enhancing a firm's ability to sense market changes, integrate resources, and reconfigure capabilities. In the context of digital transformation, IT capability emerges as a key enabler of dynamic capability, supporting firms in adapting to rapidly changing market environments.

Dynamic Capability and Competitive Performance: Dynamic capability (DC) has a significant positive impact on competitive performance (CP) ($\beta = 0.324$, $p < 0.001$). This result confirms the central role of dynamic capability in driving innovation, improving market responsiveness, and optimizing resource allocation, thereby enhancing a firm's competitive edge. Firms that develop strong dynamic capabilities are better positioned to respond to market changes and maintain a competitive advantage in dynamic environments.

Market Orientation and Competitive Performance: The direct effect of market orientation (MO) on competitive performance (CP) is not significant ($\beta = -0.019$, $p = 0.718$). Instead, MO influences CP indirectly through dynamic capability (DC). This suggests that the benefits of market orientation are realized through its ability to enhance dynamic capabilities, which drive competitive performance. This finding highlights the mediating role of dynamic capability in translating market orientation into sustainable competitive advantages.

IT Capability and Competitive Performance: IT capability (ITC) has a significant direct impact on competitive performance (CP) ($\beta = 0.243$, $p = 0.001$). This indicates that IT capability enhances dynamic capability and directly improves operational efficiency, market responsiveness, and innovation, thereby contributing to competitive performance. This finding underscores the strategic importance of IT capability in modern firms.

Theoretical Contributions

This study advances the understanding of dynamic capability theory by demonstrating the mediating role of dynamic capability in the relationship between market orientation, IT capability, and competitive performance. The findings extend the application of dynamic capability theory to SMEs in emerging markets, providing empirical evidence on how firms can leverage market orientation and IT capability to build dynamic capabilities and enhance competitive performance. Additionally, the study highlights the potential negative impact of excessive market orientation on dynamic capability, offering new insights into the complex relationship between market orientation and firm performance.

Practical Implications

The results of this study offer valuable guidance for firms, particularly SMEs in emerging markets, on optimizing resource allocation and enhancing competitive performance. Firms should focus on developing IT capabilities to support dynamic capability development, which drives competitive performance. Additionally, firms must balance market orientation with internal capability development to avoid the negative impact on dynamic capability. This study also suggests that firms should leverage digital technologies to enhance market responsiveness and innovation, achieving sustainable competitive advantages.

Conclusions

This study has provided valuable insights into the complex relationships among market orientation (MO), IT capability (ITC), dynamic capability (DC), and competitive performance (CP) within the context of coffee enterprises in Northern Thailand. The findings indicate that IT capability plays a crucial role in enhancing dynamic capability, significantly driving competitive performance. This underscores the strategic importance of IT investments in supporting firms' adaptability and innovation in dynamic environments. However, the study also revealed an unexpected negative impact of market orientation on dynamic capability, suggesting that an overemphasis on market responsiveness may lead to resource misallocation and hinder the development of internal integration capabilities. This highlights the need for firms to balance market orientation and internal capability development to optimize their dynamic capabilities and, ultimately, their competitive performance.

Limitations

Despite the contributions of this study, several limitations should be acknowledged. Using cross-sectional data limits the ability to infer causality and track changes over time. Future research would benefit from longitudinal studies to capture the evolving nature of these relationships. Additionally, the focus on a single industry in a specific region may restrict the generalizability of the findings. Future research should explore these dynamics across different industries and regions to enhance the robustness of the conclusions. While significant, the negative impact of market orientation on dynamic capability requires further investigation to understand the underlying mechanisms and contextual factors at play. Lastly, the minor indirect effects suggest that other mediating or moderating

factors may influence the relationship between market orientation, IT capability, and competitive performance.

Future Research Directions

Looking ahead, several avenues present themselves for future research:

1. Longitudinal Studies: Conduct longitudinal studies to track changes in market orientation, IT capability, dynamic capability, and competitive performance over time. This approach would provide deeper insights into the causal relationships and dynamic interplay among these variables, enhancing the robustness of the findings.

2. Cross-Industry Comparisons: Extend the study to other industries and regions to validate the findings and explore how industry-specific factors influence the relationships among market orientation, IT capability, dynamic capability, and competitive performance. This would enhance the generalizability of the results.

3. Moderating Effects of External Factors: Investigate the moderating effects of external environmental factors, such as market dynamics, technological advancements, and policy changes, on the relationships among the core variables. This would offer a more comprehensive understanding of the conditions under which these capabilities impact competitive performance.

4. Qualitative and Mixed-Methods Research: Complement quantitative analyses with qualitative methods, such as case studies and interviews, to uncover the nuanced mechanisms driving these relationships. Mixed-methods research could provide richer insights into the contextual factors and underlying processes.

5. Intervention Studies: Conduct intervention studies to test the effectiveness of specific strategies to enhance market orientation and IT capability. This would provide practical guidance for firms seeking to improve their competitive edge through targeted interventions.

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