Market orientation, entrepreneurship orientation, relationship commitment and communication among SME exporters in Malaysia

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Abstract

Building partnerships with foreign importers or distributors is critical for internationalizing small and medium enterprises with limited resources. Doing so can help them leverage the resources of their partners and enhance their export performance in foreign markets. Within this context, commitment to the relationship stands as an important cross-border relationship dimension. In addition, market orientation and entrepreneurship orientation have been highlighted in the literature as important variables to develop relationship commitment. The literature also demonstrates that effective communication between partners is the critical function of relationship closeness and strength. This study used the resource-based view for theoretical foundation. We collected data from 220 small and medium business exporters in the manufacturing sector in an emerging market, namely, Malaysia which were analyzed using hierarchical moderated regression analysis. The results showed that entrepreneurship orientation is positively related to relationship commitment. The findings also revealed that the relationship between market orientation and commitment was fully moderated by communication. This means the entrepreneurial values of risk taking, innovation, and pro-action are crucial in providing SMEs with the ability to develop and maintain relationship commitment. Future studies may investigate how the rapid changes in the international business environment affect SME relationship commitment.

Keywords: cross-border relationship, entrepreneurship orientation, manufacturing sector, market orientation, relationship commitment, SME communication

Introduction

In the context of inter-organizational relationships, relationship commitment has emerged as the critical dimension in interorganizational relationship literature (Abosag and Lee, 2013). Johanson and Vahlne (2006) described relationship commitment as a process of increasing the commitment of partners to the future business as a result of recognized opportunity and accumulated knowledge that ensued from previous interactions with partners in a network. Along this line, learning from network relationship experience engenders experiential knowledge that is critical to SME internationalization. One of the most critical experiential knowledge to learn is the organizational routine of the partner (Maslow, 1954). Feldman (2000) defines routines as “…temporal structures that are often used as a way of accomplishing organizational work”. As such, successful relationships entail adjustments of partners’ routines in a course of interactions to achieve mutual commitment and trust, by which relationship values are created. Implicit to this notion is that knowledge of partner’s routines helps firm to better prepare for superior customer value delivery and preamble to customer perceive relationship commitment.

Despite the growing interest on inter-firm relationship, we claim that studies in the context of relationship commitment in cross-border operation are limited. Existing empirical studies on factors that
influence the cross-border relationship commitment among SMEs are equivocal, notwithsanding the emphasis of previous studies on the role of cultural factors, such as the uncodified organizational routine (Knight & Cavusgil, 2004) in creating competitiveness in cross border markets. Thus, this study considers two critical organizational routines, namely learning orientation (Gunawan and Rose, 2014) and entrepreneurial orientation (Hong et al., 2013).

The study of communication is relevant in the establishment and development of organizational relationships (Cazan & Indreica, 2014). Palmatier, Dant, Grewal, and Evans (2006) defined communication as the “amount, frequency, and quality of information shared between exchange partners”. International business is risky venture due to the uncertainty of the market and knowledge about the market diminishes the effect of foreignness and minimizes the risk. Communication is a means of transmitting information from the importer about the export market. Hence, the success of business relationships over the long term is contingent on the ability of each partner to communicate effectively (Mohr & Nevin, 1990), in which the exchange of information will improve the fluidity of the relationship and help firms to identify the needs of their customers (Dwyer et al., 1987).

This paper aims to achieve two objectives. First, this paper investigates the effects of learning and entrepreneurship orientation on relationship commitment. Second, this paper also examines the moderating effects of communication on the relationship of learning and entrepreneurship orientation with relationship commitment. These are examined within the context of cross border relationship and the findings are synthesized from the literature and a survey of Malaysia SME exporters in manufacturing industries.

**Literature review and hypotheses**

**Relationship commitment**

The literature views commitment as the utmost degree of bonding between partners (Skarmeas et al., 2008). Relationship commitment is the believed by a partner that a relationship is so important that it requires a maximum effort to maintain it (Morgan & Hunt, 1994). Johanson and Vahlne (2006) suggest that a relationship built by committed parties forms a basis for knowledge creation and open up for business opportunities. In a parallel view, within the standpoint of exporter, commitment engenders importer willingness to incessantly bestow access to foreign market during the exporter’s internationalization process (Saleh & Ali, 2009). Hence, commitment is clearly preeminent to the development of buyer–seller relationship models (Cater & Cater, 2010), by which small and medium exporting firms gain greater competitive ability in foreign markets.

**Learning orientation and relationship commitment**

The notion that organizations must learn to stay competitive in changing environment is implied in literature by Edmondson (2008) and McGrath (2001), and cited by Chadwick and Raver (2015). Learning is critical to SME internationalization process (Yeung, 2015) because it helps small firms to develop the ability to compete and survive in the market (Rhee et al., 2010) by creating customer value (Nasution and Mavondo, 2008). In addition, learning facilitates adaptation to new business environments by new entrant so as to close the gap between an entrant and local associate (Lee et al., 2012). Learning is also the tool behind relationship governance in inter-organizational relationships (Liu, 2012).

In this study our focus is on the organizational orientation toward learning. Learning orientation is defined as “a basic attitude toward learning” (Alghamdi & Gillies, 2013). Sinkula and colleagues (1997) suggested that learning orientation “…gives rise to that set of organizational values that influence the propensity of the firm to create and use knowledge.” Therefore, since knowledge is of less relevant to organizations if it is not applied in a way that benefit the organization (Chadwick & Raver, 2015), hence
in this study we maintain that learning orientation requires greater attention in international relationship commitment literature.

Previous studies highlight the importance of experiential dimension to relationship commitment (Johanson & Vahlne, 2009). Learning oriented organizations are more likely to learn from their experiences (Emden et al., 2005) and therefore acquire foreign market knowledge (Freeman et al., 2006). The relationship is strong when firms learn from the experience gained during interaction and use that learning to anticipate and act according to the norms that satisfy the needs of the partner. Thus, firms are able to gain knowledge through learning capacity and implement appropriate operational adjustments that lead to stronger partnerships (Perez-Nordtvedt et al., 2010). Implicit to this adjustment is partner’s willingness to commit time and financial resources to minimize the asymmetry as a result foreignness and distance so that the interactions are efficient and effective. Based on this discussion this study suggests the following hypothesis:

H1: The relationship between learning orientation and relationship commitment is significant.

Entrepreneurship orientation and relationship commitment

Entrepreneurial orientation is associated with the firm ability to evaluate and exploit opportunities (Shane & Venkataraman, 2000) as well as transform these opportunities to growth (Messersmith & Wales, 2013). The growth benefit of entrepreneurship orientation is viewed as a continuous relationship which stands out within the phenomenon of increasingly competitive and turbulent business environment (Franco & Haase, 2012). As such, entrepreneurship orientation is synonymous with inquiries into the increasingly important area of SME internationalization (Ismail et al., 2013).

Entrepreneurial firms is referred to those firms that, in a proactive and innovative ways, have accomplished risky initiative ahead of the competitors (Miller, 1983). Entrepreneurial orientation on the other hand is about firm’s activities whether they are entrepreneurial or otherwise (Franco & Haase, 2012). Therefore, the concept of entrepreneurship orientation is suggested to be associated with the decision-making activities that managers used to act entrepreneurially and pursue new entry. Considering that the activities of internationalization relate to innovative processes (Maslow, 1954; Knight & Cavusgil, 2004), we recommend that organizational orientation toward entrepreneurship pertinent to cross-border relationship commitment.

Entrepreneurship orientation is intimately linked to better access to critical resources and the ability to make more productive use of the resources (Messersmith & Wales, 2013). Zahra and Garvis (2000) highlighted the importance of entrepreneurial activities for international markets because entrepreneurial orientation supports opportunities for carrying out expansion to new markets. Knight and Cavusgil (2004) found that entrepreneurial orientation may be especially important to small firms because it appears to drive them toward developing high-quality, distinctive, and technologically advanced goods. However, a venture must have access to the resources that enable it to go international in order to realize these benefits (Fernhaber et al., 2008). At the heart of conceptualizing entrepreneurship is opportunity-seeking behavior; firms may develop opportunities for new business in foreign markets by creating knowledge of foreign markets through relationships with other firms (Johanson & Vahlne, 2006). Entrepreneurship orientation allows firm to sense opportunities emerge as a result of interactions with local partners and therefore willing to commit into a close relationships to transform those opportunities into business venture. Therefore, this study proposes the following hypothesis:

H2: The relationship between entrepreneurship orientation and relationship commitment is significant.

Communication

The important of communication in inter-organizational research has accelerated in parallel with the progression of relationship marketing concept. This phenomenon has been manifested in the literature. Notably, trustful and committed (Ellis & Hopkinson, 2010) as well as satisfactory (Agnihotri et al., 2009)
relationships are highly supported by excellent communication. Similarly, Mohr and colleagues (1999) insist on the intimate connection between relationship success and partner’s ability of effective communication. This is supported by the notion that communication relates to attitudes that support collaboration, which in turn creates the environments favorable for mutual support (Morgan & Hunt, 1994). Accordingly, communication helps in developing and maintaining business to business relationships.

Effective communication in the global marketplace also support the development of strong relationship (Griffith & Harvey, 2001). In cross border relationship, physical distance as well as differences in language and culture instigate considerable challenge in inter-organizational relations (Nes et al., 2007). Conversely, without effective inter-organizational communications, learning among network partners will be diminished and long-term effectiveness of the network will be damaged (Koza & Lewin, 2000). Communication helps in developing greater understanding of partner’s decisions by allowing clear information flows between partners hence mitigating doubts and distrustful behavior (Shahadev, 2008). Especially for resource scarce SMEs the efficiency of knowledge sharing with local partners is highly critical (Jonsson & Lindbergh, 2010). The success of international collaboration is intimately linked to knowledge complementary between partners (Yao et al., 2013). Therefore, by leveraging local partner’s knowledge about the local markets greatly help to reduce the cost of information acquisition and at the same time enhance knowledge resources which are helpful in reducing the uncertainty of foreign markets.

For learning oriented firm, the fluidity of information exchange as a result of effective communication increases the capability of learning oriented firms to accumulate new knowledge and information about the customer’s routines and needs. Furthermore, poor communication limits the accumulation of market knowledge and restrains the opportunity-seeking ability and innovativeness of SMEs. Therefore, communication will diminish the influence of entrepreneurship on relationship commitment. Based on this argument, this study proposes the following hypotheses:

H3: Communication moderates the relationship between learning orientation and relationship commitment.

H4: Communication moderates the relationship between entrepreneurship orientation and relationship commitment.

Conceptual framework

Figure 1 shows a conceptual model depicting the hypothesized relationships linking all four constructs.
Methodology

Sample

The population consisted of Malaysian manufacturing SMEs with number of employee between 20 and 250. We gathered the sample from the directory of the Federation of Malaysian Manufacturers and The Malaysian External Trade and Development Corporation. We used a mail survey technique to collect data from the following key informants: chief executive officers (9.1 percent), managing directors (60.3 percent), export managers (5.9 percent), and marketing/sales managers (24.2 percent). The questionnaires were sent to 851 firms. A total of 220 firms return the questionnaire or 20.09 percent effective response rate.

Instruments

Measure of market orientation comprises of nine items scale. The scale have been modified and rephrased from the version used by Pelham and Wilson (1996). The scale for entrepreneurship orientation was revised and adapted from the studies of Leonidou, Katsikeas and Hadjimarcou (2002) and Skarmeas et al. (2008). Entrepreneurship orientation was measured by 17 items scale. The scales for relationship commitment were amended and adopted from the research of Katsikeas, Leonidaou and Morgan (2000) and Shoham (1998). For communication, the scale [five items] was devised by Mohr and Spekman (1994).

Validity and reliability

A four-factor confirmatory factor analysis (CFA) was conducted to test for construct validity, dimensionality, and internal consistency. The scale was initially purified so that items with less than factor loading (standardized) of 0.60 could be deleted. For the multidimensional constructs, namely market orientation and entrepreneurship orientation, items measuring the dimension were operationalized as summate. Based on the purified scale, we ran the measurement model. The results from CFA using maximum likelihood estimation in AMOS are shown in Table I. The fit indices are as follows: \( \chi^2 = 155.362, \chi^2/df = 1.425, p = 0.002, \) NFI = 0.933, TLI = 0.974, CFI = 0.979, RMSEA = 0.047. The minimum score for the standardized factor loadings is 0.65, whereas that for the extracted average variance is 0.55. These number syndicate a strong convergent validity and uni-dimensionality of all constructs. As shown in Table I, the score for square root average variance extracted is greater than the correlation between construct in all cases, indicating that the measurement items strongly correlate with the underlying constructs and weakly correlation with other constructs, thus suggesting adequate discriminant validity. As shown in Table 1, the score for square root average variance extracted is greater than the correlation between construct, thus suggesting adequate validity. As regards to internal consistency of the scale, the score for composite reliability ranges from 0.83 to 0.98 (Nunnally, 1978; Fornell & Larcker, 1981).

Correlation

Table II shows the Pearson correlations between constructs. Correlation between entrepreneurship orientation and market orientation is 0.7, thus suggesting a concern for multicollinearity between constructs. Variance inflation factor was performed to test multi co-linearity. The results show in Table 3, all values less than 3, indicate that multicollinearity is not an issue. The independence of error was also examined because the scores for any particular subject may not be independent of those for other subjects owing to the nature of the research survey. The results of the examination specified that the non-independence of errors was insignificant (Durbin-Watson statistics scores are within the acceptable range of 1.75–2.25).
Table 1. Square root average variance extracted (AVE) and correlation of constructs

<table>
<thead>
<tr>
<th>Construct</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Entrepreneurship Orientation</td>
<td>0.86</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Market Orientation</td>
<td>.54***</td>
<td>0.82</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Communication</td>
<td>.47***</td>
<td>.35***</td>
<td>.89</td>
<td></td>
</tr>
<tr>
<td>4. Commitment</td>
<td>.43***</td>
<td>.36***</td>
<td>.67***</td>
<td>.86</td>
</tr>
<tr>
<td>Cronbach Alpha (α)</td>
<td>.78</td>
<td>.86</td>
<td>.90</td>
<td>.91</td>
</tr>
<tr>
<td>Mean</td>
<td>5.25</td>
<td>5.33</td>
<td>5.55</td>
<td>5.58</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>.78</td>
<td>.83</td>
<td>.82</td>
<td>.75</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.64</td>
<td>-0.098</td>
<td>-0.17</td>
<td>-0.63</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>0.52</td>
<td>-0.12</td>
<td>-0.22</td>
<td>0.44</td>
</tr>
</tbody>
</table>

***Correlation is significant at the 0.001 level; ** Correlation is significant at the 0.01 level; *Correlation is significant at the 0.05 level. Notes: Square Root of AVE value is shown in diagonal

Hypotheses testing and the results

Hierarchical moderated regression (SPSS 22) was applied to estimate the research model. Table II illustrates the four regression models. Control variables were entered in Model 1 (Step 1), and the results show that the control variables do not contribute to the variance in relationship commitment.

Adding the independent variables in Model 2 increases the explained variance ($R^2$) in relationship commitment by 0.24 (statistically significant: $\Delta R^2 = 0.24$, $F$ change = 2.518, $p <0.001$, two-tailed test). This finding suggests that learning orientation and entrepreneurship orientation explain 24 percent of the total variance in relationship commitment.

Communication was added in Model 3, and the results indicate that communication explains 22 percent of the variance in relationship commitment (statistically significant: $\Delta R^2 = 0.22$, $F$ change = 74.59, $p <0.001$, two-tailed test).

Finally in Model 4, the interaction terms, namely market orientation x communication and entrepreneurship orientation x communication, were entered simultaneously, thus increasing the explained variance by 3 percent (statistically significant: $\Delta R^2 = 0.04$, $F$ change = 6.803, $p <0.01$, two-tailed test).

As shown in Models 3 and 4 of Table II, the effect of market orientation on relationship commitment is not significant hence hypothesis 1 is not supported. In Models 2, 3 and 4, the effect of entrepreneurship orientation on relationship commitment is positive and significant (Model 2: $\beta = 0.32$, $t$-value = 3.50, $p < 0.001$; Model 3: $\beta = 0.14$, $t$-value = 1.68, $p < 0.10$; Model 4: $\beta = 0.18$, $t$-value = 2.28, $p < 0.01$), thereby supporting Hypothesis 2.

In this study, communication was tested for moderating function. Multiple regression technique, also known as moderated multiple regression, was used to test the moderation effects. The scores of the focal variable and the moderator were initially mean centered by subtracting the original scores with mean values to obtain data for the interaction. Final scores were created by the interaction of the mean-centered focal variable and moderator.

In Model 4 of Table II, the interaction effect on relationship commitment was positive and significant, thus supporting Hypothesis 3 ($\beta = 0.22$, $t$-value = 2.90, $p < 0.01$). The results show that communication exerts significant moderating effects on the relationship between market orientation and relationship commitment, thus implying the importance of communication on SME internationalization which is about increasing sales and profits in foreign markets. Firms can achieve enhanced growth in foreign sales when they are able to meet the needs and preferences of their customers, that is, growth is a function of effective communication between firms and customers. Thus, communication is positively related to internationalization.
As shown in Table II Model 4, the moderating effect of communication on the relationship between entrepreneurship orientation and relationship commitment is not significant thus hypothesis 4 is not supported.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Dependent Variable - Relationship Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
</tr>
<tr>
<td>Control Variables</td>
<td></td>
</tr>
<tr>
<td>Firm Size (No of Employee)</td>
<td>-0.09(-0.90)</td>
</tr>
<tr>
<td>Ownership</td>
<td>0.03(0.34)</td>
</tr>
<tr>
<td>Turnover</td>
<td>0.03(0.28)</td>
</tr>
<tr>
<td>Independent Variables</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurship Orientation</td>
<td>0.32(3.50)***</td>
</tr>
<tr>
<td>Market Orientation</td>
<td>0.21(2.20)**</td>
</tr>
<tr>
<td>Moderator</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>0.58(8.64)***</td>
</tr>
<tr>
<td>Interaction</td>
<td></td>
</tr>
<tr>
<td>EO x Communication</td>
<td>-0.02(-0.29)</td>
</tr>
<tr>
<td>MO x Communication</td>
<td>0.22(2.73)***</td>
</tr>
<tr>
<td>R²</td>
<td>0.00</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>-0.01</td>
</tr>
<tr>
<td>F-Ratio</td>
<td>0.285</td>
</tr>
<tr>
<td>ΔR²</td>
<td>-</td>
</tr>
<tr>
<td>Degree of freedom</td>
<td>3/186</td>
</tr>
</tbody>
</table>
| F-Change                         | 0.285           | 28.518***       | 74.596***       | 6.803**         

*p < .10; **p < .05; ***p < .01; ****p < .001

Notes: Values of standardized regression coefficient are reported and t-values are in parentheses.

Discussion and conclusion

The topic of relationship commitment has received growing attention among researchers. In addition, existing literature manifests the notion that the role of commitment as a construct in inter-organizational relationship building is eminent. However study on relationship commitment is from satisfactory particularly within the cross border setting (MacDuffie, 2011). This observation undoubtedly exhibits are search gap in the literature hence the need for more investigations. Therefore, the findings of this study contribute to the existing literature in term of theoretical development whereby the conceptual model depicting the relationships between constructs under investigation is proposed. Furthermore, the findings also significantly guide both policymaker and practitioner alike on the role of organizational culture namely market and entrepreneurship orientations as well as communication in cross border inter-organizational relationship commitment. This particularly helps managers of SMEs to accomplish managerial functions such as resource allocation so as to use the limited resources to effectively achieve organizational goals.

The findings demonstrate that SMEs in emerging market like Malaysia greatly value the importance of market and entrepreneurship orientations in the development of cross-border relationship commitment. However, the effect of market orientation on commitment is fully moderated by communication. Communication has been found to contribute effectively toward relationship building. Communication occurs not only during exchange of information but also in the ability of the exporter to decipher codes from the importer. Thus, the enhanced market orientation process of knowledge about customers and competitors helps equip exporters with the ability to better serve the needs of importers using effective communication. This is consistent with the notion that firms are able to build strong relationships with their customers through uncomplicated and accurate communication (Agnihotri et al., 2009). Therefore,
communication assists organizational market orientation and consequently enhances the relationship commitment with trading partners.

The results also suggest that competent small and medium firms in market orientation are able to build close and superior relationships with foreign importers or distributors by committing to a high level of communication in the working relationship. SMEs in emerging markets such as Malaysia should view this as a priority in their quest toward successful export venture. For the policy maker, the findings serve as important guidelines in the development of multinational corporations.

The findings also indicate that relationship commitment is a function of entrepreneurship orientation. This means the entrepreneurial values of risk taking, innovation, and pro-action are crucial in providing SMEs the ability to develop and maintain relationship commitment. Future studies may investigate how the rapid changes in the international business environment affect SME relationship commitment.

Limitation and future study

Notwithstanding this study manages to achieve its objective, several limitations of this study warrant the readers to be careful with interpretation. Firstly, the sample was firms of manufacturing sector hence limit the generalization to service sector. Secondly, more than half of the respondent comes from food and beverages industry thus results might be biased toward firm of this industry. Thirdly, the results should be interpreted in light of high cross loadings on some measures.

In line with the above limitations, this study offers several suggestions for future research. Notably, future investigation might consider using firms of service sector as the sample so as to investigate the results from the perspective of firms in service industry. In addition, future study might focus on various industry but food and beverages. Finally, to add rigor to the results future research might consider a longitudinal study to examine the time factor.

References


