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NON-SUBSTITUTABLE CAPABILITIES AND SUSTAINED COMPETITIVE ADVANTAGE OF MANUFACTURING FIRMS IN NIGERIA

Bekanwah, Donatus Sunny
Department of Management, Faculty of Management Sciences,
University of Port Harcourt, Choba, Nigeria.
Bekanwahsunny@yahoo.com

Dr. (MRS). Edwinah. Amah
Department of Management, Faculty of Management Sciences,
University of Port Harcourt, Choba, Nigeria

Miidom, Dumbor Frank
Department of Management, Faculty of Management Sciences,
University of Port Harcourt, Choba, Nigeria
frankmidom@gmail.com

ABSTRACT

The study examined the association between non-substitutable capabilities and sustained competitive advantage in manufacturing companies in Nigeria. It adopted cross sectional research design and focused on 122 respondents as sample size which was determined from the population through Krejcie and Morgan sample table. The primary data were collected from one hundred and ninety seven (197) managers and non-managerial personnel in seven (7) manufacturing companies in Nigeria operating in Rivers State through questionnaire. The study adopted face and content validity, while the reliability of the instrument was ascertained using Cronbach Alpha test which gave a result of 0.7 and above. Descriptive statistic was used in analyzing the demographic variables, while multiple regression coefficients were used in testing the hypotheses. The result revealed a significant association between non-substitutable capabilities and sustained competitive advantage. The study concluded that non-substitutable capabilities affect sustained competitive advantage and recommended that management should develop firm's specific knowledge and also ensure a developed trust-based working relationship between managers and non-managerial personnel which other companies will find it difficult to imitate to achieve sustained competitive advantage in manufacturing firms in Nigeria.

Keywords: *Non-Substitutable Capabilities, Firm's Specific Knowledge, Sustained Competitive advantage, Sustained Competitive Advantage, Manufacturing Firms, Nigeria.*

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Introduction

Manufacturing industry is one of the industries that contribute immensely to the economic growth of the nation. This sector creates employments to the nation and helps in building skills in the labour markets. The goods and services provided by this sector have increased the domestic products of the nation (Nigeria) thereby becomes an important factor in the economic development of Nigeria. The fact is that the industry is able to generate personal income as well as providing the industry's income including income tax revenue to the nation. However, the manufacturing industry will become effective if they gained competitive advantage and remain active in the rival business operations. Thus, the issue of sustained competitive advantage becomes crucial to the manufacturing industry in Nigeria because research about competitive advantage stretched that the resources are the foundation for strategy, and bundles of resources generate competitive advantage leading to wealth creation. Therefore, in order to be successful in competitive advantage over time, manufacturing firms must think frequently in line with their strategic management process on how to increase value created.

Firms need to develop certain capabilities to achieve competitive advantage. These capabilities are non substitutable capabilities which have no strategic equivalent (Hitt, Ireland & Hoskisson, 2005). According to Hitt et al. (2005), the non substitutable capabilities are 'Firm's specific knowledge and trust-based working relationship', Firm's specific knowledge is the unique knowledge developed by firms in struggling to achieve competitive advantage, while, trust-based working relationship is the relationship that exists between managerial and non-managerial personnel. Such relationship is difficult to identify and finding a substitute is a big challenge. Very few Scholars have examined non-substitutable capabilities but detailed research studies have not been conducted on non-substitutable capabilities and sustained competitive advantage in manufacturing firms in Nigeria. Thus, it becomes necessary to examine the extent to which manufacturing firms in Nigeria can develop non-substitutable capabilities in pursuit of sustained competitive advantage.

Statement of the Problem

According to Blyler and Coff (2003), non-capabilities are the firms' capacity to deploy resources that have been properly integrated to achieve the set target such as competitive advantage. Meanwhile, Hitt et al. (2005) assert that the final criterion for a capability to be a source of sustained competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare imitable. In recent times, manufacturing companies in Nigeria have experienced low growth; low sales and undergoing entropy which indicates that many expectations from the sector has not been met in terms of achieving sustained competitive advantage and other benefits.

The challenges have been noticed in the foreign environment in which firms fade out of business operations as a result of intense rival in the sector. Similar situation has also been occurred in manufacturing firms in Nigeria. Although in Nigeria, much attentions have not been given to the causes of business failure thereby led many manufacturing firms in Nigeria to realize minimal chance for survival. It was discovered that these problems emanated from lack of manufacturing firms in Nigeria to develop non-substitutable capabilities which other firms will find it difficult to imitate to achieve competitive advantage. The consequences have been disastrous as many firms find it difficult to cope in achieving their set goals. Therefore, it becomes the thrust of this study to investigate the relationship between non-

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substitutable capabilities and competitive advantage in manufacturing firms in Nigeria with the aim to provide suggestions that will enhance the achievement of sustained competitive advantage in manufacturing firms in Nigeria.

Research Questions

The following research questions were formulated to guide the study:

1. What is the effect of firm’s specific knowledge on sustained competitive advantage in manufacturing companies in Rivers State?
2. How does Firm’s trust-based working relationship influence sustained competitive advantage in manufacturing companies in Rivers State?

Statement of Hypotheses

The following statement of null hypotheses were developed and tested in the study:

Ho_1: Firm’s specific knowledge does not have any significant effect on sustained competitive advantage in manufacturing companies in Rivers State.

Ho_2: Firm’s trust-based working relationship does not affect sustained competitive advantage in manufacturing companies in Rivers State.

Significance of the Study

The findings from the study will enhance the performance of managers and non-managerial personnel in decisions making, policy setting and implementation with respect to achieving sustained competitive advantage in manufacturing companies in Nigeria. The study also provided practical situations needing non-substitutable capabilities to achieve sustained competitive advantage in manufacturing companies in Nigeria. While managers and non-managerial personnel may not be the only category of beneficiaries, scholars will make use of this study as a foundation for future studies where the gap found in the study would be a stepping stone for better understanding of the concept of non-substitutable capabilities in the pursuit of sustained competitive advantage.

LITERATURE REVIEW

Theoretical Framework

The theoretical framework of the study rests on the resource-based view (RBV) theory which was found useful in explaining non-substitutable capabilities and sustained competitive advantage. The resource-based view demonstrates that the sustainable competitive advantage of an organization is accomplished by the fact that unique resources are uncommon, valuable, inimitable, quasi-tradable and non-replaceable, as well as firm-specific (Makadok 2001; Finney et al., 2004). As per the resource-based view of the business, the ability of firms to obtain and sustain a competitive advantage seems to be directly linked to power of 'isolating mechanisms' that shield important and scarce resources from emulation by rivals (Mahoney & Pandian, 1992; Rumelt, 1984). It is founded on the premise that firms in the industry are heterogeneous in nature of the capital that they manage. As all resources may not be fully mobile, heterogeneity may indeed be long-lasting (Barney, 1991). The resource-based view (RBV) is amongst the most commonly known competitive advantage theories centered on the

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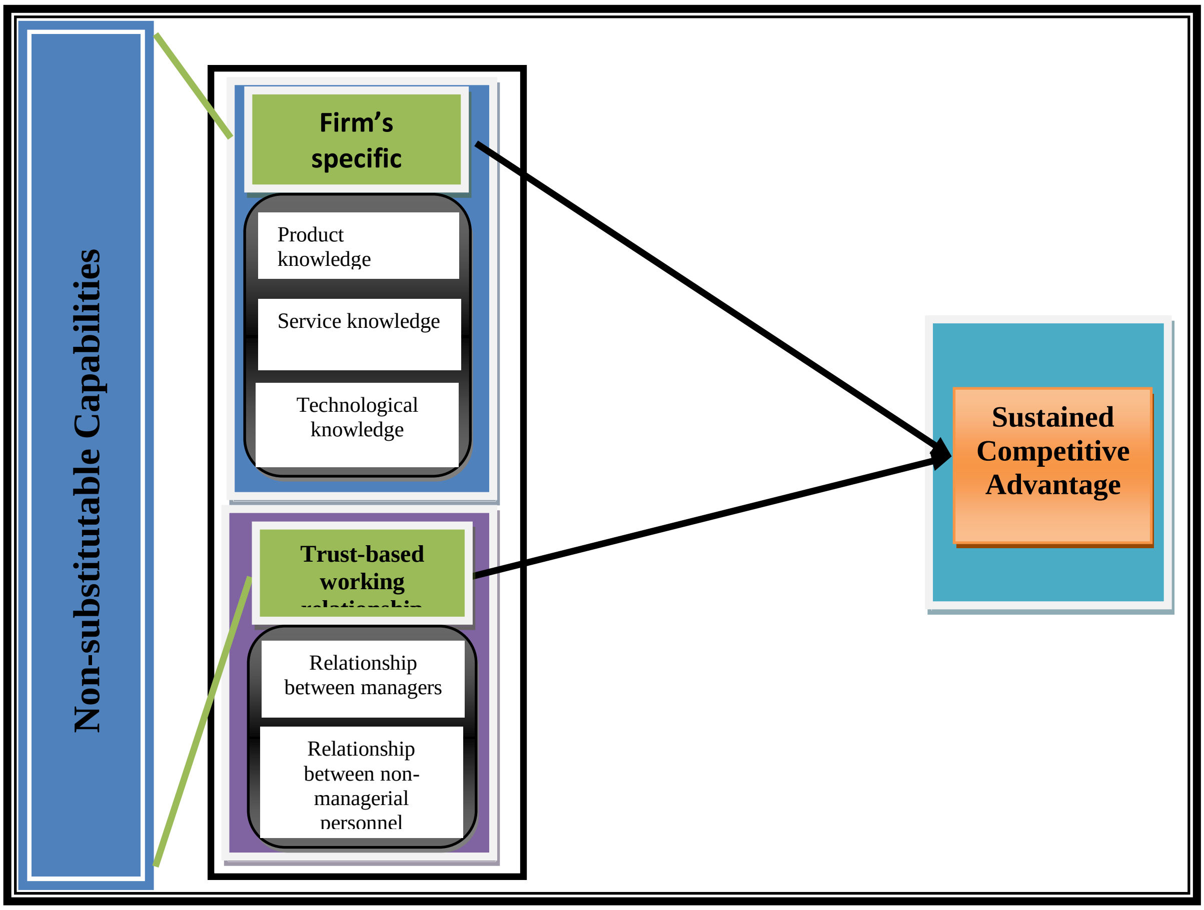
association between the firm's internal resource characteristics and competitive advantage (Spanos & Lioukas, 2001).

Conceptual Framework



Source: Researcher's Conceptualization (2020)

The conceptual framework was formulated to provide better understanding of how non-substitutable capabilities (predictor variable) influence sustained competitive advantage (criterion variable); where the dimensions of non-substitutable capabilities include; firm's specific knowledge and trust-based working relationship. The dimensions of non-substitutable capabilities and the criterion variable were adapted from the work of Hitt et al. (2013).

Non-Substitutable Capabilities

Capabilities are the firms' capacity to deploy resources that have been properly integrated to achieve the desired end state (Blyler & Coff, 2003). Capabilities provide competitive parity either temporary or sustained competitive advantage (Hitt et al., 2005). The last characteristic of firm resource for sustained competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable. Two important firm resources (or two pools of firm capital) are strategically comparable if they can be used independently to execute the very same techniques. Suppose that one of these valuable firm

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resources are rare and imperfectly imitable but the other is not, firms with this first resource will be able to conceive and implement certain strategies. If there are no strategically equivalent firm resources, these strategies will generate a sustained competitive advantage (because the resources used to conceive and implement them are valuable, rare and imperfectly imitable). However, that there are strategically equivalent resources suggests that other current or potentially competing firms can implement the same strategies, but in a different way, using different resources. If these alternative resources are either not rare or imitable, then numerous firms will be able to conceive of and implement the strategies in question, and those strategies will not generate a sustained competitive advantage. This would be the case because although one strategy to the execution of such strategies takes advantage of important, uncommon and imperfectly imitable firm resources (Barney 1991).

The non-substitutable capabilities as noted earlier do not have any strategic equivalents. Hitt et al. (2005) noted that this is the final capability to be a source of competitive advantage, and there must be no strategic equivalents valuable resources that are themselves either rare or imitable. It was noted that two valuable firm resources may be or are strategically equivalent when they each can be imitated, exploited to implement the same strategies. Nevertheless, the more challenging it is to replace resources, the more strategic capacity increases. Even if a resource is rare, potentially value-creating and imperfectly imitable, an equally important aspect is lack of substitutability (Dierickx & Cool, 1989; Barney, 1991).

When rivals are able to combat the company's value-creating policy with a replacement, costs are reduced to the point that the product is equal to the discounted potential rentals (Barney, 1986a) resulting in zero economic income. Again, the more invisible capabilities are the more difficult for substitutes and that is why the competitors find it more challenging in their attempt to imitate the firm’s value-creating strategy. There are two capabilities that are difficult to imitate, substitute and have no strategic equivalent, these are firm’ specific knowledge and trust-based working relationship. These capabilities are discussed in the rest subheadings.

Firm’s Specific Knowledge

The firms specific knowledge are the unique ideas possessed by the firm that distinguish it from other firms and the specific knowledge serves as strategic strength to the firm in its performance. According to Hitt et al. (2005), firm’s specific knowledge is difficult to imitate or duplicate and it is too costly to substitute by other firms. It is the unique ideas developed by the firm in rival and competitive business environment, specificity of resources which contain that very functionality are not readily tradable outside the business (Dierickx & Cool, 1989), making it impossible for competitors to reproduce them. The firm's resource-based view considers companies to be reservoirs of heterogeneous resources, including tangible and intangible assets, operating processes and goods (Amit & Schoemaker, 1993). The knowledge of a firm may be generally categorized as either specific or general knowledge. Resources and knowledge-based researchers typically maintain that, of the types of firm-specific resources studied, and -specific knowledge has the greatest potential to act as a source of sustainable competitive advantage (Coff, 1997; Grant, 1996; Kogut & Zander, 1992).

A firm’s knowledge-base is the information inputs, know-how, and capabilities that organizational members draw on when searching for innovative solutions (Dosi, 1988). Firm-specific knowledge often results from a search for, and accumulation of, new solutions that

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build upon a firm's established knowledge base (Cohen & Levinthal, 1989; Nelson & Winter, 1982; Teece, 1986). Such firm-specific knowledge may include; *technological knowledge*: the ability to operate and maintain customized equipment and familiarity with specialized practices for developing and manufacturing unique products that are not easily codified. *Product knowledge*: the unique idea of product design, its quality and durability which is difficult to imitate (Døving & Nordhaug, 2002). *Service knowledge*: the knowledge of the processes involved in best satisfying delivery or sales of product in other word, effective use of logistics management technique (Hitt et al., 2005)

The source of such firm's specific knowledge is found in research and development (R&D). In this situation firm continue research in the external environment and develop the ideas from the research findings (Hitt et al., 2005). The result of firm-specific R&D will prove problematic for all other companies to emulate unless they gain access to the resources to which R&D was conducted. Additionally, the firm's specific nature of the R&D process further impedes imitation: when the R&D process has an important tacit element, it is difficult for others outside of the firm to replicate the process. Although as noted by Hitt et al. (2005), causal ambiguity may create difficulty in identifying areas where effective R&D need to be focused and the firm may face the challenge to learn and this may further narrow the road to success as they might actually know how to improve the process required. In the real situation firms that engaged in research and development may gain more specific knowledge in service knowledge, product knowledge and technological knowledge than those that neglect to engage in research and development.

Trust-based Working Relationship

According to Hitt et al. (2005), a tight relationship exists between managers and non-managerial personnel. It is a relationship that is difficult to imitate as competitors do not understand the complex relationship. Why such relationship is important is that it builds the vision of the firm and improves managers and non-managerial personnel on their performance towards the achievement of the goal of the organization. The meanings of trust are manifold; nevertheless, there really are two primary issues: first, trust is all about dealing with risk and uncertainty; and second, trust is also about tolerating weakness (Mayer et al., 1995; Rousseau et al., 1998). As Luhmann (1988) put it, trust could be seen as a process that allows people to determine whether or not to subject themselves to a situation where there is a potential damage to compensate the advantage. Trusting others indicates that there is a condition of insecurity in which there is also an aspect of potential risk; and there are multiple factors of insecurity that could be 'at risk,' such as credibility, self-esteem, financial capital, etc. (Newell et al., 2002).

Relationship between managers: The relationships between managers are based on trust**.** Trust can be described as "the degree to which someone is ready to attribute good intentions and faith in the words and acts of others" (Cook & Wall, 1980, p. 39). The need to establish mutual respect in order to encourage individuals to work together more effectively is the essence of trust (Mayer et al., 1995). Trust shows the volume of information that can be shared (Szulanski et al., 2004; Carley, 1991; Tsai & Ghoshal, 1998). Trust promotes decision-making by streamlining the processing and analysis of information (McEvily et al., 2003). Economically speaking, trust facilitates contact between individuals and through organisations and can reduce transaction costs (Nooteboom, 2003; Williamson, 1985).

Relationship between Non-Managerial Personnel: Trust between individuals and organizations is at the core of the expectation by managers and non-managerial personnel of

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the organization and delivers significant benefits in today's complex and rapidly changing knowledge economy. Trust within a work group refers to the extent to which group members trust each other. People respect others that these others would act in a specific way (Mayer et al., 1995). Trust is a key element in creating a solid knowledge base in working groups that facilitates engagement and information sharing. Studies show evidence that confidence contributes to an improved overall exchange of information (see, for example, Tsai & Ghoshal, 1998). Moreover, trust raises the risk that shared knowledge will be sufficiently understood (Mayer et al., 1995). This latter is of specific importance with respect to the exchanging of context-sensitive tacit knowledge.

Sustained Competitive Advantage

Today, the competitive advantage is the most urgent need for many firms. Barney (1991) was perhaps the nearest to the standard concept by providing the following: a business is considered to have a sustainable competitive advantage when it introduces a value-creating strategy that is not being applied concurrently by any current or future rivals and when all other companies are unable to replicate the strategy. However according to Hitt et al. (2005), the final criteria for the potential to be a source of sustainable competitive advantage is that there must be no strategically comparable value-added services that are also not uncommonly imitable.

Competitive advantage arises when companies use their own resources and core competencies to execute strategies over other companies (Lansiti, McFarlan & Westerman, 2003). A sustainable competitive advantage is thus obtained only in a context where rivals have failed in their attempts to duplicate or replicate the tactics of the firm they compete with. They failed as they would not have the confidence and knowledge that other companies possessed. It is therefore critical that firms seeking to gain competitive advantage should build non-substitutable business performance capabilities.

METHODOLOGY

The study adopted cross sectional research design. The population of the study was one hundred and ninety seven (197) managers and non-managerial personnel from seven (7) manufacturing companies in Nigeria operating in Rivers State. The firms include; Dangote group of companies, Nigeria Bottling Co. Plc, Pabod Breweries, Madonna Paints, Eastern Bulkcem Co. Ltd, First Aluminum Co. and Triumph Drinks Ltd. A sample size of 127 respondents was determined from this population through Krejcie and Morgan sample technique. The data were collected through questionnaire. The variables were measured using four item statements each on 4-point Likert scale. The study adopted face and content validity and the ratability of the instrument was ascertained using Cronbach Alpha test. The following results were achieved from the test; Firm's specific knowledge =0.87, no. of items = 4. Trust-based working relationship = 0.76, no. of items = 4 and Innovation = 0.89, no. of items = 4. Thus, from the result, it means that all items for the study variables met the reliability benchmark of 0.7 and indicating that the instrument for the study was reliable.

Model Specifications:

The study adopted the conventional econometric model implicitly stated as:
Y= *f*(x:)
When y = dependent variable
X: = Independent variable

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Thus, the present study is based on the framework model developed in the study stated below as:

fsca= *f*(fsk, tbwr)

The above equation when explicitly expressed becomes;

fsca = $\alpha_0 + \alpha_1$, fsk + α_2, tbwr + μ

Where:

Fsca = Firm's Sustained Competitive Advantage
fsk = Firm's specific knowledge
tbwr = Trust-based Working Relationship

α_0 = Constant or the intercept coefficient
$\alpha_{1-}\alpha_2$ = Regression coefficient for each of the individual independent variables
μ = Error term

Decision Rule: In order to accept or reject any stated hypothesis tested, major attention was paid to the p-values of the tested hypotheses. Therefore, the study rejected the null hypotheses, where the p-values were less than alpha value (0.05) and the alternative hypotheses were accepted.

Data Analysis

Descriptive statistic was used in analyzing the demographic variables, while multiple regression coefficient was used in testing the association between the predictor and criterion variables. One hundred and twenty seven (127) managers and non-managerial personnel were reached with the questionnaire of which one hundred and twenty two (122) copies were filled and retrieved successfully. This shows that the participants responded favourably to the items on the questionnaire. Table 1 shows the results from demographic analysis.

Table 1: Demographic Data Analysis

Response Variables	**No. of Respondents**	**Respondents' (%)**
Male	78	63.9
Female	44	36.1
Total	122	100%
Levels of Qualifications	**Response rate**	**Percentage**
Diploma	34	27.9
First Degree	48	39.3
Master's Degree	32	26.2
Ph.D. Degree	8	6.6
Total	**122**	**100**
Positions	**Frequency**	**Valid Percent**
Managers	78	63.9
Non-Managerial personnel	44	26.1
Total	**122**	**100**

Table 1 shows that 78(61%) of the respondents were male while the female were 44 representing 36.1% of the total respondents. This shows that majority of respondents were male since they have higher respondents' distribution than the female.

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Table 1 further indicates that most of the respondents were holders of first degree which represents 48% of the total respondents, followed by respondents with diploma educational qualification, and 32 respondents representing 26.2% were master's degree holders, while only 8(6.6%) were Ph.D degree holders.

Table 1 above also shows that managers were 78 representing 63.9%, while the Non-Managerial personnel were 44 representing 26.1%. The analysis shows that majority of the respondents were managers.

Test of Hypotheses

In this section the null hypotheses formulated were tested to ascertain the influence of the predictor variables on the criterion variables. To achieve this, a regression statistic was applied. The study tested the effect of the predictor variables (Firm's Specific Knowledge and Trust-Based Working Relationship) on criterion variable (firm's sustained completive advantage) as shown on tables 2-4.

Table 2: **Model Summary**[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.914[a]	.836	.833	.37448	.836	303.740	2	119	.000

a. Predictors: (Constant), Trust-Based Working Relationship, Firm's Specific Knowledge

b. Dependent Variable: Sustained completive advantage

The value of 0.914 indicates a good level of prediction. The "R Square" of 0.836 is the R^2value (also known as the coefficient of determination), which is the proportion of variance in the dependent variable that is explained by the independent variables. Hence, from table 2, 16.4% (100% - 83.6 %) of the variation is caused by factors other than the predictors included in this model. Thus, 83.6% proportion of variance in sustained competitive advantage is explained by firm's specific knowledge and trust-based working relationship.

Table 3: **ANOVA**[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	85.189	2	42.595	303.740	.000[b]
	Residual	16.688	119	.140		
	Total	101.877	121			

a. Dependent Variable: Sustained completive advantage

b. Predictors: (Constant), Trust-Based Working Relationship, Firm's Specific Knowledge

The F-ratio in the ANOVA, Table 3 tests whether the overall regression model is a good fit for the data. The result shows that Firm's specific knowledge and trust-based working relationship statistically and significantly predict Sustained competitive advantage, $F(2, 119) = 303.740$, $p(.000) < .05$ indicates that the regression model was a good fit of the data.

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(ii) Statistical Significance of the Independent Variables:
Statistical significance of each of independent variables measures whether the non-standardized (or standardized) coefficients were equal to 0 (zero) in the population (i.e. for each coefficient, H0: $\beta=0$ and Ha: $\beta\neq0$). If $p < .05$, the coefficients are statistically significantly different from 0 (zero). The importance of these significant tests is to examine whether each test is valid.

Table 4: **Coefficients[a]**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.240	.176		-1.365	.175
	Firm's Specific Knowledge	.517	.074	.487	7.023	.000
	Trust-Based Working Relationship	.600	.090	.465	6.697	.000

a. Dependent Variable: Sustained completive advantage

Given that, the t-value and corresponding p-value are in the "t" and "Sig." columns respectively, the tests indicate that the standardized coefficient with beta value for Firm's specific knowledge is 0.487 when p(.000)<0.05 is significant with moderate effect and Trust-based working relationship when p(.000)<0.05 is significant with moderate effect. This means that all predictor variables have a significant effect on Sustained completive advantage.

Discussion of Findings
A regression analysis was run to predict non-substitutable capabilities, using Firm's specific knowledge and Trust-based working relationship on sustained competitive advantage. The model statistically and significantly predicted Firm's specific knowledge $F(2, 119) = 303.740$, p(.000) < .05 indicates that the regression model was a good fit of the data. However, the two independent variables, Firm's specific knowledge when p(.000) < 0.05; and Trust-based working relationship when p(.000)<0.05 predicted moderate effect. The highest contributing predictor variable was Firm's specific knowledge (0.487) followed by Trust-based working relationship (0.465). This proves that non-substitutable capabilities significantly affect sustained competitive advantage. This finding is supported by the work of Heli, Jinyu and Mahoney (2009) and Meng (2015). Heli, et al. (2009) examined Firm-Specific Knowledge Resources and Competitive Advantage: The Roles of Economic- and Relationship-Based Employee Governance Mechanisms. The empirical findings show that firms with greater firm-specific knowledge resources are more likely to adopt governance mechanisms appropriate for reducing key employees' concerns about holdup by the firm.

Meng (2015) examined the role of trust in relationship development and performance improvement. The importance of inter-organizational trust to project success has been increasingly highlighted in the construction industry. Based on the analysis of the responses of a questionnaire, trust has a significant contribution to the development of cooperative or collaborative relationships; fostering trust proves to have a major influence on the improvement of project performance; and some relationship and performance indicators are found to have closer associations with trust than others so that trust is more important to the development of relationship and the improvement of performance in these aspects.

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However, Meng (2015) examined the role of trust in relationship development and performance improvement. The result revealed that trust has a significant contribution to the development of cooperative or collaborative relationships; fostering trust proves to have a major influence on the improvement of project performance; and some relationship and performance indicators are found to have closer associations with trust than others so that trust is more important to the development of relationship and the improvement of performance in these aspects. From the review of empirical studies on non-capabilities and competitive advantage, it is found that there are less studies that examined association between non-capabilities and competitive advantage in Nigeria.

Conclusion

From the findings of the study, non-substitutable capabilities have a strong impact on sustained competitive advantage in Nigeria. This stemmed from the fact that adequate attentions have not been given to business failure which made many manufacturing firms in Nigeria to realize low level of innovation. It was discovered that these problems emanated from lack of manufacturing firms in Nigeria to develop non-substitutable capabilities which other firms will find it difficult to imitate to achieve sustained competitive advantage. Thus, from the findings, Firm's specific knowledge affects sustained competitive advantage. Firm's trust-based working relationship also affected sustained competitive advantage in manufacturing companies in Rivers State. Therefore, the study concluded that non-substitutable capabilities affect sustained competitive advantage in manufacturing firms in Nigeria.

Recommendations

Based on the findings and conclusion, the study recommended that management should develop firm's specific knowledge that will assist the firm to outperform the competitors to gain sustained competitive advantage. Management should also develop trust-based working relationship which other companies will find it difficult to imitate in order to achieve sustained competitive advantage in manufacturing firms in Nigeria.

Contributions to Knowledge

In recent times, much research studies have not been extended to cover the concept of non-substitutable capabilities to gain competitive advantage which this study investigated in Nigeria. Lack of this has led to the decline in research in this area. Since manufacturing companies in Nigeria have experienced low growth there was need to investigate the association between non- substitutable capabilities and competitive advantage to increase knowledge in these concepts. To achieve this, the study developed conceptual framework which broadened the knowledge and provided better understanding of the effect of non-substitutable capabilities to achieve competitive advantage in Nigeria.

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