

**INTERNATIONALISATION OF SMALL AND
MEDIUM ENTERPRISES:
MEDIATING ROLE OF RELATIONSHIP
QUALITY**

MD DAUD ISMAIL

DOCTOR OF PHILOSOPHY

2011

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ABSTRACT

This research examines the internationalisation behaviour of small and medium enterprises in an emerging economy. In particular, this study investigates how small businesses successfully venture into foreign markets despite their inherent lack of resources. The success of such ventures has been at the centre of investigation because cross border operations are incredibly complex and often characterised by high risks and uncertainty. To overcome these risks and uncertainty, firms need knowledge, particularly experiential knowledge of such markets. For small businesses, this is a challenge because acquiring such knowledge demands great resources. Previous studies suggest that small businesses use intangible resources and capabilities to overcome this shortage of financial and human resources.

Existing studies also suggest that to operate in cross border markets small businesses require external support from foreign partners. In order to gain this, small businesses use the capabilities of building cross border relationships with foreign partners to achieve superior performance in foreign markets. While this notion has been discussed by scholars for almost a decade, this study addresses many important issues that have not hitherto been researched.

This study extends the theoretical concepts relevant to the interface between knowledge and capabilities. Small businesses use relationship building capabilities to leverage foreign importers' competencies in local markets to acquire knowledge. These capabilities are supported by two important factors, namely smallness and flexibility, which enable small businesses to react and interact with foreign partners in the most effective way. Although relationship building capabilities have been assumed to exist, they have not been extensively investigated, particularly in the case of small businesses.

This study also goes a step further by investigating the components of relationship building capabilities: these consist of several intangible resources and capabilities. A literature search suggests that a firm's resources and capabilities pertinent to cross border relationship building are market orientation, entrepreneurship orientation, learning orientation, human capital and relationship quality. In determining the relationship between these resources and capabilities, this study advances the notion that knowledge acquisition is achieved through a strong and close relationship with foreign partner. This form of

relationship is called a quality relationship. The quality of the relationship facilitates an exchange of knowledge resources between partners. Hence, small business exporters use their resources and capabilities to build relationship quality with foreign importers which, in turn, relates to competitiveness, internationalisation and export performance.

A conceptual model is established integrating two existing theories, the Uppsala model and the Resource-based view, to guide the theoretical underpinning of this study. The model distinguishes between a firm's resources and capabilities as independent variables and internationalisation outcomes as dependent variables. The independent variables include market orientation, entrepreneurship orientation, learning orientation, human capital and psychic distance. Internationalisation outcomes consist of export performance, competitive advantage and internationalisation. The model also acknowledges the mediating function of relationship quality. Although a very similar model has previously been developed, some important elements of small businesses, such as entrepreneurial posture and the role of top managers, were ignored in the earlier model.

Data was collected from Malaysian wholly-owned, small and medium businesses in Malaysia in the manufacturing sector to assess the model and test the hypotheses. A questionnaire developed for the study was chosen as a means of collecting data from a sample population of 853 firms recruited through industrial directories. A total of 228 small and medium businesses returned the questionnaire providing an approximately 30 per cent response rate.

Data was first analysed using regression analysis through the statistical package SPSS 17. Regression analysis was used to measure the extent to which the independent variables predicted relationship quality and internationalisation outcomes. This method was also used to measure the moderating function of the moderator on the effect of the variables on relationship quality. Generally, the findings show mixed results where some hypotheses are supported while others are not. With regard to the moderating function, the data only support one effect: that is, the moderating role of communication on the influence of learning orientation on relationship quality.

Structural equation modelling (SEM) was also used to examine complex interrelationships among variables in the study. The aim was to examine for direct, indirect, and total, effects of the various factors. SEM was performed using AMOS and the findings show that relationship quality and competitive advantage could be predicted through

entrepreneurship orientation and learning orientation. Relationship quality was also found to affect competitive advantage and export performance. The relationship between competitive advantage and export performance was found to be positive and significant. However, no effect was found on the mediating role of relationship quality.

DECLARATION

This thesis contains no material that has been accepted for the award of any other degree or diploma in any university or other institution. To the best of my knowledge, the thesis contains no material previously published or written by another person, except where due reference is made in the text of the thesis.

Signed _____

ACKNOWLEDGEMENTS

The journey throughout the process of the completion of this thesis was the most incredible experience in my lifetime. Without the help of god, the Almighty, the objective of this work would not have been achieved. I thank HIM due to the bounties and benevolence that has been bestowed upon me with the opportunity to have a great life in a great place surrounded by most quality and unbelievable people that I have ever had and met in my life.

The work for doctoral degree is surely not an easy tasks and this achievement should be shared with many people that have made great contribution to the tasks.

First of all I would like to express my deepest gratitude to Professor Felix Mavondo, who as the main supervisor have undertook the Herculean task of making the entire journey meaningful with his sincere, gentle, and patient guidance. His kindness yet humour are unforgettable and the supervisory capabilities show that he is truly a gifted teacher. As I may recall, his true guidance and ability to make statistics fascinating is not many in academic world can match. At the same time his support for my emotional and physical needs will be remembered. I thank him for his willingness to supervise me as a doctoral student when many have refused to so.

My sincere appreciation also goes to Associate Professor Yunus Ali who has introduced Prof Felix Mavondo to me and himself eventually took the responsibility as the second supervisor. Although he was located thousands of miles away however his attention to details was always on top. He was enthusiastically and tirelessly providing guidance especially on the literature and writing.

I would like to also thank Jill Troetter, Carmel Keenan, and Maree Biggar for the administrative support and being patient in dealing with me. These great ladies have made the journey much easier than it is felt. Not to forget also my colleagues at Monash Research Graduate Centre at Clayton campus as well as those at level 5 in Cauffield campus for making life as a PhD student colourful and enjoyable.

I wish to acknowledge assistance with proof reading provided by Dr Gillian Fulcher.

My wife and children have been truly the inspirational to me. They have stood by me through the good times and the bad, and have always been the source of my strength.

DEDICATION

This thesis is dedicated to the two women of my life who have made giant contribution and massive sacrifices of the comfort of their own life for my education.

In memory of my late mother who has passed away during my third year of doctoral candidature.

For my beloved wife Hamidah Jahis who patiently take care of our four beautiful children Muhammad Yusuf, Siti Aishah and a twin, Umar and Uthman, and gave purpose to the journey.

CHAPTER 1 - INTRODUCTION

1.1 BACKGROUND OF THE RESEARCH

In today's business environment, small and medium size enterprises [SMEs] are fast becoming more international and successful despite their scarce resources. Several major events that are external to businesses have stimulated the development (Fan & Phan, 2007; Fernandez-Ortiz & Lombardo, 2009). First, developments in transportation and communication technology have decreased the cost of cross border transactions. Second, the emergence of economic blocs, which reduce and eradicate international trade barriers, increases cross border transactions among member nations. Finally, the emergence of transition economies opens opportunities for sales and access to production inputs at lower cost. Nevertheless, these factors are not enough to explain the changing landscape of global business: many internal factors have also been found to have influenced the phenomenon. These include marketing strategies (Leonidou, Katsikeas, & Hadjimarcou, 2002), management attitude and perception, management characteristics, and a firm's characteristics and competencies (Zou & Stan, 1998).

Knight and Cavusgil (2004, p. 137) state that:

“Future research should aim at deepening our understanding of early adopters of internationalisation...”

This is a clarion call to researchers amid growing research seeking to explain cross border movement among SMEs. In other words, scholars are still struggling to understand how these firms behave and perform in foreign markets (Freeman & Cavusgil, 2007), particularly when the companies start to internationalise. Despite facing constrained resources, they compete successfully with bigger players and achieve greater performance in a complex international market. This is a clear manifestation that the body of research suffers from several theoretical and methodological problems (Leonidou & Kaleka, 1998; Wright, Westhead, & Ucbasaran, 2007). In a similar vein, other researchers (O'Cass & Weerawardena, 2009; Weerawardena, Mort, Liesch, & Knight, 2007) argue that previous studies of small business internationalisation behaviour lacks a cohesive conceptual framework. Accordingly, urgent attempts to develop a sound theory of small business internationalisation continue.

The literature on internationalisation theory is usually divided into two broad streams: the traditional process model that focuses on the idea of an incremental path and the emerging global model that propounds accelerated process. For decades, the international business literature has relied on the traditional process model of internationalisation which has thus far failed to explain the recent behaviour of firms that internationalise early upon inception (Malhotra & Hinings, 2010; Sapienza, 2006). Incremental path is conceptualised as the gradual accumulation of resources and capabilities in the interplay between foreign market knowledge [experiential] and commitment (Johanson & Vahlne, 1977). Of critical interest is the role of knowledge resources as catalyst to increase commitment to an international market. Process theory, criticised (i.e. Andersen, 1993; McDougall, Shane, & Oviatt, 1994) for its failure to explain the early internationalisation phenomenon, has also been dubbed as deterministic. Brouthers et al. (2009, p. 34) go further and state that “[O]ur results provide some evidence for the notion that recent trends in globalisation and improvements in telecommunication technology may have diminished the importance of gradual internationalisation and the incremental path model.”

Small businesses can internationalise quickly and achieve superior international performance from the application of knowledge-based resources (Knight & Cavusgil, 2004; Oviatt & McDougall, 2005; Zou & Ghauri, 2010). Drawing from a resource-based view [RBV], small businesses sustain competitive advantage and internationalise successfully by implementing a strategy that exploits resources controlled by the business (Barney, 1991). However, the novel contribution of this model lacks clear theoretical and methodological directions (McDougall & Oviatt, 2000) and definition (Lopez, Kundu, & Ciravegna, 2009). Hence, this issue is highly challenging to researchers due to the complexity of international business and of SMEs in particular. In addition, it is even more intriguing in an emerging market context where resource scarcity problems are greater, institutional supports are frequently under-developed (Eren-Erdogmus, Cobanoglu, Yalcin, & Ghauri, 2010; Marino, Lohrke, Hill, Weaver, & Tambunan, 2008), and the internal market is small (Lopez et al., 2009).

To address the concern of the above scholars, others (i.e. Jones & Coviello, 2005; Wheeler, Ibeh, & Dimitratos, 2008) suggest that the analysis of the internationalisation process should be viewed in a manner that allows the integration of several theories. Although the complementary nature of both perspectives has been conceptualised and tested in several studies (i.e. Arranz & De Arroyabe, 2009; Weerawardena et al., 2007), more efforts are

needed to obtain a more promising view. Perhaps one of these is that of Zhou et al. (2007, p. 674) who suggest that:

“...internationalisation in SMEs is a complex phenomenon that may involve some intermediate steps that do not directly influence firm performance.”

This notion is consistent with Ulusaboglu, Akdis, and Kok (2009) who suggest that small businesses can follow a strategy of intermediated expansion to international markets. In line with a call by Morgan and Hunt (1999), scholars (e.g. Freeman, Edwards, & Schroder, 2006; Musteen, Francis, & Datta, 2010) suggest that the answer lies in how SMEs build their ties with foreign partners such as long-term relationships, thereby emphasising an active role for both partners during the interaction process (Bradley, Meyer, & Gao, 2006). Accordingly, international business ventures such as exporting can best be understood by studying the factors shaping the organisational interactions between the two parties involved (Leonidou & Kaleka, 1998).

Based on the above arguments, the present study focuses on inter-organisational relationships in the internationalisation process of SMEs. Most previous studies of internationalisation by SMEs investigate the direct relationship between internal factors and internationalisation. Furthermore, they examine the mediating role of traditional marketing mixed strategies in the relationship (Leonidou & Kaleka, 1998). According to the literature, few studies have attempted to investigate the role of cross border relationships in the internationalisation process of SMEs. This is surprising especially since the association between the international relationship and internationalisation has been empirically tested and found to be positive (Babakus, Yavas, & Haahti, 2006).

In their conceptual study, Ambler and Styles (2000) suggest that relationships are conduits for the flow of explicit and implicit information. Manolova, Manev and Gyosher (2010) maintain that inter-firm relationships allow firms to access a variety of resources and capabilities. Although firms may obtain benefits such as information from relationships, obtaining high level knowledge requires a high degree of trust between, and commitment by, the partners, effective communication, and closeness. In other words, acquiring greater information can be achieved through the quality of the relationship. Berry and Parasuraman (1991) assert that relationship quality is meant ultimately to strengthen existing strong relationships. In a similar vein, Skarmeas, Katsikeas, Spyropoulou and Salehi-Sangari

(2008) propose that relationship quality plays an important role in building strong relationships which can improve the flow of information between partners.

In line with the above views, the present study hypothesises that the capability of SMEs to build and leverage relationship quality will enable them to acquire foreign market knowledge and consequently to internationalise successfully. In this study, it is proposed that relationship quality serves as a proxy for the flows of foreign market knowledge. This study believes that, in order to gain insight into relationship quality, investigations should focus on inter-organisational relationships. Notwithstanding the role of inter-organisational relationships as a resource to the SMEs exporters, this study focuses on the question of how SMEs use their internal resources and capabilities to manage and leverage the quality of relationships to eventually internationalise successfully. Thus, this study attempts to tackle this issue in SMEs' internationalisation and to contribute to the literature by addressing this gap.

The present research draws on theories in Knight and Cavusgil (2004) who investigated some companies that, despite scarce financial, human, and tangible resources, nevertheless achieved early adoption of internationalisation. Their research focused on organisational capabilities and its impact on performance and internationalisation. Specifically, these authors investigated the influence of organisational capabilities on specific organisational strategies, namely global technology competences, unique product development, and quality focus. They also examined the capabilities of these SMEs in leveraging foreign distributor competencies to achieve superior performance in the export market. Despite the importance of all strategic activities on the firms' international performance, knowledge still holds the key to any successful and strategic implementation of activities. Since lack of resources undermines the ability of SMEs to internally generate knowledge, these firms depend on their ability to leverage foreign distributor competencies as an external source of knowledge.

The present study extends the research of Knight and Cavusgil (2004) by focusing on the relationship with foreign partners and investigates this to develop a conceptual framework. In addition to market orientation and entrepreneurship orientation and based on previous study, the researcher also investigates a firm's capabilities in learning orientation (Jantunen, Nummela, Puumalainen, & Saarenketo, 2008) and the entrepreneur's human capital (Fernandez-Ortiz & Lombardo, 2009; Westhead, Wright, & Ucbasaran, 2001).

Furthermore, psychic distance is investigated in line with the manifestation, theoretically and empirically, of the influence of this construct on the firm's internationalisation process.

1.2 RESEARCH PROBLEM

This study's research problem is:

What role do organisational resources and capabilities, psychic distance, and relationship quality play in creating competitive advantage, internationalisation, and export performance of small and medium enterprises in Malaysia?

1.3 RESEARCH QUESTION

The present study's basic premise is that relationship quality mediates the relationship between a firm's resources and capabilities and psychic distance, and its export market competitive advantage, internationalisation, and export performance.

The research questions addressed in this study are:

1. How do an exporting firm's resources and capabilities and psychic distance influence the relationship quality with a foreign importer?
2. To what extent does relationship quality mediate the relationship between (1) resources, capabilities, and psychic distance and business performance, and (2) resources, capabilities, psychic distance and internationalisation activities?

The following propositions derive from the research questions.

Proposition 1: Relationship quality mediates the relationship between market orientation and competitive advantage, internationalisation, and export performance.

Proposition 2: Relationship quality mediates the relationship between entrepreneurship orientation and competitive advantage, internationalisation, and export performance.

Proposition 3: Relationship quality mediates the relationship between learning orientation and competitive advantage, internationalisation, and export performance.

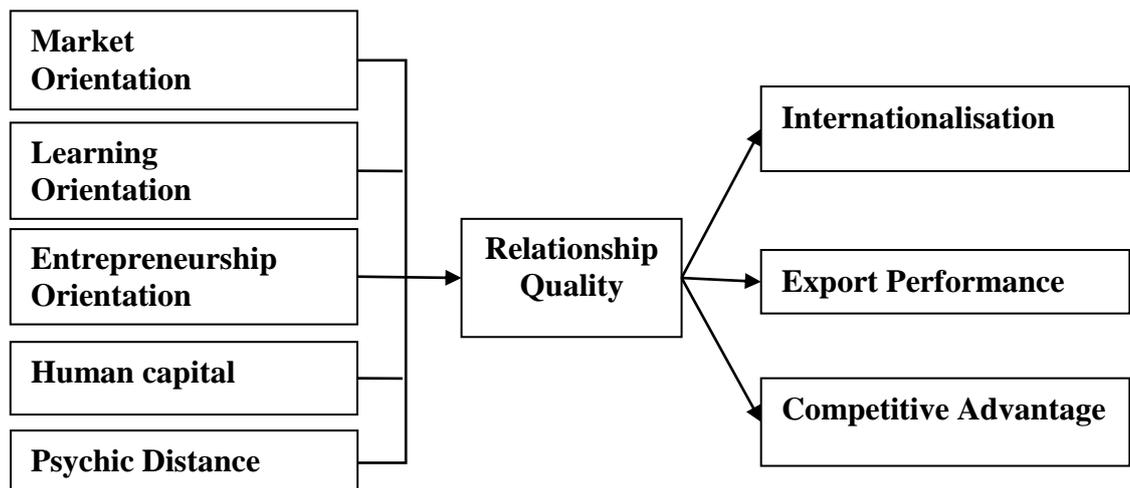
Proposition 4: Relationship quality mediates the relationship between human capital and competitive advantage, internationalisation, and export performance.

Proposition 5: Relationship quality mediates the relationship between psychic distance and competitive advantage, internationalisation, and export performance.

Proposition 6: Relationship quality is positively related to competitive advantage, internationalisation, and export performance.

A conceptual framework has been developed as depicted in Figure 1.1 to address the research problems. The model shows relationships between organisational resources and capabilities, psychic distance, relationships quality, competitive advantage, internationalisation, and export performance.

Figure 1.1: Conceptual Framework



1.4 RESEARCH OBJECTIVES

Driven by the research problem, the objectives of this research are to investigate several issues:

1. The role of relationship building capabilities in the outcomes of small business international operations, namely competitive advantage, internationalisation, and export performance.
2. The components in relationship capabilities building: market orientation, entrepreneurship orientation, learning orientation, human capital and relationship quality.

3. The mediating role of the relationship quality on the effect of organisational resources and capabilities and psychic distance on competitive advantage, internationalisation, and export performance.

1.5 RESEARCH SETTING

Data was collected from Malaysian wholly owned small and medium manufacturing exporters in order to estimate the model and to test the hypotheses. This research context is justified briefly in the following paragraphs, while chapter 3 presents a detailed discussion of the research setting.

The behavioural aspect of SMEs in international market ventures is highly variable and difficult to understand. Further in-depth research may provide more comprehensive explanation of the increasing internationalisation of SMEs. Also, since SMEs cannot rely on their own resources, they need to cooperate closely with foreign partners to internationalise successfully. Furthermore, SMEs have been the focus of governmental policy aimed at increasing domestic participation in the global economy. Profound knowledge of the factors that contribute to the ability of SMEs to compete in global markets will greatly assist both managers/owners of such firms and policy makers.

The literature indicates that the study of the behavioural aspect of organisations is subject to a firm's size and the country of origin. This suggests that, while extensive studies pertaining to developed nations have been reported, the findings cannot be generalised to small emerging markets. For this reason, the selection of Malaysia as the country setting is justified.

In many developing countries, the manufacturing sector has long been the backbone of their economic development. The early stages of this development are always supported by direct foreign investment by multinational firms. As these countries develop, the focus gradually shifts to domestic investments in the manufacturing capability of domestic companies which, by and large, is represented by SMEs.

For most SMEs entering the global market exporting has always been the preferred mode. This is because exporting demands fewer resources and exposes the firms to fewer risks.

1.6 COUNTRY PROFILE: MALAYSIA

Malaysia is located at the heart of South East Asia, being bordered by Thailand in the north, Indonesia in the south, and the Philippines in the east. It is a relatively small country with a population of 28.25 million as of July 2010. The country has an area of 329,758 square kilometres. In 2008, the Malaysia economy in terms of gross domestic product stood at USD 221.773 billion, making the country the 36th biggest economy according to World Bank rankings.

The country has experienced a dramatic economic transformation since independence in 1957. In the 1970s and 1980s the country's gross domestic product (GDP) were averaged 7.8% and 6.2% per annum respectively. The outstanding economic growth Malaysia experienced during those decades was mainly due to several structural changes. During that time a series of policies were implemented to promote the manufacturing sector through foreign direct investment (FDI). Today, the manufacturing sector has become the largest contributor to the local economy.

The growth of the Malaysian economy largely derives from foreign direct investment in the 1970s and 1980s. However, in an increasingly competitive market, the country has started to focus on home grown businesses, particularly SMEs, because their contribution to domestic employment and economic outputs is becoming more significant.

1.7 POTENTIAL CONTRIBUTIONS

This research intends to make several important contributions, both theoretical and practical, to the field of study, particularly in SME internationalisation.

Theoretical contributions

1] First and most notably, the present study will provide a theoretical underpinning that will further explain the behaviour of SME internationalisation. More specifically, the findings will give an in-depth understanding of whether an inter-organisational exchange relationship can be leveraged using internal capabilities. Furthermore, the findings will also reveal whether this relationship assists SMEs in building a competitive advantage, in gaining greater export performance, and internationalising at a faster rate.

2] It is also expected that by rigorous investigation of the literature and systematic testing of the formulated model, this study will be able to produce an original contribution that will lead to a better understanding on how SMEs develop capabilities to internationalise successfully at a faster rate.

3] In addition, by focusing on relationship quality, this study represents a valuable contribution to knowledge about the nature, determinants, and dimensions of relationship quality. This is particularly in relation to the internationalisation process in the context of SME exporters. Furthermore, in attempting to formulate a theoretical underpinning to the internationalisation of SMEs, this study is expected to contribute to the development of internationalisation theory in the form of integrating the Uppsala-model and the resource based view.

4] Finally, the proposed model will also provide a platform for future research by extending this study: the model could be replicated in different settings where the operation involves inter-organisational components.

Practical contributions

First, this study will investigate the role of the exporter's relationship quality with the importer [foreign partner] in achieving successful internationalisation activities. This will give guidance to internationalising SMEs seeking to overcome their lack of resources in the context of building a foreign-market competitive advantage as well as internationalising through superior performance.

Second, the investigation into the antecedent relationship quality internal to the firm helps to identify internal resources and capabilities that are strongly associated with relationship quality. This will enable the firm to focus their investment on factors that prevail in an international business venture.

Third, insight into relationship quality will help identify the dimensions that constitute relationship quality. In addition, it will extend understanding of the nature of relationship quality. These findings could assist company managers to focus on important elements in building stronger and closer relationships.

Finally, from a policy maker perspective, the findings of the present study facilitate the process of policy development in providing assistance to SMEs. They will also help to

provide effective training and development as well as consultation for firms in foreign market ventures. The focus, in particular, will be on the firm's internal capabilities.

1.8 RESEARCH METHODOLOGY

This study drew on the literature to construct the research methodology to ensure greater validity and reliability. In order to obtain information for problem solving, this study employed exploratory and conclusive research frameworks. The method used to collect the information was an ex post facto design using a survey technique. The research method is briefly discussed in this section while the detailed explanation is in chapter 4.

1.8.1 Conceptual Development

This study depended on a search of the literature to develop a conceptual framework depicting the relationships among constructs believed to be important in understanding the role of the relationship capabilities in a cross border venture.

1.8.2 Key Informant and Unit of Analysis

A single key informant approach was adopted in this study. The choice of the informant was based on several criteria. The most important was that the informant must be those directly involved in the management of the relationship. A single export venture was chosen as the unit of analysis.

1.8.3 Sampling

The prospective respondents were selected from several Malaysian manufacturing industries. The sampling frame consisted of cross-industry Malaysian small and medium manufacturers currently involved in export activity. These firms were independent and Malaysian wholly-owned, employing between 20 and 250 people. The samples were identified through major databases.

1.8.4 Data Collection Process

Following previous studies, data was collected using multiple approaches to obtain a higher response rate and to enable this study to cover a wider geographic area (subject to

available funding resources). The techniques were drop-off, mail survey, and third party [i.e. research agency]. The completed questionnaire was to be returned either via a Reply Paid post mechanism or collected personally. The structured questionnaire was used to collect data from the 851 possible respondents. A total of 228 respondents returned the questionnaire, producing a response rate of approximately 30 per cent.

1.8.5 Operationalisation of Constructs

For the operationalisation of the constructs, this study used the existing scales that have been tested for validity and reliability in previous research. While most of the scales were modified and rephrased to suit the purpose and context of this study, some were maintained in their original form.

1.8.6 Instrument

A self-report questionnaire was developed and used for data collection. The development process of the questionnaire started with some in-depth interviews for pre-testing purposes and the outcomes were used to refine the instrument. The questionnaire was in English, this being the business language in Malaysia. A letter of introduction from the researchers was included along with a statement ensuring the confidentiality of information provided by the respondents. For ethical purposes, approval was sought from the Monash University Standing Committee on Ethics in Research on Humans.

1.8.7 Data Analysis

Data analysis was carried out using the Statistical Package for Social Science for Windows, Version 17.0, and AMOS Version 17.0. To establish validity and reliability, Cronbach alpha, exploratory, and confirmatory factor analysis were used. To examine the relationship between variables and test the hypotheses, several multivariate techniques such as multiple regression analysis, moderated regression analysis, and structural equation modelling were employed.

1.9 SCOPE OF THE STUDY

The study involved Malaysian-owned manufacturing firms that were currently involved in export activity and not a subsidiary of any organisation. This was to avoid any influence on

the operational aspects of respondents. The size of the firms involved was small and medium, with the number of employees ranging from 20 to 250. The products involved were either consumer goods or industrial goods. The terms ‘this study’ and ‘this research’ were used interchangeably in referring to the present work of this researcher.

1.10 DEFINITIONS

More often than not the definitions adopted by researchers are not uniform. Hence, key terms are explained to establish positions taken in the research. This section explains the terms used throughout this study.

Internationalisation - a term with many suggested definitions which have to be scrutinised carefully to avoid any misunderstanding. Accordingly, this study follows Calof and Beamish (1995) to define internationalisation as a process where firms adapt their operations in various aspects - such as strategy, structure, and resources - to the international environment. In addition, this study used the embedded concept of outward movement of product.

Small and medium enterprises - are variously defined, depending on the country, specifically in terms of turnover and number of employees. To achieve greater generalisation, as well as taking into account the specific context, this study defined the term as a business organisation employing between 20 and 250 people.

Export performance - a higher-order construct comprising market performance, reflecting economic marketing indicators on sales and market share; financial performance, capturing the venture’s profitability and return on investment; and customer performance, which taps the venture’s response to customer needs and pressures in the market (Hultman, Robson, & Katsikeas, 2009).

Competitive advantage – a firm’s perceived (managers’ perceptions) competitive strength relative to its competitors in export markets (Navarro, Losada, Ruzo, & Diez, 2010).

Relationship building capabilities - the exporter’s ability to understand the requirements of overseas customers and establish and maintain close export business relationships (Kaleka, 2002).

Relationship quality - overall assessment of the strength of a relationship, conceptualised as a composite or multidimensional construct capturing the different but related facets of a relationship (Palmatier, Dant, Grewal, & Evans, 2006).

1.11 OUTLINE OF THE THESIS

The thesis consists of seven chapters; this section briefly describes each.

Chapter 1 Introduction

This chapter discusses the general outline of the thesis. Topics include research background, research problems, research objectives, potential contributions, overview of the methodology, definitions, and outline of the thesis.

Chapter 2 Literature Review

This chapter analyses the literature on internationalisation theory, inter-organisational relationships, a firm's resources and capabilities, psychic distance, export market competitive advantage, and export performance. The literature search focuses on issues related to small and medium businesses. It is used to identify related constructs and gaps in the literature, which then leads to the establishment of a research model and research propositions. Three groups of constructs are identified, namely the antecedents, the mediator, and the outcomes.

Chapter 3 Study Context

This chapter discusses the context of the research as well as the concepts identified in the literature review in chapter 2. The research context of this study is Malaysia and, in particular, SMEs in the manufacturing sector in Malaysia; these provide the sample population for this study. The chapter focuses on Malaysian economic development, the role of the manufacturing sector, and issues related to Malaysian SMEs. The aim is to highlight the importance of SMEs to the Malaysian economy and to justify the significance of the study context.

Chapter 4 Methodology

This chapter is about the research methods that were carried out in this study to collect data in order to test the model and propositions that were developed in chapter 2. It therefore discusses in detail issues such as the research design, unit of analysis, measurement, sampling design, questionnaire design, data collection methods, and analytical procedures.

To achieve the research purpose, the literature related to these issues was searched to obtain information on the appropriate method for conducting quantitative and empirical research with significant validity and reliability.

Chapter 5 Construct Operationalisation and Validity

This chapter is about construct operationalisation and the assessment of construct validity and reliability. For the purposes of operationalisation, the literature was searched to obtain information on the scales appropriate for measuring the constructs. The assessment is important because this study adopted a multi-item scale that should be evaluated for its accuracy (Malhotra, 2007).

Chapter 6 Data Analysis and Discussion

This chapter presents the results and discusses them. Primarily, it addresses the two research questions:

1. How do an exporting firm's resources and psychic distance influence the relationship quality with a foreign importer?
2. To what extent does relationship quality mediate the relationship between (1) resources, capabilities, psychic distance and business performance, and (2) resources, capabilities, psychic distance and internationalisation activities?

The procedures used to analyse the data are discussed, specifically multiple regression and structural equation modelling (SEM).

Chapter 7 Summary, Limitation, and Implications of the Study

This chapter discusses the conclusions of the thesis. It starts with a summary of this research, and briefly discusses the research background and findings. It continues by highlighting the theoretical contributions and the practical implications. This chapter then draws attention to the study's limitations. This is followed by a discussion on suggestions for future research. The chapter ends with a conclusion.

1.12 SUMMARY

This chapter presents an overview of the study: namely the research background, research problem, objectives, and significance of the present study. In addition, this chapter also highlights the potential implications, the method, the scope, and an outline of the study.

Chapter 2 presents a review of the literature in order to identify the research constructs and their relationships. The literature review leads to the development conceptual framework and the associated hypotheses.

CHAPTER 2 - LITERATURE REVIEW

2.1 INTRODUCTION

This chapter analyses the literature on internationalisation theory, inter-organisational relationships, the resources and capabilities of firms, their export market competitive advantage, and export performance. It focuses on issues related to small and medium businesses. The review is used to identify the related constructs and gaps in the literature, which then leads to the establishment of a research model and research propositions. Three groups of constructs are identified: namely, the antecedents, the mediator, and the outcomes.

The outline of this chapter is as follows. The first few sections focus on the literature on the main constructs. The discussion then highlights topics related to internationalisation theory that underpin the theoretical foundations of this study. This is followed by a review of the literature on antecedents and mediating constructs. The final section discusses the hypotheses developed from the literature review

2.2 INTERNATIONALISATION OF SMEs

Research on the internationalisation behaviour of SMEs has never been more important than today. Although interest among researchers in internationalisation by firms began several decades ago, these earlier investigations were very much dominated by Multinational Enterprises (MNEs) (Miesenbock, 1988). Scholars' interest in SMEs, on the other hand, gained momentum only in the late 90s (Coviello & McAuley, 1999) and the intensity continues with a growing trend in the last decade (O'Cass & Weerawardena, 2009). This phenomenon suggests that SMEs, once overlooked, are becoming increasingly important business entities in the international market. Today, small businesses are regarded as significant players with the ability to compete beside bigger competitors as well as having the capability to complement the operational needs of multinational companies. In addition, SMEs have become the focus of many nations as their contribution to domestic employment and economic outputs are becomes more significant. Hence, knowledge about the factors contributing to SMEs' growth not only benefits firms and nations but also the global population at large. Nevertheless, it is important to note that the principal assumption underlying this research is that the internationalisation process of

SMEs differs significantly from that of established multinationals (Musteen, Francis, & Datta, 2010). Although a firm's international behaviour in the context of MNEs has been the subject of many studies, the knowledge from such studies is not necessarily helpful for SMEs. Consequently, knowledge about small business operations is necessary. This study's enquiry into small business behaviour in international market ventures is thus specifically concerned with the operations of small business.

Although a plethora of studies on the international operations of SMEs has been reported in the literature, the generalisability of these findings is limited since this research has primarily taken place in developed countries (for reviews, see Bausch & Krist, 2007; Fillis, 2001; Leonidou, Katsikeas, Palihawadana, & Spyropoulou, 2007; Leonidou, Katsikeas, & Samiee, 2002b; Zhao, Luo, & Suh, 2004). The adoption of approaches based on the milieu of developed nations to emerging markets' environments and firms is problematic because emerging economies are a new context (Wright, Filatotchev, Hoskisson, & Peng, 2005). Marketing strategies that emerged from advanced countries do not always work as successfully as expected in emerging markets, and firms in emerging markets do not necessarily pursue the path taken by multinational companies (MNCs) in international markets (Eren-Erdogmus, Cobanoglu, Yalcin, & Ghauri, 2010). In supporting this opinion, Singh (2009) suggests that the distinguishing aspect of firms in emerging markets is that they tend to be smaller and at a relative resource disadvantage compared to firms in advanced economies. Despite the surge in cross border activities of firms in emerging markets, there is a significant gap in the literature on small emerging markets, particularly in Asia. Therefore, the research on the behavioural perspective of small business is important.

Increasing cross border movements of SMEs are prompted by the potential benefits. These benefits can be viewed from two perspectives. Firstly, from a firm's point of view it is a strategic move in order to achieve business objectives such as market growth and operational profits. Furthermore, a foreign market venture is considered a means of survival in an increasingly challenging, global economic market. Papadopoulos and Martin (2010, p. 388) consider such a move as "...one of protecting the firm's existing operations against global competitors who, if left unchallenged, may gain strength and threaten the firm wherever it already operates". Furthermore, Manolova et al (2010) suggest that the benefits can also incorporate the opportunities to be gained from specialisation and adaptive flexibility in order to achieve economies of scale and scope, improve

manufacturing efficiencies, and recover investments faster, as well as acquire access to foreign technological, marketing, and management know-how. Secondly, for nations particularly those experiencing balance of payment deficits, international expansion of their SMEs boosts economic growth, helps cut unemployment, and creates potential future mini-MNEs (Ruzzier, Hisrich, & Antoncic, 2006). Indeed, SMEs have been a key segment and important driver of most national economies (Wolff & Pett, 2006), since venturing into foreign markets contributes greatly to economic development.

Given the need to further understand the internationalisation behaviour of SMEs from small emerging markets (Filatotchev, Liu, Buck, & Wright, 2009), the country this research focuses on is Malaysia. There are some reasons for this choice. Firstly, Malaysian SMEs constitute a large proportion of economic activities, including employment and national outputs. In addition, the number of new SMEs is increasing every year as new firms enter the market. Secondly, the government of Malaysia has encouraged its SMEs to venture overseas due to the crowded and saturated domestic market, and competition from MNEs as well as SMEs from neighbouring countries is escalating. This encouragement from government can be seen in the development of specialised agencies for SMEs and international trade, the improvement of export policies and the various incentives provided to potential as well as existing exporters. Finally, and more importantly for this study, to date there is no research on Malaysian SMEs' export activities reported in academic journals. Although a few studies have been carried out in fairly similar economic situations, the number is small and this limits the scope for generalising their findings. Further discussion on issues related to SMEs in the Malaysian context will be presented in chapter 3.

Internationalisation studies predominantly focus either on patterns of foreign market entry or on antecedents of these patterns (Agndal & Elbe, 2007). The former consists of two frameworks: traditional internationalisation theory, and international entrepreneurship theory (Wright, Westhead, & Ucbasaran, 2007). The latter focus – antecedents to the internationalisation of SMEs – consists of internal and external factors (Arranz & De Arroyabe, 2009). Internal factors are related to stimuli endogenous to the firm, such as accumulation of unsold inventory and the desire for business growth, while external factors emanate from the environment within which the firm operates or intends to operate, such as unsolicited orders from abroad and encouragement by government agencies (Leonidou et al., 2007). However, it is suggested that internal factors are the key driving factors of a

firm's internationalisation process (Suarez-Ortega & Alamo-Vera, 2005) and competitive advantage (Maranto-Vargas & Rangel, 2007). The main reason for this is that internal factors motivate firms to adopt more rational and objective behaviour (Leonidou et al., 2007). Hence, although small businesses lack resources compared to bigger competitors, the key driving factors in competitive advantage and success in international markets exist in their own internal resources and capabilities (Kocak & Abimbola, 2009).

The study of SMEs' international behaviour reveals it as distinct and unique. Often SMEs are associated with a character best described as 'smallness'. From an operational point of view, smallness is regarded as a liability. The liability is defined as a lack of resources, such as financial and human capital due to the firm's small size, and thus as disadvantaging SMEs in the quest to succeed in the resource-hungry activities of international business compared to bigger MNEs. Conversely, smallness can also be viewed as an asset of SMEs, in that it allows the firm to be flexible and to learn new things faster by facilitating the ability to identify and act faster on international opportunities. This advantage is pertinent in relation to the tasks of creating entirely new routines and adapting some of the existing routines during the initial entry to a foreign market (Sapienza, Autio, George, & Zahra, 2006), an area where bigger and more established MNEs normally fall behind small businesses.

Internationalisation involves knowledge of local market environments (Casillas, Moreno, Acedo, Gallego, & Ramos, 2009). Julien and Ramangalahy (2003) acknowledge in their study that a firm's ability to master information and knowledge plays a critical role in its competitive advantage and performance. This ability is associated to a large extent with a firm's internal conditions. Extant literature reveals that the internal resources critical to successful internationalisation of SMEs are entrepreneurship orientation, learning orientation, and market orientation (Armario, Ruiz, & Armario, 2008; Knight & Cavusgil, 2004; Kocak & Abimbola, 2009; Ripolles-Melia, Menguzzato-Boulard, & Sanchez-Peinado, 2007), as well as human capital (Arranz & De Arroyabe, 2009; Fernandez-Ortiz & Lombardo, 2009; Suarez-Ortega & Alamo-Vera, 2005). Accordingly, these factors are the focus of this study.

Another important issue in internationalisation research is the form of foreign market entry. The mode of entry into a foreign market has always been an important topic of study, because the entry mode decision is critical to a firm's operation abroad. For example, the

decisions of firms to choose one mode of entry over others determines whether the firm or a partner has full control over the foreign unit, and, once established, it is hard to change because of its long-term effects on the company (Morschett, Schramm-Klein, & Swoboda, 2010). In addition, appropriate selection of a mode of entry can have significant impacts on a firm's performance and survival (Ekeledo & Sivakumar, 2004). Modes of entry include exporting, franchising, joint ventures, alliances, and direct investment [build/buy]. Notwithstanding the critical role of all modes, two prominent avenues of internationalisation are exporting and Foreign Direct Investment (FDI) (Lu & Beamish, 2006). Of the two, for SMEs, exporting is the most common mode of entry for foreign operations (Larimo, 2007) because it requires fewer resources, it provides greater flexibility of managerial actions and, more importantly, involves less risk. Perhaps these are the main reasons why exporting proves an effective means of foreign market entry for small businesses (Bradley, Meyer, & Gao, 2006).

Lastly, extant literature also reveals that studies of small business internationalisation have covered firms from various sectors such as manufacturing, service, and the high technology sector. Although the manufacturing sector has received relatively greater attention from researchers, particularly high technology based industries, studies are still lacking in the context of small developing nations. In addition, research focusing on the manufacturing sector is also relevant in the case of an emerging economy like Malaysia's because most SME exporters in Malaysia are manufacturing-based. Despite the immediate need for research on the internationalisation behaviour of non high-technology based manufacturers in small emerging economies, such firms are relatively under-studied.

The above discussion leads to the conclusion that the desire for international ventures has expanded and is expected to continue to grow, not only within SME communities but also within governments, policy planners and institutional support. Despite the growing interest from all parties involved, the lack of a well-developed body of knowledge on SME internationalisation means enterprises receive little guidance and this lack of knowledge also hinders development (O'Cass & Weerawardena, 2009). With regard to a call that "[A] study of the determinants of exports in the context of an emerging economy is an important contribution to the literature given that our understanding of what determines the export competitiveness of industries and firms is limited to say the least" (Singh, 2009, p. 321), this study on the internationalisation behaviour of emerging market SMEs warrants academic attention.

2.3 DEFINITION OF INTERNATIONALISATION

Defining the term internationalisation has been a challenging task for researchers and a topic of debate for many years. Despite the intensity of research and the extent of profound arguments in various academic journals, the term ‘internationalisation’ is still ambiguous and varies in relation to the scope of the study (Rundh, 2007). Scholars have offered various explanations, most of which carry similar connotations. For the purpose of simplicity, three types of definition that have emerged within the last three decades are the focal point of discussion in this study. The first definition is of that of Welch and Luostarinen (1988, p. 36), who define internationalisation as:

“...the outward movement of a firm’s international operations.”

In contrast, Calof and Beamish (1995, p. 116) view internationalisation as:

“...the process of adapting firms’ operations (strategy, structure, resource, etc.) to international environments.”

In a more recent study, that of Elango and Pattnaik (2007, p. 542), the term refers to:

“...the degree to which a firm’s sales revenue or operations are conducted outside its home country.”

Following the distinctiveness of the above definitions, a conclusion can be derived that as far as the research in internationalisation is concerned, scholars differ in many aspects including the basic premise of their study. In addition, regardless of the intensity of discussion and debate, scholars have failed to reach consensus as to which definition best represents the term ‘internationalisation’. At the same time, this also suggests that any attempt to investigate the cross border activities of business organisations faces much complexity. Nevertheless, this study adopts Calof and Beamish’s (1995) definition of internationalisation for several reasons. Firstly, the definition involves a holistic perspective of firm behaviour which, in the context of the present study, is appropriate, based on the explanation below. Secondly, and most importantly, the process of internationalisation entails insight into internal changes in the internationalising firm aimed

at a greater competitive position. And finally, the definition also implies the behaviour of firms in the internationalisation process is dynamic.

This definition is also shared by others. For example, Morgan-Thomas and Jones (2009, p. 71) view internationalisation as "...the process through which firms increase their exposure and response to international opportunities and threats through a variety of cross border modes of operation". This suggests that internationalisation involves a process of increasing exposure to foreign markets' environments and a firm's response to this in terms of its capabilities and resource adjustments.

There is much disagreement among scholars as to whether to interpret internationalisation as the movement of goods (and services). While some suggest that internationalisation carries a specific outward meaning, such as in the above mentioned definitions, as well as inward connotations, others (e.g. Korhonen, Luostarinen, & Welch, 1996) prefer a general concept incorporating outward and inward movement. Nevertheless, inward and outward approaches to internationalisation have been acknowledged as important international business activities, and both have merit, warranting further discussion in this study. Inward activities can take the form of import and cooperation, such as, for example, joint venture and alliances.

Inward internationalisation involves learning new technologies and developing foreign sourcing activities (Welch & Luostarinen, 1993), and it is recognised as a significant activity of internationalising firms (Holmlund, Kock, & Vanyushyn, 2007). On the other hand, outward internationalisation mainly occurs in the form of export and foreign direct investment [FDI]. It confers two benefits: [1] macroeconomic and [2] microeconomic (Leonidou & Katsikeas, 1996). At the macroeconomic level, outward internationalisation helps to improve a country's balance of payments. At a firm level, a foreign venture is a means of gaining economies of scale and achieving growth and profitability targets. This is particularly relevant in the case of small economies where growing domestic competition creates a crowded and saturated market, in which growth potential is minimal. Consequently, firms need to move outwards to achieve their growth potential, and by entering overseas markets domestically oriented firms can expand their objectives. In the context of small and emerging countries with low trade barriers, seeking cross-border opportunities is the best strategic option to counter the threat of foreign competition. New players of foreign origin, particularly resource abundant MNEs, will take the opportunities

decreasing trade barriers offer, which is the trend in the current global economic integration, and aggressively enter and compete in the market. In such conditions, domestic firms need to look overseas to acquire new resources to develop competitive strength and positions, expand their markets, and increase their resources.

On another observation, Karlsen, Silseth, Benito, and Welch (2003) suggest that inward and outward activities are interlinked in the sense that inward activities enable firms to learn about foreign markets and new prospects. In turn, firms use this knowledge to venture into overseas markets, and for these reasons inward movement is regarded as the main driver of outward internationalisation (Johanson & Vahlne, 2003). For several decades many developing nations have adopted this notion as the basis for national policy structure in which the objective is to develop their very own domestic firms. In particular, these nations do not have the internal resources and capabilities to build the necessary skills and technology by themselves in order to compete in foreign markets. However, to achieve the promising outcomes of outward movements emerging economies have encouraged their business organisations to venture overseas. In recent decades the craving for foreign investment and market venture can be seen not only among big companies but also among small businesses. This trend implies that emerging economies are moving away from inward-oriented import substitution policies towards outward-oriented export-led growth (Kotler, Jatusripitak, & Maesincee, 1997).

Notwithstanding the potential of inward activities, this study focuses on outward internationalisation for the following reasons. Firstly, although inward internationalisation has long been the policy of many emerging economies in Asia, little has been achieved in learning about new technologies. For example, Henderson and Phillips (2007) studied Malaysian SMEs that linked to transnational corporations [TNC] in the electronics industry on the basis of knowledge-intensive and high value-added operations. They found that the local SMEs retain their low to medium technology operations. Secondly, increased globalisation of global markets and growing competition in attracting direct foreign investment among emerging economies has accelerated the bargaining power of foreign investors to protect their interests. With this advantage, high-technology companies can stay away from sharing their technologies and know-how with local partners. Thirdly, SMEs in small and emerging economies with low trade barriers are losing the institutional protection they once enjoyed and, consequently, are facing stiff competition from cheaper imported products. Since they cannot rely on inward internationalisation, the governments

of these markets encourage their SMEs to venture overseas to acquire resources, learn new technologies, and increase competitiveness. In fact, for small, protected economies like Malaysia, outward oriented policies are no longer an option but rather a must in order to compete successfully and achieve growth (Chandran & Munusamy, 2009). Finally, outward internationalisation offers economies of scale and new technologies.

Although much has been done to encourage and facilitate export oriented SMEs to venture overseas, the focus has been at the macro level, which gives little insight into the micro level. Furthermore, although the development and improvement of various agencies, particularly at government level, have been encouraging, the internal factors that lead to high achievement of export activities among Malaysian SMEs at firm level is still relatively unknown. This scenario warrants an immediate investigation into factors at firm level that serve as antecedents to export performance. The potential outcomes of such investigation are enormous not only from the perspective of research per se but also from a business point of view. Strategically, it is expected that such knowledge will serve as guidance for small business operations in cross border ventures. This study is justified in this way.

2.4 EXPORT PERFORMANCE

Among the highly investigated studies of firm internationalisation behaviour in recent years the most important variables are related to the export marketing domain, particularly export performance (for review, see Leonidou, Katsikeas, & Coudounaris, 2010). Performance itself is viewed as somewhat of a “black box”, given the multiple motivations and goals that might accompany an internationalisation strategy (Lu & Beamish, 2006). For example, a firm’s motive for international expansion is either the will to achieve market growth or to increase profitability, as a large number of studies document. However, research has used the objectives of growth and profitability either individually, preferring one measure over the other, or both, as an aggregate measure. From another perspective, in discussing performance, Papadopoulos and Martin (2010) argue that “overall performance” signifies the total outcomes from all of the firm’s activities, including its domestic market, whereas the construct “export performance” indicates “the outcome of a firm’s activities in export markets”. In the context of this study, many scholars suggest that the construct of export performance is predominantly conceptualised as comprising two dimensions. The first is an “economic” dimension, which refers to

financial indicators of performance, and the second is a “strategic” dimension, or the extent to which the firm’s objectives are achieved. More discussion on this issue is presented later in this section.

In terms of theoretical development, the performance implications of internationalisation have become a central topic of debate among researchers specifically in the emerging international entrepreneurship field (Zhou, Wu, & Luo, 2007). Nonetheless, thus far the extensive debate in the literature produces only little consensus among scholars about the effect of internationalisation on a firm’s performance (Bausch & Krist, 2007). This explains the differences among researchers between the positive view of linear effects of internationalisation on performance (Buhner, 1987) and the negative view of the same linear relationships (Ramaswamy, 1992). Even though positive performance implications of international expansion is well documented, cross border ventures demand considerable effort and investment, and hence it can be argued that continued internationalisation would be accompanied by slowing profit growth and negative marginal returns beyond an optimal level (Chen & Hsu, 2010; Papadopoulos & Martin, 2010). Despite this argument, international performance has been found to be positively related to firms’ resources (Ainuddin, Beamish, Hullah, & Rouse, 2007) and capabilities.

Discussion among scholars has focused on two major aspects of export performance research, namely definition and measurement. Numerous definitions and measurements of export performance have been proposed (for reviews, see Hult et al., 2008; Katsikeas, Leonidou, & Morgan, 2000; Styles, 1998), which reveal the multifaceted nature of the construct and the absence of agreement among scholars on the very fundamental issue of export performance. Such differences also imply that studying the nature of export performance is very complex and involves various issues, particularly those that relate to a given country.

Cavusgil and Zhao (1994, p. 4) assert that “[T]here is no uniform definition of export performance in the literature”. Previous studies adopted various definitions. For example, Hultman et al (2009, p. 5) view export performance as:

“... a higher-order construct comprising market performance, reflecting economic marketing indicators on sales and market share; financial performance, capturing

the venture's profitability and return on investment; and customer performance, which taps the venture's response to customer needs and pressures in the market."

In contrast, Cavusgil and Zhao (1994, p. 4) define the term as:

"...the extent to which a firm's objectives, both economic and strategic, with respect to exporting a product into a foreign market, are achieved through planning and execution of export marketing strategy."

Although these attempts to classify export performance seem to take a different direction, conceptually both definitions imply a focus on the performance objective as well as the fact that measurement is the underlying notion. Hence, regardless of the various ways to define performance in export ventures, the term "export performance" is normally assessed by the choice of method of measurement, which is explained in the next paragraph.

In many studies the term "performance" has been used interchangeably with "degree of internationalisation", particularly when performance is measured by export intensity (e.g. see Babakus, Yavas, & Haahti, 2006; Baldauf, Cravens, & Wagner, 1999; Francis & Collins-Dodd, 2004; Singh, 2009). In the case of SMEs, Brouthers et al. (2009, p. 25) say that "it is common for studies examining SME exports to use export intensity to measure export performance, perhaps because of the difficulty associated with obtaining such measures from the typically privately held smaller firms." Nevertheless, in several recent studies (e.g. Bausch & Krist, 2007; Brouthers et al., 2009), the concepts of internationalisation have been specifically discussed, and in the export context it is suggested that export intensity, described as export sales as a percentage of total sales, is the true measure of the degree of internationalisation.

On the basis of multidimensionality, measurement of export performance has been classified into a wide range of measures (see Matanda & Freeman, 2009), which illustrates the variety and complexity of measuring performance. Although the arguments over the best measure continue, Hult et al (2008) suggest that two of the most common goals attributed to international expansion are [1] achieving firm growth and [2] improving a firm's profitability, particularly for export ventures (McDougall & Oviatt, 1996; Oviatt & McDougall, 1994). Wide acceptance of these two measures has been manifested in recent studies (see Balabanis & Spyropoulou, 2007; Dow & Karunaratna, 2006). Conversely,

Shoham (1998) categorises the measurements into two components, objective measures and subjective measures. Objective measure is based on accounting for factors such as sales growth, profits, return on investments or sales and export ratios, while subjective measure is a qualitative measure that involves a degree of satisfaction with different achievements. Among the objective measures, export intensity [degree of internationalisation] and growth rate of export ratio are used most frequently in the literature (Julien & Ramangalahy, 2003). However, objective measures are more difficult to obtain as it is easier for the respondent to express a degree of satisfaction than to unveil data such as figures about market shares, profit rates, and sales increases (Nes, Solberg, & Silkoset, 2007). Along this line, Wheeler et al (2008) maintain that while the qualitative/non-financial/subjective measures mainly used in studies involving firms wholly or partly at the pre- and initial exporting stages, the quantitative/financial/objective measures are, in general, associated with studies of firms at more advanced stages of export development. On another note, a number of studies (e.g. Dow & Karunaratna, 2006) use a composite measure, that is, a combination of objective and subjective measures.

Some scholars argue that the subjective measures of export performance were used in lieu of the objective measure because past studies indicate that both perceptual and objective measures of firm performance are highly correlated (Styles, 1998) and yield consistent results (Racela, Chaikittisilpa, & Thoumrungroje, 2007). Lages and Lages (2004) discuss the export performance measure on the basis of objective versus subjective indicators and argue that the objective measure is extremely difficult to obtain; thus they suggest that the subjective measure is more favourable, particularly in the context of emerging market SMEs (Filatotchev et al., 2009). Notwithstanding the intensity of the debate, in reality the measurement of export performance has evolved over time and become increasingly sophisticated (Papadopoulos & Martin, 2010), and this ultimately leads to even more inconclusive findings (Hultman et al., 2009).

Finally, differences in export performance measures also involve the unit of analysis. Some studies suggest that instead of overall firm performance, which includes domestic and foreign venture performances across product lines, the identified unit of analysis be more precise, such as export venture or a specific product line (for review, see Katsikeas et al., 2000). However, Hult et al (2008) and Katsikeas et al (2000) found that a great number of studies converged on the firm level of analysis. In addition, the firm level unit of analysis is appropriate for small firms because they are viewed as less able to separate the export

venture performance from overall export performance (Styles, 1998). Despite the extensive discussion, Brouthers et al (2009) found that definite and unambiguous guidelines of export performance, measured particularly for small firms, are still far from being conclusive and, like others (e.g. Filatotchev et al., 2009), they recommend the firm-level measure of subjective financial outcomes (sales and profit) to construct perceived export performance.

Based on the above discussion, the debate about the methodological issues that relate to the internationalisation of small business exporters involves many facets. Regardless of the capacity and the intensity of the deliberation, the choice of one method over others is very much aligned to the nature of the study. While the contexts of some studies have received relatively greater attention, such as MNEs of western and developed countries, the context of other studies, such as small business exporters in Asian countries, are extremely scarce. Based on this case, the latter provides little guidance for this investigation of similar contexts. Nevertheless, in this study decisions on export performance measurement and unit of analysis were based on a rigorous literature analysis to ensure strong theoretical support and the validity of the measure as well as the ability to capture the intended performance of small business export ventures.

2.5 COMPETITIVE ADVANTAGE

Competitive advantage has also been a key construct in international business studies (Fahy, 2002). This is due to its relation to superior performance in the export market (Piercy, Kaleka, & Katsikeas, 1998). A firm is said to have achieved a competitive advantage when, through its offering[s], it creates more value for customers in comparison with competitors (Kaleka, 2002). The sources of this value-creating strategy are a firm's resources and capabilities, which are unique and difficult to imitate (Barney, 1991). Employing the concept of positional advantage in export markets, Morgan et al. (2004) explain that the concept of value-creating strategy pertains to the relative superiority of the export venture's value to customers and the cost of delivering this realised value. In line with this notion, a firm's superior performance does not directly affect its unique resources; rather, unique resources lead to market-positional superiority, which then contributes to superior performance (Li & Zhou, 2010).

In slightly different terms, Kaleka (2002) refers to competitive advantage as cost advantage and differentiation advantage. Cost advantage is defined as the firm offering its product/service at a lower price, mainly due to lower production, procurement, distribution, and allied costs. Differentiation advantage, on the other hand, represents the customer perceiving a consistent difference in important attributes between a firm's offerings and those of its competitors. Relying on the notion that evaluating a firm's competitive advantage implies collecting information about customers' perceptions of the firm's products and services, Navarro et al (2010, p. 50) define competitive advantage from an export perspective as:

“[A] firm's perceived (managers' perceptions) competitive strength relative to competitors in export markets.”

Literature on competitive advantage in the context of export markets is relatively limited, with researchers calling for greater understanding not only about what constitutes the factors by which a firm attains competitive advantage (Fahy, 2002) but also the performance implications of competitive advantage (Navarro et al., 2010). The irony of the competitive advantage variable in international business studies is that the research community neither completely understands which capabilities enable SMEs to be internationally active nor the elements of their international competitive advantage. Following Barney (1991), Kaleka (2002) proposes two major groups of firm-level factors. The first is the group of resources, including experiential, scale of operation, and financial and physical resources. The second is the group of capabilities, including informational, customer relationship building, product development, and supplier relationship building.

Since SMEs cannot be presumed to be well endowed with tangible assets, knowledge is the most critical resource (Gassmann & Keupp, 2007). This is supported and further explained by Chryssochoidis and Theoharakis (2004), who state that exporter attainment of competitive advantage depends upon the ability to produce the right products. Since importers greatly value quality of product and operations, a lack of exporter performance on these aspects will exacerbate the international buyers' perceived risk and will reduce the competitive advantages of any firm. In dealing with this issue, firms greatly rely on the knowledge of the local market to produce the right products for the market. The experiential resources of foreign market operation and information acquisition of that market are costly to build, and thus SMEs must depend on information flows through

customer relationship building to attain competitive advantage. This is supported by evidence from empirical studies where Lages, Silva, and Styles (2009) found that when firms build on the establishment of solid relationships with their importers, they are more likely to realise the full market potential of their product. This is because the local importer has the best knowledge about the local market and acquisition of such knowledge helps the exporter to align their outputs to the requirements of the export market.

In relation to the above points, suffice to say that central to the origins of competitive advantage is the question of how firms can acquire valuable resources [knowledge] at a cost less than the value they could create independently (Adegbesan, 2009). Since small businesses have limited capacity to acquire and develop foreign market knowledge by themselves, in this context, effective knowledge acquisition is the process of acquiring it from external sources. However, businesses should be selective on the type of knowledge that is deemed important for cross border activities. Knowledge is of two kinds, explicit and tacit. Shin (2004) explains that explicit knowledge is codified and communicated in symbolic forms, while tacit knowledge resides in individuals' experiences and actions. For small businesses, experiential knowledge of foreign markets is difficult to obtain by themselves and for rivals to imitate. Hence, tacit knowledge is the critical dimension of knowledge inside organisations. Therefore, effective acquisition should focus on tacit knowledge, emphasising knowledge sharing by interpersonal interaction (Massa & Testa, 2009). Indeed, partnership is the less costly method of foreign knowledge acquisition and an effective means of small businesses to acquire resources.

Barney (1991) asserts that two of the elements of resources that are critical for competitive advantage are imperfectly imitable and not substitutable. These features advantage a firm in a way that prevents new entrants to the market using either the same resource or an equivalent. Greve (2009) pursues this line by emphasising the role of imperfect imitability of resources, which leads to a firm's competitive advantage. The author asserts that imperfect imitability would prevent the rapid diffusion of the resource by limiting the spread to other companies (rivals) and hence enable firms to sustain the competitiveness. The author articulates the argument further by suggesting the significance of critical involvement of tacit knowledge in the resource or in its application. As such intangible assets like tacit knowledge cannot be accumulated quickly, they create a feature that makes the resource imperfectly imitable. Accordingly, converging around the sphere of

knowledge resources, it has generally been recognised among established theories that cross border activities demand critical resources, namely foreign [local] market knowledge.

From a general perspective, research into export competitive advantage is still underdeveloped (Ling-yee & Ogunmokun, 2001). For example, despite the link between competitive advantage and export performance being well recognised in the literature (Morgan et al., 2004), empirical support is largely missing. It has been almost a decade since Kaleka (2002) raised the issue of a literature gap in export marketing studies with regard to competitive advantage while, more recently, others such as Navarro et al (2010) have raised the same question, suggesting that to date few studies have been done as far as export research is concerned. Of the few investigations reported in the literature, the perspectives of SMEs and emerging markets are notably absent. Thus, knowledge is missing about how emerging-market SMEs attain competitive advantage in export markets and ultimately achieve superior performance.

In recent years interest in export competitive advantage has gained momentum. Scholars have started to focus on export marketing theory anchored by conceptualisation of competitive advantage, particularly in relation to exporters' relationships with importers (Chrysochoidis & Theoharakis, 2004) and export performance outcomes (Navarro et al., 2010). Accordingly, in the current situation, advancing the examination of competitive advantage in export marketing studies is significant.

2.6 THEORIES OF INTERNATIONALISATION

Theories that explain the internationalisation behaviour of firms are based on two schools of thought: economic and behavioural (Benito & Welch, 1994). Economic theorists, such as Penrose's (1959) growth theory and Vernon's (1966) product life cycle theory, emerged as pioneers and subsequently these works became the grounded theory of behavioural schools of thought (Moen, Gavlen, & Endresen, 2004).

Scholars have classified internationalisation models according to their perspective. For example, Etemad and Wright (1999) propose three models: the stage model, direct foreign investment model, and network theory. In contrast, following Burgel and Muray's study (2000), classification is based on competing approaches: the process model, transaction cost economics, and organisational capability. In Bausch and Krist (2007), the focus is on

the relationship between internationalisation and performance, and the authors propose three research streams: theories of FDI, learning theory [stages theory], and a resource-based view [RBV].

This study draws on the literature on prevailing theories of internationalisation. Although scholarly reviews of internationalisation theories abound, in the context of the present study, this section discusses a few, selected reviews. The first, a review by Coviello and McAuley (1999), focuses on literature published between 1989 and 1998. These scholars have highlighted three dominant existing theories: the stage model, the FDI, and network perspectives. However, in the late 90s, the landscape of internationalisation studies started to experience a dramatic change. During this time, while some studies in internationalisation had begun to adopt existing theory from other disciplines such as the resource view, others conceptualised the internationalisation process of organisational behaviour from the perspective of newly emerging theories at the time, such as the born global view (Bell, Crick, & Young, 2004). In Ruzzier et al (2006), the focus was on behavioural theory in the context of firm size: SMEs and MNEs. For the purpose of this study, four theories relevant to SMEs were identified, namely the international process model, network theory, the resource view, and international entrepreneurship theory. This classification is appropriate in the context of this research. It is worth noting that lack of consistency creates difficulties in making inferences for future studies of SME internationalisation processes. In the next section, discussion will focus on the economic model followed by the behavioural theory of internationalisation.

2.6.1 Economic Theories of Internationalisation

Economic theories have emerged for many decades and evolved over time. The theories were used as the framework for earlier studies. There are three theories in this category: transaction cost approach, internalisation perspective and an eclectic paradigm.

The transaction cost approach explains the economic aspects of the internationalisation process according to the chosen form of market entry mode (Anderson & Coughlan, 1987); Erramilli and Rao (1993) identified this as integration [full control of mode] and market contracting [low-control mode]. From a TCA perspective, the choice of foreign market entry mode is dependent on the interplay between the costs and benefits of the transaction. Anderson and Gatignon (1986) propose that the decision is centred on the trade-off

between the cost of particular resources and the degree of control [another form of benefit] in each governance structure.

The internalisation perspective originates largely from the transaction cost point of view (Anderson & Coughlan, 1987). The theory emerged from the weaknesses of internationalisation theory, which failed to explain some critical issues such as how firms protected their specific advantage over market opportunism (Rugman, 1980). Potential opportunism by possible partners associated with the mode of entry such as licensing and ineffective transmission of one national patent to another jurisdiction can be protected, since internalisation is able to regulate and monitor the use of information (Galan, Galende, & Gonzalez-Benito, 1999). Buckley and Casson (1993) assert that the focus of internalisation rests on the notion that firms aspire to develop their own internal markets whenever transactions can be made at a lower cost within the firm and will continue until the benefits and costs of further internalisation are equated to the margin.

The eclectic paradigm attempts to explain the different forms of international production as well as the selection of a country for foreign direct investments (Ruzzier, Antoncic, Hisrich, & Konecnik, 2007). Based on Dunning's study (1988), the extent, form, and pattern of internationalisation of production depends on three advantages possessed by the firm. Firstly, ownership advantages enable firms to compete with indigenous producers in foreign countries. Secondly, internalisation advantages stem from the capacity of the firm to transfer ownership-specific advantage in foreign markets within their own organisations rather than sell them to foreign based enterprises (Dunning, 1988). Finally, the extent, form and pattern of internationalisation of production depends on location advantages where foreign production is desirable when it is in the best interests of a firm to combine an transferrable intermediate product, produced domestically, with some immobile factor endowment, or other intermediate product, located in another country.

Despite the fact that economic theories provide the foundation for the development of the behavioural model, they are losing ground against the firm-level explanation of internationalisation. A major loophole of the perspective is their failure to consider a firm's behaviour. However, scholars still use the theories, though not with great attention, in SMEs research, often integrating them with the behavioural model.

2.6.2 Behavioural Models of Internationalisation

The behavioural perspective of internationalisation consists of five theories. These theories are the Uppsala international model, the innovation-related model, the network approach model, the international entrepreneurship model and the resource-based view. These behavioural theories have received profound attention among scholars of international business in recent decades. The following sections briefly outline the literature on the respective theories that will underpin the theoretical framework for this study.

2.6.2.1 Innovation-related models

Innovation-related models (I-Model) propose that internationalisation of a firm takes place in fixed and sequential stages. Leonidou and Katsikeas (1996) suggest that the stages could be summarised into three interrelated phases: pre-engagement, initial engagement, and advanced engagement. The pre-engagement phases refer purely to a domestic operation with either no interest in exporting or no interest in seriously considering export activity, as well as past exporters who no longer have these interests. The initial phase refers to those firms doing sporadic export activity and which are also considering various options. The advanced phase is characterised as active exporters with experience and a higher degree of international commitment. The I-model considers each subsequent stage of internationalisation as an innovation for the firm (Gankema, Snuif, & Zwart, 2000).

2.6.2.2 Network approaches

Network approaches are concerned with a network's relationships and knowledge of the markets (Rundh, 2007). Firms are built on a network of exchange relationships with customers, distributors, suppliers, and even competitors (Johanson & Mattsson, 1985). Initially, firms develop relationships within a network that is primarily domestic. Over time, a firm internationalises its operations by engaging with international networks in activities such as following a client into a foreign market where they already have established operations (Oystein, Morten, & Iver, 2004). Johanson and Mattson (1988) suggest that a firm's success in entering international markets is reliant on its position in the network, particularly in a volatile environment that pressures firms to leverage the skills and resources of other organisations (Oystein et al., 2004). Accordingly, a firm's internationalisation process is based on minimising the need for knowledge development

and adjustment and the necessity of exploiting established network positions (Johanson & Mattson, 1993). Despite the strength of the network approach in explaining the process of internationalisation, it neglects the strategic role of individuals (Ruzzier et al., 2006).

2.6.2.3 International entrepreneurship

Process approaches do not take into account the aspirations of entrepreneurs (Madsen & Servais, 1997; Westhead, Wright, & Ucbasaran, 2001) despite their major strategic role in the international expansion process (Madsen, 1998; Reid, 1981; Ruzzier et al., 2007). The entrepreneurial perspective proposes that the individuals (the entrepreneurs) who take part in the internationalisation process are the most important factors in determining the choice of entry mode (Andersson, 2000). Without the entrepreneur, resources and opportunities are not enough to start the strategy and internationalisation process. The international entrepreneurship approach is an emerging research area (McDougall & Oviatt, 2000) previously ignored in most research studies (Oviatt & McDougall, 1994).

Oviatt and McDougal (1994) observe that some firms internationalised at a faster rate, by entering foreign markets at an early stage. They describe this type of firm as an international new venture, which is also known as Born Global (Rennie, 1993), Global Start-ups (Oviatt & McDougall, 1994), Instant International (Fillis, 2001) and High Technology Start-ups (Jolly, Alahuhta, & Jeannet, 1982). The international new venture tends to be young, less experienced, and with limited tangible and human resources. These are most notably small and medium businesses. Oviatt and McDougall (1994, p. 49) define an international new venture as a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries. Such a move is central to the entrepreneurial role as coordinator of resources within the constraints of limited financial and human resources. To date, theoretical development of international new ventures is far from perfect, as McDougall and Oviatt (2000, p. 906) put it:

“...international entrepreneurship is still without a unifying and clear theoretical and methodological direction...”

In fact the definition of international entrepreneurship remains elusive and the research field is still searching for one (Ruzzier et al., 2006). Even after more than a decade since

the highly regarded work of Oviatt and McDougal (1994), the definition is still unclear (Lopez, Kundu, & Ciravegna, 2009). Nevertheless, the potential of international entrepreneurship theory is enormous and worldwide the attention from scholars is growing.

2.6.2.4 Uppsala internationalisation model

The Uppsala international model [U-Model] started in the 1970s in the Nordic countries and was closely associated with articles published by researchers of the Uppsala School. The study (Johanson & Wiedersheimpaul, 1975) was based on an observation of four Swedish firms and proposed that most firms followed an incremental pathway. It assumed that [1] initially, firm activities developed in domestic markets and subsequently internationalised as a result of a series of incremental decisions, and [2] lack of knowledge and resources were the most important obstacles. Successive establishment of international operations is associated with psychic distance. The term “psychic distance” is defined as *‘the sum of factors preventing the flow of information from and to the market’* (Johanson & Vahlne, 1977, p. 24), such as differences in language, education, business practices, culture, and industrial development. Firms initially enter a market that is closer in psychic distance to their home and successively extend the activities in the market with greater psychic distance. The concept of psychic distance is widely investigated in internationalisation research (e.g. see Nadkarni & Perez, 2007).

The U-Model can be generalised as an interplay between knowledge and commitment of resources (Johanson & Vahlne, 1990). Two important aspects constitute the structures: state aspects – meaning market knowledge and market commitment – and change aspects – meaning commitment decision and current activities. Market commitment is composed of the amount of resources committed and the degree of commitment. The latter refers to the difficulties of finding an alternative use for the resources. Market knowledge consists of objective knowledge and experiential knowledge. Experiential knowledge is seen to be more critical as it is more difficult to acquire. Market knowledge and market commitment affect decisions with regard to commitment of resources and the way current business activities take place. The basic tenet is that running successful international activities requires experiential knowledge through a long learning process in international operations. The experiential knowledge is a factor in perceiving problems and opportunities in foreign markets, which in turn influences the decision to commit resources.

Prior to the year 2000, the U-Model was dominant in research into internationalisation of SMEs (Coviello & McAuley, 1999). However, the empirical findings were inconsistent. For instance, recent studies show support for the usefulness of its basic notion (Barkema & Drogendijk, 2007; Evans, Mavondo, & Bridson, 2008). Some scholars (Wright et al., 2007) view the U-Model as legitimate in the internationalisation process of SMEs in some sectors. In contrast, others challenge its relevance (Brouthers et al., 2009) and question the validity of the concepts (Ellis, 2008; Stottinger & Schlegelmilch, 2000). A number of scholars suggest that the U-model is more useful in explaining MNEs' behaviour rather than SMEs' (Andersson, 2000), particularly for the high-technology and service industries (Bell, 1995). The stage model has been criticised as deterministic (Reid, 1981). If firms were to develop in accordance with the model, individuals would then have no strategic choices (Andersson, 2000). Empirical evidence (Freeman, Edwards, & Schroder, 2006; Kuivalainen, Sundqvist, & Servais, 2007; Rennie, 1993) suggests that not all firms internationalise gradually in a step-by-step manner. Nevertheless, scholars maintain that the learning notion embedded in the theory helps explain the phenomenon of international business activities of SMEs (Collinson & Houlden, 2005).

2.6.2.5 Resource-based view

Deriving from existing models in Penrose's (1959) work, *The theory of the growth of the firm*, a resource-based perspective on internationalisation is currently an emerging research topic (Armstrong & Shimizu, 2007; Ruzzier et al., 2007). The publication of its conceptual work started in the early 1980s (Ray, Barney, & Muhanna, 2004), which is evident in the work of Wernerfelt (1984). Perhaps an article by Barney in the 1991 special issue (Barney, 1991) has contributed most to the study of the resources-based view [RBV] (Barney, Wright, & Ketchen, 2001).

Barney (1991) states that firms obtain sustained competitive advantages by implementing strategies that exploit resources the firm controls. Barney et al. (2001) view resources as bundles of a firm's tangible and intangible assets: these include management skills, organisational processes and routines, and information and knowledge. However, intangible resources, particularly information and knowledge, are recognised as more critical in generating competitive advantage (Camison & Villar, 2009; Rodriguez & Rodriguez, 2005) and performance (Knight & Cavusgil, 2004).

To explain the relationships between a firm's resources and sustaining competitive advantage, Barney (1991) insists on several important conditions. The first is that firms within the industry are to be heterogeneous in their resource endowment, and stable over time because the resources are not perfectly mobile across the firm. While heterogeneity contributes to sustainable competitive advantages, immobility of the resources, on the other hand, ensures the heterogeneity is long-lasting. The second condition is that a firm's resources must have four attributes: valuable, rare, imperfectly imitable, and non-substitutable. Valuable means that through these resources the firm is able to conceive of, or implement, strategies that improve its efficiency and effectiveness. Resources must be rare among a firm's rivals, present or potential, in the industry. If a number of firms possess the strategic resources, this number must be less than the number that generate perfect competition. Imperfectly imitable resources are explained as resources that are difficult to obtain by firms that do not possess these resources. Finally, there should be no equivalent substitute resources for the first three attributes.

Mahoney and Pandian (1992) propose that firms may achieve economic profit through better use of resources rather than through the resources themselves. The ability to combine, develop, and use the resources (Kaleka, 2002), and to explore opportunities and new asset sets (Camison & Villar, 2009) is called capability. Since most company strategic decisions are centred in the managerial role particularly for SMEs, managers' knowledge of past experience significantly influences the coordination of a firm's resources and the capacity to absorb new resources. This explains the notion that a firm's internationalisation does not solely depend on the entrepreneur but on the combination of a firm's idiosyncratic resources, which include entrepreneurial capability. Teece, Pisano, and Shuen (1997) suggest that, in a dynamic market, dynamic capabilities become the source of sustainable competitive advantage. Dynamic capabilities are defined as "the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments" (Teece et al., 1997, p. 516) and consist of specific strategic and organisational processes (Eisenhardt & Martin, 2000). Eisenhardt and Martin (2000) argue that in a stable market the processes are complicated, detailed, analytic, and rely on existing knowledge. In contrast, in a high-velocity market the processes are more simple, experiential, unstable, and rely on "quickly created new knowledge". Fiol (2001) asserts that in competitive environments a firm's resources and the way it uses these resources must constantly change, particularly when market environments are dynamic and changing

rapidly. Eisenhardt and Martin (2000) maintain that dynamic capabilities can be duplicated across firms, and thus the true value of sustainable competitive advantage lies in the resource configurations that they create.

Kaleka (2002) proposes four types of capabilities in the context of exporting firms: informational, product development, supplier relationship building, and customer relationship building. Informational capability is related to the ability to acquire and capture foreign market and market-related information. Product development is about the development of new products and includes improvement and modification of existing products and adoption of new methods in the manufacturing process. Building relationships with suppliers means identification of supply sources and establishing, developing, and maintaining strong supplier relationships. Customer relationship building relates to the ability to establish and maintain close export business relationships. Lages et al (2009, p. 51) define relationship capability as:

“...a set of intangible assets that reflect a series of interactions occurring between the interrelated parties involved in the export venture relationship...”

On relationships with customers, Harris and Wheeler (2005) assert that these enable firms to indirectly sense market opportunities, access markets, and acquire knowledge about new markets. In the context of relationships with importers, exporters are more likely to recognise full market potential for their products (Lages, Silva, Styles, & Pareira, 2009). Jantunen et al (2008) consider internationalisation as entrepreneurial activity, which suggests a process of creatively discovering and exploiting opportunities. They maintain that capabilities in information acquisition, and knowledge creation and utilisation are highly critical and influence the ability of firms that internationalise early to seize (recognise) opportunities.

Since Barney (1991), the RBV has undergone a series of debates between proponents (Barney, 2001a, 2001b; Eisenhardt & Martin, 2000) and opponents (Priem & Butler, 2001a, 2001b). A recent review by Newbert (2007) found that empirical findings were rather mixed and the tests conducted in those studies were only marginally supported. Despite the challenges, the strategic concept of RBV has been embraced and empirically tested.

Scholars conceded that an RBV helped internationalising firms to identify internal resources to overcome the liability of foreignness (Peng & York, 2001), particularly among small businesses (Westhead et al., 2001). To date very limited research is available (Ruzzier et al., 2006). The first review of empirical studies using an RBV within international business disciplines was done by Peng (2001) and clearly revealed the scarcity in small business studies. Similarly, Coviello and McAuley (1999) found no empirical study of SME internationalisation published between 1989 and 1998 that adopted RBV as a grounded theory. However, this scenario is understandable given the fact that at the time of the reviews an RBV was still in its infancy stage, particularly in the study of SMEs' internationalisation.

The literature suggests that behavioural theories are becoming increasingly popular among those researching the process of small business internationalisation. With the emergence of newer theories like the theory of international entrepreneurship, and with the adoption of theories from other disciplines such as the theory of resource view, the classical theory of Uppsala is forced to adapt to the contemporary environment of international business practices so that it remains relevant to current research trends. In general, the notions of behavioural theories are best viewed as complementing existing theories and therefore are adopted in this study. The next section explains the theoretical framework of this study.

2.6.3 Theoretical Synthesis

This study posits that SMEs gain competitive advantage and internationalise successfully by leveraging their unique resources and capabilities based on the notion advanced by scholars within the sphere of the **Resource-Based View**. Resources are defined as assets controlled by the firm that are used as inputs to organisational processes, while capabilities are defined as the firm's ability to combine, develop, and use its resources in order to create competitive advantage (Kaleka, 2002). This is consistent with the view that firms can enter and survive in foreign markets by leveraging internal resources that they control (Fernhaber, Gilbert, & McDougall, 2008) to build their capability. Following Kaleka (2002) and Lages et al (2009), the researcher is specifically looking at the capability of SMEs to build close customer relationships useful in overcoming the traditional liability of SMEs in the internationalisation process. Indeed, the notion is supported by Harris and Wheeler (2005), who insist that excellent relationship skills help firms to gain export success. Similarly, Morgan, Kaleka, and Katsikeas (2004) maintain that relationship-

building capabilities are valuable assets that should be given priority in investment considerations. In a more recent study, Lages et al (2009), based on their findings, urge SMEs in particular to develop external competencies of relationship capabilities to compete successfully in international markets. Being small enables SMEs to be flexible and less bureaucratic in dealing with the changing nature of customer needs. The flexibility of these firms augments the ability to transform organisational functions and resources into business activities that support greater understanding of the requirements of foreign customers. This capacity enhances the ability of SMEs to respond quickly to the needs of the customers and, hence, establish and maintain close customer relationships.

To explain further the importance and the logic of building relationships with foreign customers in the context of SMEs' internationalisation, the present study borrows the underlying concept of the Uppsala Model. The **Uppsala model** advocates that perceived risks and uncertainty due to psychic distance create barriers to internationalisation, and that knowledge of foreign markets is relevant to overcome this obstruction. Knowledge is proposed as one of the main factors in international behaviour (José C. Casillas, Moreno, Acedo, Gallego, & Ramos, 2009) because lack of knowledge is a major barrier to internationalisation (Armario et al., 2008). For SMEs, it is the most critical resource in the internationalisation process (Liesch & Knight, 1999). Accordingly, Julien and Ramangalahy (2003) assert that the ability to master knowledge is critical for competitive advantage and performance. However, at the same time, to expand abroad, SMEs are constrained by a lack of information about foreign opportunities, foreign market expertise (this includes international experience), and financial support (Brouthers et al., 2009). Since developing foreign market knowledge is a resource-demanding activity, resource-poor SMEs are more vulnerable to competitive threats and unfavourable macro-events in external markets. Consequently, internalising useful information and knowledge can attune firms to current problems and future threats (Knight & Liesch, 2002) and make them more ready to face the competition. As Liesch and Knight (1999, p. 386) note:

“SMEs can achieve internationalization outcomes similar to those conventionally attributed to the large firm not by internalizing external markets, but by internalizing information on external markets.”

Hence, a firm's capability in integrating and exploiting knowledge is a source of competitive advantage (Haahti, Madupu, Yavas, & Babakus, 2005).

As opposed to acting individually, internationalisation can take place successfully through cooperative relationships (Arranz & De Arroyabe, 2009), specifically with foreign counterparts [local firms] (Gabrielsson & Kirpalani, 2004; Skarmeas, Katsikeas, Spyropouliou, & Salehi-Sangari, 2008). This is vital for SMEs because financial and human resource constraints undermine the capacity to acquire not only much needed knowledge of foreign markets but also the ability to identify and exploit opportunities (Kalantaridis, 2004). By establishing exchange relationships with other firms (i.e. importer, foreign distributors), a firm can gain access to external resources (foreign knowledge) by leveraging a partner's resources and capabilities and acquiring the ability to cope with perceived uncertainty of foreign markets (Matanda & Freeman, 2009), and thus sell its products (Johanson & Mattsson, 1988). In a similar vein, experiential knowledge of foreign markets can be compensated for by knowledge from other firms (partners) (Schwens & Kabst, 2009), by going through a process of what is called learning from the experience of others (Levitt & March, 1988). Wu et al (2007) found that knowledge shared with foreign partners contributed to the ability to exploit local market opportunities. Zhou et al (2007) state that three particular benefits relating to information can be derived from social relationships, two of these being relevant to the present study: (1) knowledge of foreign market opportunities, and (2) advice and experiential learning. Empirical evidence from Julien and Ramangalahy (2003) testifies that SMEs' information sources are significantly related to export competitive strategies, which lead to higher export performance, and the most frequent sources of information relate to knowledge of the market and distribution network, such as customers, representatives, agents, and distributors. Morgan et al (2004) propose that, for investment purposes to enhance export performance, managers should give priority to two types of capabilities, namely relationship-building and informational capabilities. Nevertheless, the literature suggests development of informational capability is a subset of relationship-building capability such that the latter helps in acquiring information about importers/distributors and the export market environment. Since relationship capabilities require fewer financial resources, relationships with importers are key to overcoming the resource scarcity of SMEs (Lages, Silva, & Styles, 2009), as well as countering the risks and challenges associated with foreign markets, and ultimately they help pave the way for international venture success (Knight & Cavusgil, 2004).

Knowledge acquisition processes require resources, and a resource-scarce organisation such as an SME uses its intangible resources and capabilities to execute its activities. For this reason, as mentioned earlier, this study looks at the role of customer relationship

building capabilities. In the context of export marketing, Kaleka (2002, p. 275) defines customer relationship building capabilities as:

“...the exporter’s ability to understand the requirements of overseas customers and establish and maintain close export business relationships.”

Lages et al (2009) relate relationship capabilities to a set of intangible assets. The advantage for small firms of leveraging intangible assets collectively is well documented. For example, Liesch and Knight (1999) explain that smallness gives SMEs inherent advantages over MNEs because they are unfettered by bureaucracy, hierarchical thinking, and expensive information systems. These characteristics will provide SMEs with the ability to acquire information at a faster rate. Extant literature reveals that research carried out in the context of an RBV of the firm is based on managerial perceptions of the firm's ascendancy in resources and capabilities, its competitive advantage position, and performance outcomes (Spyropoulou, Skarmas, & Katsikeas, 2010). Based on literature and the premise of internationalisation theory, this study focuses on several firms' internal resources as a component of relationship building capabilities: market orientation, learning orientation, entrepreneurship orientation, human capital, and relationship quality. In addition, this study also investigates psychic distance on the grounds that the construct, according to the Uppsala model, has been accepted as an important variable in a firm's internationalisation and performance. Detailed explanation of the component of customer relationship building capabilities is in the following sections.

From the above discussion, this study suggests that the relationship between a firm's resources and internationalisation success is nonlinear. SME exporters use their intangible resources to build strong relationships with foreign importers, which in turn facilitates the process of internationalisation. Previously, several studies have investigated the role of firms' relationships with foreign partners in the internationalisation process of SMEs. Notably, Freeman et al (2006) examine the role of alliances and collaborative partnerships to achieve competitive advantage and to overcome internal constraints such as lack of economies of scale, lack of finance and knowledge, and an aversion to risk taking, so that small businesses can internationalise rapidly. Another study by Sharma and Blomstermo (2003) found that SMEs that internationalise early, upon inception, were knowledge-intensive firms, in which relationships [networks] with international firms helped them by supplying information about clients and markets. In an investigation by Harris and Wheeler

(2005) of the influence of relationships on the internationalisation process, interpersonal relationships were found to have impacted the firm not only by providing information and access to networks but also by directing the firm's internationalisation strategy.

In addition to these studies, several empirical studies have been carried out in various countries. Zhou et al (2007) empirically investigated the role of social network relationships on the export performance of 129 Chinese SMEs. These scholars found that relationships benefited SMEs from the perspective of information-acquisition and helped internationally-oriented SMEs to become international more rapidly and profitably. Lages et al (2009) examined the association between relationship capabilities and product strategy and performance among 112 Portuguese exporting manufacturing firms, of which 92 per cent were SMEs. They found that relationships with importers and distributors provided competitive advantage and export performance. They further argued that relationship capability "...is particularly relevant to the small and medium-sized enterprise context, in which firms often have limited resources and must rely heavily on partners—particularly internationally" (p. 60). Finally, Schwens and Kabst (2009) examined 269 medium-sized companies. Their focus was on the learning aspect of early internationalisers during the entry phase of internationalisation. The conceptualisation was built on the notion that internationalising firms experienced three types of learning: [1] learning from direct experience, described as the extent to which a firm generates and distributes knowledge within the boundaries of the firm, [2] learning from the experience of others, meaning the extent to which the firm was exposed to knowledge from partners about foreign markets, and [3] learning from a paradigm of interpretation, or learning by imitating the routines of the best practice firms in the focal market. The results indicated that early internationalisers considered learning from direct experience and learning from a paradigm of imitation during the entry phase of international venture to be of value.

Based on the above studies, it can be concluded that the existing literature suggests that SME exporters need to acquire and develop foreign market knowledge to successfully penetrate the market, and it can also be concluded that partnership with foreign importers is the recommended method for developing a knowledge resource. Accordingly, the discussion proceeds in relation to the literature and aims to develop the conceptual model based on the integration of the Uppsala model and the resource-based view.

2.7 ORGANISATIONAL RESOURCES

In this study, organisational capabilities are viewed as resources. Hence, the discussion of organisational resources in the sections that follow focuses on the variables that influence the inter-organisational relationship. These variables are market orientation, entrepreneurship orientation, learning orientation, and human capital.

2.7.1 Market Orientation

This section reviews the literature with regard to the construct of market orientation, focusing on the conceptual definition and previous research on market orientation, particularly in the international context.

2.7.1.1 Conceptual views of market orientation

Market orientation is about the implementation of marketing philosophy. Extant literature reveals that market scholars have described the concept in various ways. For example, as Armario et al (2008) note, the term ‘market orientation’ has been used interchangeably with ‘customer orientation’ or ‘marketing orientation’. In an export context, some researchers (e.g. Cadogan, Kuivalainen, & Sundqvist, 2009) have used the term ‘export market orientation’ to reflect the specific connotations of the construct, although others (e.g. Racela et al., 2007) prefer to use the general term of market orientation. These differences in the literature indicate that studies related to the construct are still developing, particularly in cross border investigations. Nevertheless, previous studies also put forward the idea that the interpretation of market orientation can generally be explained from two major perspectives: behavioural (Kohli & Jaworski, 1990) and cultural (Narver & Slater, 1990).

From the behavioural perspective, Kohli and Jaworski (1990, p. 6) define market orientation as:

“...the organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation wide responsiveness to it.”

A market oriented firm is consistently delivering high quality products and services, and requires ongoing tracking and responsiveness to the marketplace (Jaworski & Kohli, 1993). Jimenez and Navarro (2007) maintain that the term market orientation includes the ability of the organisation to generate, disseminate, and use superior information about customers and competitors. Kohli and Jaworski (1990) assert that the starting point is the generation of information about customer needs and preferences, and the changing nature of those needs and preferences. The latter implies monitoring factors such as government regulation, technology, competitors, and other environmental forces that affect changes in customer needs and preferences. This information on customers must be disseminated throughout the organisation because responses to customer needs and preferences require the participation of other departments in the organisation. Finally, a firm's response to customer needs and preferences is to offer superior value products or services to the customer.

With regard to the cultural perspective, Narver and Slater (1990, p. 21) define market orientation as:

“...the organisation culture that most effectively creates the necessary behaviours for the creation of superior value for buyers and thus continuous superior performance for the business.”

The cultural perspective on market orientation is based on three dimensions: customer orientation, competitor orientation, and inter-functional coordination (Narver & Slater, 1990). This perspective is broader than that adopted by many studies as it recognises that being market orientated means more than focusing on customers (Ledwith & O'Dwyer, 2009). Customer orientation implies generating information about current and future customers and disseminating and using it within the firm. Competitor orientation indicates generating information about current and future competitors and disseminating and using it within the firm (Atuahene-Gima, 2005). Inter-functional coordination is based on the customer and competitor information and comprises the business's coordinated efforts, typically involving more than the marketing department, to create superior value for the buyers (Narver & Slater, 1990). This view recognises that acquiring and sharing knowledge and thus enhancing organisational learning are the key aspects (Altinay, 2010). Pelham (2010) suggests that market-oriented norms would tend to discourage sales management pressure on salespeople to push customers for short-term sales, to the

detriment of long-term relationships and customer satisfaction. The author also suggests market oriented norms would discourage salespeople from selling-oriented behaviours and this would be detrimental to long-term customer relationships. Although from a cultural perspective market orientation is originally identified as consisting of three elements as mentioned above, some scholars attempt to explain the construct based on only two of elements, namely customer orientation and competitor orientation. They exclude inter-functional coordination because it is less appropriate for small-sized firms compared to large organisations (Rhee, Park, & Lee, 2010). This view is important and relevant to this study.

Although the behavioural and the cultural concepts of market orientation differ, some may find that they are indeed complementary. For example, Cadogan and Diamantopoulos (1995, p. 48) conclude that “...*Naver and Slater’s (1990) conceptualization of market orientation shares a similar nomological network as that provided by Kohli and Jaworski (1990)...*”. Within this framework, Armario et al (2008, p. 488) assert that market orientation means “...the development of an organisation culture that generates organisational capabilities through learning; these capabilities are exhibited in certain market-oriented behaviour...”. The two concepts seem to agree on the importance of information to create customer value. Mavondo, Chimhanzi, and Stewart (2005) suggest that both concepts share similarities in key components and have conceptualised the existence of market orientation along a continuum. Again, based on the two perspectives, Atuahene-Gima (2005) proposes that market orientation is about generating information about current and future [1] customers and [2] competitors, and disseminating and using that information within the firm. Despite the importance of the cultural context of the market orientation construct, the impact of the cultural dimension of market orientation on performance variables is mediated by its behavioural dimension (Cadogan, Cui, & Li, 2003). Furthermore, while the cultural dimension of market orientation has received attention from scholars, the scholars have ignored the behavioural dimension of market orientation (Hult, Ketchen, & Slater, 2005). Nevertheless, similar to previous studies (e.g. Rhee et al., 2010), this study adopts the definition of Narver and Slater because it focuses on the aspect of a culture that creates value and responsiveness to market information.

2.7.1.2 Research on market orientation

Market orientation has been a core concept in the marketing literature, receiving extensive attention in the past two decades. Central to the concept is information and the operational aspect of this information. Zhou, Chao, and Huang (2009) advance this idea from the belief that in order to win in the market-place a firm should give satisfaction to the needs of its customers more effectively and efficiently than its competitors. Businesses have almost universally accepted this concept as the guiding principle in order to guarantee long-term success.

Earlier studies of market orientation and its impact on performance outcomes originated in the USA and focused more on business organisations (Zhou et al., 2009). Today this stream of research has been extended to incorporate other settings including export activities in developed and developing countries.

Extant literature has identified three main areas of research interest on market orientation: [1] identification of factors affecting the adoption [i.e. antecedent] of market orientation, [2] examination of the relationship between market orientation and performance [i.e. consequences], and [3] development of a scale for the market orientation construct (Racela et al., 2007). However, in studying the role of market orientation in organisations, scholars have focused on the investigation of antecedents and the consequences of market orientation (Kirca, Jayachandran, & Bearden, 2005). Specifically, these two areas of study have received growing interest among practitioners and researchers (Altinay, 2010) due to the effect of market orientation on performance.

The findings of existing studies indicate that the investigation of market orientation and performance interaction produces mixed results. For example, some studies indicate that an increase in market orientation positively and significantly affects organisational performance (e.g. Akyol & Akehurst, 2003; Ledwith & O'Dwyer, 2009). However, others (e.g. Demirbag, Koh, Tatoglu, & Zaim, 2006; Langerak, Hultink, & Robben, 2004) have found no direct relationship or significant impact of market orientation on business performance. Several studies have reported even more intriguing findings, where market orientation is found to have a negative impact on export performance (e.g. Siguaw & Honeycutt, 1995). Previously, scholars have attempted to investigate further and develop greater insights into the relationships through meta-analysis study. For example, the work

of Shoham, Rose, and Kropp (2005) and Cano, Carrillat, and Jaramillo (2004) demonstrate that although the findings of previous studies are mixed, most research has converged on the positive linear relationship of market orientation and performance. Nevertheless, these outcomes are still unsettling for researchers in this field as market orientation is a principal variable in marketing studies and inconsistency in the results clearly warrants further investigation.

In the context of international business studies, market orientation is viewed as a potential determinant of export market success (Cadogan, Kuivalainen, & Sundqvist, 2009). In addition, it has been shown to have a significant and positive relationship with internationalisation (Armario et al., 2008). In exploring marketing in small firms, it has been found that the marketing concept is part of their operating philosophy and that small firms are more likely to adopt a market orientation, which subsequently has a significant effect on their performance (Ledwith & O'Dwyer, 2009). While most of these studies find a positive impact of market orientation on performance, others find a different result (Jimenez-Jimenez & Cegarra-Navarro, 2007). For example, the meta-analysis study of Shoham, Rose, and Kropp (2005) reveals that although most studies report positive and significant relationships, some have found the relationships to be not significant. The latter include a study into banking firms in Saudi Arabia and a study in Hong Kong and New Zealand, and others carried out in the United States. Among all the studies conducted on the impact of marketing orientation on performance, only two have been undertaken in East Asia countries, namely Hong Kong [not significant] and Taiwan [significant], and only four studies [one significant and the rest not significant] have used small and medium firms as their sample. This underlines the extreme scarcity of eastern Asian study, particularly in emerging markets and SMEs. In another recent meta-analysis study, Kirca et al (2005) provide an interesting argument for a positive correlation between market orientation and performance, and this relationship is stronger in manufacturing compared to the service industry. However, no studies were found in the contexts of international study and size of firms. This suggests a nonlinear relationship between market orientation and performance (Hult et al., 2005).

Although interest among researchers on market orientation from the perspective of the export domain is increasing, to date this is still relatively small. This lack of research limits conclusions that can be made from findings, and in such situations researchers have called for more research into how an exporter's market orientation influences international

activities (Murray, Gao, Kotabe, & Zhou, 2007). Nevertheless, of this small body of research, perhaps the work of Cadogan and Diamantopoulos (1995), who conceptualised export market orientation based on Narver and Slater (1990) and Kohli and Jaworski (1990), has become the starting point for developing an international context for particular export related issues in market orientation. These scholars assert that despite the advances made in the measurement of market orientation, from an international perspective no systematic research has attempted to examine the role of the construct, especially on how to operationalise its measurement. Thus, they embarked on such efforts by looking at the possibility of measurement reconciliation. Later, Diamantopoulos and Cadogan (1996) applied to the domain of export mode. These researchers focused on the way market orientation is manifested in the export setting and on the operationalisation issue of measurement of the construct.

Based on the work of Cadogan and Diamantopoulos (1995), Cadogan, Diamantopoulos, and de Mortanges (1999) further re-conceptualised the construct and asserted that export market orientation consisted of three components: *market intelligent generation*, *inter-departmental intelligent dissemination*, and a firm's *responsiveness* activities. The conceptual domain of *export intelligence generation* includes all activities that constitute the creation of export market intelligence, including relationships with importers, particularly personal interaction between manager and importer's representative, focusing on export customers, competitors, or the environmental changes that affect the firm, its customers and its competitors. *Export intelligence dissemination* includes all those activities that involve the sharing of export market intelligence, and in small firms the dissemination may take place among staff in an informal manner, which is more efficient and quicker than in a large firms. The conceptual domain of export intelligence *responsiveness* includes the design and implementation of all responses to the intelligence that has been generated and disseminated. Despite efforts to start developing an international context for market orientation and the inclination of some researchers to apply the export market orientation concept in international studies (Akyol & Akehurst, 2003; Murray et al., 2007), many (e.g. Armario et al., 2008; Racela et al., 2007) still adopt the original concept proposed by Kohli and Jaworski as well as Narver and Slater.

Research into the export context of market orientation is dominated by the effect of the variable on export performance. Extant literature shows that researchers are divided, based on the nature of the relationship between market orientation and export performance.

While some studies agree that the relationship is linear, conversely, others concur with the non-linear connection. Nevertheless, this section presents and discusses several selected studies based on these notions. In reviewing these studies, the focus is essentially on the measurement scales of market orientation and performance to ensure consistency for meaningful conclusions.

Within the sphere of linear relationships, a study by Kwon and Hu (2000) is considered to be one of the earliest investigations reported in literature. Their study measures market orientation using the scale developed by Jaworski and Kohli which measures export performance along three dimensions: export sale, growth, and profits. The authors found that a high level of market orientation brought better export performance for small Korean export firms. A study by Rose and Shoham (2002) adopted the same scale for market orientation. Their sample was Israeli export firms in various industries. To measure export performance Rose and Shoham used four dimensions, namely sales, profit, changes in sales and changes in profits. The results of Rose and Shoham's study show that market orientation when measured as an aggregate component influences export sales, export profits, and changes in export profits significantly and positively. In another study concurring with the linear relationship posture, Akyol and Akehurst (2003) attempted to investigate the extent to which the marketing concept is adopted and implemented within Turkish clothing export companies and its possible effect on export performance. They adopted Cadogan, Diamantopoulos, and De Mortanges's (1999) measure of market orientation. The researchers tested the effects of market orientation on each of five dimensions of export performance, namely sales, growth, satisfaction, competitiveness, and overall performance, and found that the general relationships were strong and positive. Finally, Murray, Gao, Kotabe, and Zhou (2007) adopted the same measure for the variable of export market orientation. They measured export performance by financial performance and satisfaction with the export venture by using two samples, Chinese and non-Chinese firms exporting from China. The study found that when market orientation was treated as a second-order construct incorporating three first-order indicators, namely export intelligence generation, export intelligence dissemination, and export responsiveness, export performance was significantly influenced by export market orientation for both Chinese and non-Chinese firms.

Even though the above-mentioned studies correspond with a positive linear relationship between market orientation and export performance, some inconsistencies exist which may

undermine the conclusions from the findings. In particular, these studies lack uniformity along the measures used for market orientation and export performance as well as the demographic context of the firms such as the firm's size and industry.

Several studies theorise the effect of market orientation on export performance as moderated by other factors. For example, in a study of Hong Kong manufacturing exporters with 50 or more employees across various industries, Cadogan et al (2003) found that environmental turbulence moderated the effect of an exporter's market-oriented behaviour on export performance. For this study, they adapted the scale for market orientation from earlier work (Cadogan et al., 1999) and based the measure for export performance on economic performance on three aspects: export sales efficiency, export growth performance, and export profit performance. A recent study by Cadogan et al (2009) examines export market orientation and performance relationships among Finnish exporting firms with 50 or more employees in multiple industries. The measure for market orientation is based on Cadogan, Diamantopoulos, and Siguaw (2002). The study measures export performance as a second-order construct reflecting four dimensions: export sales volume, export market share, export market entry, and sales growth. The study found that export sales success was only positively related to the lower level of export market orientation, suggesting that a high level of market orientation may result in lower performance. This means that a firm needs to monitor the optimal level of its market orientation behaviour. However, this effect is moderated by the degree of internationalisation. Research from this perspective shows consistency in the scale used to measure market orientation. Although the non-linear perspective is clearly open for further investigation, previous research along these lines is rather limited.

Some researchers explore market orientation-export performance interaction from another point of view. Among them, Racela et al (2007) explore manufacturing export firms across various industries in Thailand. These researchers conceptualised market orientation from a behavioural perspective and measured it using the instrument developed by Kohli, Jaworski, and Kumar (1993). Racela et al's study investigates the influence of an exporter's market orientation on the relationships between exporters and importers, which in turn affects export performance. The results of this study demonstrate that an exporter's market orientation enhances cooperation and minimises dependence and relationship distance. In addition, export performance is higher with greater cooperation and lower with relationship distance. A second study adopting a view from Nguyen, Barret, and Nguyen

(2007) investigates the effects of market orientation on relationship quality and relationship quality on export performance among Vietnamese exporting firms. The researchers conceptualised market orientation as a second-order construct using the scale developed by Narver and Slater (1990). This study found that market orientation influenced the relationship quality in new relationships. Relationship quality is found to have an effect on export performance. A study by Armario et al (2008) also followed this line. Their sample was Spain's small and medium-sized enterprises across industries operating in foreign markets. The scale for market orientation was adapted from Kohli et al (1993), and the scale for internationalisation performance was operationalised using five dimensions: percentage of export sales to total sales, sales growth, net profits, net profits growth, and success rates of new product development. Armario et al found a direct effect of market orientation on performance as well as an indirect effect through the mediating role of knowledge acquisition and market commitment. Finally, Knight and Cavusgil (2004) added their study to this area of investigation. They investigated the relationships between market orientation and business strategies and between business strategies and export performance among small exporting firms in the manufacturing sector in the United States. Their study showed that market orientation significantly and positively affects business strategies in the form of quality focus, unique product development, and leveraging of foreign distributor competencies. These strategies in turn significantly and positively affect export performance. The study also emphasises the need for small firms to leverage foreign distributor competencies such as strong market knowledge to access important capabilities for dealing with the complexities of foreign markets.

The above studies open another avenue for research on market orientation-export performance interaction by looking at the role of the exporter and importer relationship. Although the studies do not report the mediating function of inter-organisational relationships, research in this context suggests another likely avenue for investigation. This notion complements the growing acceptance among researchers of the important role of relationship marketing in the internationalisation behaviour of firms.

2.7.1.3 Market orientation and competitive advantage, internationalisation, and export performance

Although market orientation has been extensively studied and developed as a research construct, the international context of market orientation has only received attention from

scholars in recent decades and is therefore limited (Murray et al., 2007). In recent studies based on the context of organisational culture, market orientation has been conceptualised as a firm's idiosyncratic resources that lead to competitive advantage and performance (Hult et al., 2005; Ketchen, Hult, & Slater, 2007). Several studies on the export context of market orientation have found positive and significant relationships between market orientation and performance (e.g. Murray et al., 2007; Rose & Shoham, 2002).

The present study conceptualises that, in the export context of the market orientation relationship with export markets, relationship quality mediates competitive advantage, export performance, and internationalisation. Market orientation will increase the amount of customer information gathered and disseminated by the export firm and encourage inter-firm cooperation (Racela et al., 2007). While intelligent generation relates to the practice of identifying opportunities and monitoring the environment, intelligent dissemination and responsiveness, on the other hand, facilitates the ability of an organisation [exporter] to predict, react, and capitalise on changes in the environment (Rose & Shoham, 2002). Market orientation provides the employee with a sense of belonging, a sense of direction, and feelings of contributing towards satisfying customer needs (Shoham et al., 2005). Based on discussion in the literature of strategic marketing, market orientation provides a firm with market-sensing and customer-linking capabilities (Kirca et al., 2005). Customers may perceive value in a relationship when they receive relationship benefits from an exchange partner, which increases their willingness to develop relational bonds (Palmatier, Dant, Grewal, & Evans, 2006). Long lasting relationships with partners enable firms to attain competitive positions in foreign market (Kaleka, 2002). This relationship also helps SMEs to generate new activities and resources as well as to access markets [international] and exploit opportunities (Harris & Wheeler, 2005).

Market orientation among SMEs has been found to be positively related to performance in a domestic context (e.g. see Alpkın, Yılmaz, & Kaya, 2007). In international contexts the construct is suggested to have an impact on export performance. The importance of market orientation for a firm's performance is reflected in the presumption that a market-oriented firm is better coordinated internally and superior in its market-sensing and customer-linking capabilities (Agarwal, Erramilli, & Dev, 2003). Pelham (1997) suggests that small firms with higher levels of market orientation are more likely to command higher prices because of better quality and reliability and that, from the experience of NPD failure, the

firms gain knowledge that enables them to lower the NPD cost, which then helps them gain higher market share, and achieve greater economies of scale.

Based on the above arguments, the present study postulates that relationship quality mediates the relationship between a firm's market orientation and international outcomes. At the same time, this study suggests that market orientation also directly influences competitive advantage, internationalisation, and export performance. This study also proposes the following hypotheses:

Proposition 1: Relationship quality mediates the relationship between market orientation and competitive advantage, internationalisation, and export performance.

Hypothesis 1a): Market orientation is positively related to relationship quality.

Hypothesis 1(b, c, d): Relationships between market orientation and the following outcomes of internationalisation are mediated by relationship quality:

- b) competitive advantage*
- c) internationalisation*
- d) export performance*

Hypothesis 1(e, f, g): Market orientation is positively related to the following internationalisation outcomes:

- e) competitive advantage*
- f) internationalisation*
- g) export performance*

2.7.2 Entrepreneurship Orientation

Entrepreneurial value is another important resource for small firms and a popular value in cross border research, particularly research on small business. This section reviews and discusses the literature related to the variable of entrepreneurship orientation.

2.7.2.1 Conceptual views of entrepreneurship orientation

A firm's entrepreneurial orientation (EO) is a well-defined concept in the literature (J. C. Casillas & Moreno, 2010). A pioneering work of Miller (1983) has made a great

contribution to research in the field of entrepreneurship. The author defines entrepreneurial firms as:

'...those that are geared towards innovation in the product market field by carrying out risky initiatives, and which are the first to develop innovations in a proactive way in an attempt to defeat their competitors' (p. 771).

Miller establishes entrepreneurship as a higher order construct consisting of three dimensions that characterise entrepreneurial companies: (1) innovativeness, (2) risk-taking, and (3) pro-activeness. Since Miller's work, the concept of entrepreneurial orientation has become the central topic of study by many researchers. One such study based on Miller's work that has received enormous attention and become the main reference for a great number of subsequent studies is that of Lumpkin and Dess (1996). These scholars conceptually investigated the nature of the entrepreneurial construct so that their approach eventually became the grounded theory for many studies. A major contribution of this work is the concept of entrepreneurship orientation that was conceptualised and suggested to be associated with the processes, practices, and decision-making activities that managers use to act entrepreneurially and to pursue new market entry. Atuahene-Gima and Ko (2001) also drew on Miller's work as the conceptual foundation for their work. The authors advocate that firms need to build an entrepreneurship orientation to ensure a proactive and aggressive focus on innovations to alter the competitive scene to their advantage.

As suggested in the literature, Avlonitis and Salavou (2007) argue that organisations can exhibit a range of competing entrepreneurship orientations along a spectrum. For example, firms with a more defensive approach to risk-taking, experimentation, opportunity seeking, and initiating actions are labelled as defenders, conservative firms, followers and reactive entrepreneurial firms, whereas firms with the opposite approach are labelled as prospectors, entrepreneurial or entrepreneurship firms, pioneers, and proactive entrepreneurial firms. To differentiate between the two, the latter are often acknowledged as firms that exhibit an intrapreneurial culture that encourages organisational members to be more proactive with respect to customer needs and to be more willing to embrace risks in delivering value to customers (Nasution & Mavondo, 2008). Active entrepreneurs, unlike passive entrepreneurs, adopt a more aggressive orientation, characterised by a willingness to undertake action of high risk and before that of competition (Avlonitis & Salavou, 2007). For the purpose of organisational expansion, active entrepreneurial firms

are more likely to take risks, explore uncertainties, and venture into unfamiliar territories in search of new opportunities. Entrepreneurial firms reveal an active posture. As a result, today a growing number of these firms regardless of their origin are entering foreign markets.

The concept of EO has been well established in the literature. Like others, this study adopts Miller's (1983) definition of entrepreneurship orientation because, in a complex environment of international market, a small firm has to be innovative, risk-taking, and pro-active to overcome the liability of resource limitation.

2.7.2.2 Research on entrepreneurship orientation

Topics in entrepreneurship orientation are synonymous with enquiries into emerging phenomena of SMEs internationalisation, particularly in the context of the strategic capability of nonlinear process internationalisation. International entrepreneurship emerged as a field of study in the 1990s in entrepreneurship and international business studies. It is multi-disciplinary, drawing on a diverse range of theories from international business, entrepreneurship, economics, psychology, finance, and marketing (McDougall & Oviatt, 2000).

Research into international entrepreneurship has tended to focus on small businesses. Perhaps this is explained by the external environment in which the firms operate. For example, in increasingly competitive global markets, firms are increasingly being pushed to redefine their positions in the competitive environment, thus they must revise their competitive strategies, which means they must move their organisational cultures towards successful models (Gonzalez-Benito, Gonzalez-Benito, & Munoz-Gallego, 2009). Although this environmental force affects all types of businesses, this is all the more so for smaller firms as they confront greater tests in a very complex environment due to lack of financial and human resources. Managerial focus is constantly being challenged by the pressure to look for an alternative source of competitive advantage. More often than not these resources are intangible in nature. In this regard, entrepreneurial ability is viewed as the most important foundation of competitiveness and the core ingredient for international strategic formulation. Firms with embedded entrepreneurial cultures and firms that carry this value in their operations are capable of overcoming inherent weaknesses and internationalising at faster rates than incremental theory would propose (Knight &

Cavusgil, 2004). As a result, the topic of entrepreneurship orientation in the framework of international business has increasingly attracted not only the interest of research members but also the attention of the business community at large.

The international context of the concept of entrepreneurship orientation is adopted to explain cross border processes and activities (Knight & Cavusgil, 2004). Wright and Ricks (1994) state that international entrepreneurship orientation is firm-level business activity that crosses national borders and that such activity focuses on the relationships between businesses and the international environments in which they operate. Hence, according to Covin and Slevin (1989), based on the work of Miller (1983), entrepreneurship orientation combines innovative, proactive, and risk-seeking behaviour that crosses national borders and is intended to create value in organisations (McDougall & Oviatt, 2000). These dimensions are commonly used in aggregate measures (Stam & Elfring, 2008; Wiklund & Shepherd, 2005). *Innovativeness* reflects a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes (Lumpkin & Dess, 1996). Innovative activities may increase a firm's potential to leverage its capabilities by entering new markets (De Clercq, Sapienza, & Crijns, 2005). Innovative culture helps develop key capabilities such as knowledge, and engenders the opening of new markets, which include international markets, and the development of new methods for doing business (Knight & Cavusgil, 2004). *Pro-activeness* refers to processes aimed at anticipating and acting on future needs by "seeking new opportunities" (Lumpkin & Dess, 1996). *Risk-taking* implies committing resources to projects where the outcomes are unknown. It largely reflects the fact that the company is willing to break away from the tried-and-true and venture into the unknown (Wiklund & Shepherd, 2005).

Although much of the literature describes entrepreneurship orientation as a multidimensional construct consisting of innovative, proactive, and risk-seeking behaviour, scholars have identified other entrepreneurial dimensions (Oviatt & McDougall, 2005). For example, Lumpkin and Dess (1996) suggest that entrepreneurship orientation is characterised by five dimensions: autonomy, innovativeness, risk taking, pro-activeness, and competitive aggressiveness. In adding to the three-dimensional construct, the authors define autonomy as the independent action of an individual or a team in bringing forth an idea or a vision and carrying it through to completion. Competitive aggressiveness refers to a firm's propensity to challenge its competitors directly and intensely in order to achieve

entry or improve its position, that is, to outperform industry rivals in the marketplace. However, they admit that successful new entry also may be achieved when only some of these factors are operating. Hughes and Morgan (2007), in studying the five dimensions during an embryonic stage of an SME's development, assert that the dimensions are not equally valuable to performance. This contention is also empirically supported in several studies such as those of Frishammar and Horte (2007). Nevertheless, in the context of present studies, previous conceptual and empirical studies have found that innovative, proactive, and risk-seeking behaviour are positively related to internationalisation intent (De Clercq et al., 2005), international performance (Jantunen et al., 2008), and foreign profit and growth in revenue (Wiklund & Shepherd, 2005). Based on these arguments, the present study focuses on the three dimensions of entrepreneurship orientation, namely, innovative, proactive and risk-seeking behaviour.

Research interest in entrepreneurship focuses for the most part on the consequences of this aspect of organisational culture on performance (Gonzalez-Benito et al., 2009). However, research on the impact of entrepreneurship orientation on performance produces mixed results. For example, Wang (2008) found that the relationship was positive. On the other hand, Lee, Lee and Pennings (2001) found weak evidence of a positive association with the performance at start-up, while Slater and Narver (2000) found no relationship between entrepreneurial orientation and business profitability.

Findings from other studies suggest different relationships between entrepreneurship and performance. For example, Lumpkin and Dess (1996) believe that the connection between entrepreneurship and performance depends on the context. A study by Stam and Elfring (2008) suggests that the nature of relationship is non-linear. They found that the combination of high network centrality and extensive bridging ties strengthened the relationship between entrepreneurial orientation and performance. Covin and Slevin (1989) found that an entrepreneurial strategic posture and competitive profile contributed to higher performance in hostile environments. Dess, Lumpkin and Covin (1997) also argue that entrepreneurial orientation may be especially useful in uncertain or turbulent environments. Findings from Lumpkin and Dess (2001) suggest that the degree of entrepreneurial approach to strategy will frequently depend on the organisational or environmental conditions under which such decisions are made. Finally, Moreno and Casillas (2008) found the relationship very complex, suggesting that the influence of entrepreneurship orientation on performance is mediated by a firm's strategy. At the same time, this impact

is dependent on the hostility and dynamism of the environment. In summary, these findings suggest that the intensity of the relationship depends on the context in which firms operate. Specifically, the relationship between entrepreneurship and performance appears stronger in environments that have the following characteristics: high competitive intensity; a lack of readily exploitable market opportunities; great competitive, market and product-related uncertainties; and general vulnerability to the influence of factors external to, and uncontrollable by, the firm (Gonzalez-Benito et al., 2009).

In this respect, and in the context of international business, globalisation relates to the interdependence of regional and national economies, the removal of barriers to the flow of goods and services, and the exposure of businesses to environmental complexity. Hence globalisation gives rise to market disorder, increased competition, loss of market protection and the emergence of international opportunities. Firms operating in foreign countries and multiple international locations face greater threats in hostile environments. Knight (2000) suggests that entrepreneurship may be especially useful for firms strongly affected by globalisation, especially small and medium-sized firms. Therefore, it is reasonable to expect higher rewards from entrepreneurship in general for small and medium-sized firms that compete in the globalised markets.

Zahra and Garvis (2000) highlight the importance of entrepreneurial activities not only in international markets but also for success in general, since an entrepreneurial orientation increases opportunities to gain recognition and expand into new markets. They suggest that entrepreneurially-oriented firms actively seek new operating modes and methods that improve performance and facilitate the achievement of new valuable resource configurations. Zhou (2007) focuses on the entrepreneurial source of market knowledge as opposed to product or technology-based competitive advantages. He maintains that firms with international entrepreneurial proclivity have the dynamic capability to develop foreign market knowledge rapidly and internationalise early. Hence, it is reasonable to assume that entrepreneurship orientation contributes positively to internationalisation and international performance (Jantunen et al., 2008). The issue of entrepreneurship and performance relationship is examined further in the next paragraph.

This section examines several studies investigating the function of entrepreneurial orientation in an international context. In particular, it outlines studies that focus on the antecedent role of entrepreneurship to discover its impact on firms' internationalisation.

Knight and Cavusgil (2004) found that entrepreneurial orientation may be especially important to small internationalising firms because it appears to encourage them to produce high-quality goods that are distinctive and technologically advanced, and which are associated, in turn, with international success. In a qualitative study, Kocak and Abimbola (2009) found that entrepreneurship orientation was the main source of performance for Turkish small businesses that internationalise early upon inception. Zhou (2007) studied the role of foreign market knowledge deriving from proactive and innovative pursuit of entrepreneurial opportunities among early internationalising Chinese firms. They measured entrepreneurship orientation using scales adapted from Covin and Slevin (1989), Lumpkin and Dess (1996), and Knight and Cavusgil (2004). Zhou found that foreign market knowledge leads to early and rapid internationalisation, and more importantly, this effect was driven by an international entrepreneurial proclivity. Knight (2000) investigated the effect of entrepreneurship orientation on marketing strategy as part of a larger study among SMEs manufacturers involved in international business operations. Knight's measure of entrepreneurship orientation was adapted from the refined version of Covin and Slevin (1989). Knight found that entrepreneurship orientation significantly and positively affected marketing strategies in the form of marketing leadership, quality leadership, and product specialisation. In their study, Jantunen et al (2008) looked at the influence of entrepreneurship orientation on international performance and the moderating effect of an international growth strategy on the relationship. They used the scale developed by Naman and Slevin (1993) and Wiklund (1998), who in turn based their scales on measures developed in Miller and Friesen (1982) and Covin and Slevin (1989). Jantunen et al found that high level orientation to entrepreneurial and international growth was an important condition for entering foreign markets at an early stage and rapidly. Ibeh (2003) explored the effect of a firm's entrepreneurship on involvement in an export venture among Nigerian small manufacturing export firms. The measure of entrepreneurial orientation was adapted from Covin and Slevin (1989). This study found that entrepreneurship was associated with better export venturing, and for small firms operating in hostile environments an entrepreneurial orientation was the proper strategic posture. Finally, De Clercq et al (2005) investigated the effect of entrepreneurship orientation on the intent to internationalise. They sampled Belgium SMEs, using the scale developed and validated by Miller (1983) to measure entrepreneurship orientation. It was found that entrepreneurship increased the propensity of small firms to engage in such activity.

Unlike studies of market orientation, research into the international context of entrepreneurship is more consistent in the scale used to measure the construct of entrepreneurship orientation. The literature also shows that the large number of studies on entrepreneurship posture has focused on its non-linear effects on internationalisation and performance. This suggests that it is essential to integrate issues relating to the external environment in the conceptual model of international entrepreneurship orientation. Finally, it is not surprising that these studies focus on small firms, because research on international entrepreneurship has been predominantly concerned with the activities of younger and smaller ventures (Jantunen et al., 2008). However, in the Asian context, there are still very few studies along these lines.

In a milieu of internationalising, the number of small business with an entrepreneurial orientation implies that these firms enter international markets due to unique entrepreneurial competencies and outlooks (Knight & Cavusgil, 2004). However, existing studies fail to incorporate the strategic need for foreign partners as a way of overcoming scarce internal resource. It has been widely recognised in the literature that small firms need to acquire external resources, particularly knowledge that relates to complex environments, in order to operate successfully in such a market. To meet this objective, especially for resource-scarce organisations, a cross border relationship is a strategically sound option, as local partners are highly knowledgeable. Many existing studies focused too much on relationships between the environment, structure and company strategy. In fact, the truly relevant issue is “...the way in which firms use their strategies to align their internal characteristics with those of the rest of the sector and their competitors” (J. C. Casillas & Moreno, 2010, p. 268). This notion gives rise to several inferences. Firstly, firms need to acknowledge the external environment of the market in which they operate, and this may include knowledge about competitors, customers, suppliers, regulations, and the government of a country. Secondly, the notion entails the need for a firm to have dynamic organisation functions and operations so that strategic decisions are aligned to market obligations in order to generate well entrenched competitive positions and produce superior outcomes. Finally, there must be a link to complement internal organisational change with the external environment. So, small firms require external support to accomplish these tasks. In this instance, a foreign partner is seen as fulfilling perfectly strategic needs for export activities. Unfortunately, there is no study reported to date that explores this aspect of the relationship between entrepreneurship and performance.

Consequently, this study's main contribution is to explore further this aspect by conceptualising and incorporating the relationship posture into its framework.

Entrepreneurship orientation is an important factor in international business success. International cooperation complements the embedded entrepreneurial culture in such a way that an entrepreneurship-oriented firm can identify opportunities within the partnership and leverage foreign partner competencies. Unfortunately, to date only a few studies have explored the relationship between entrepreneurship and performance (see for exceptions Jantunen et al., 2008; Stam & Elfring, 2008), hence this study attempts to fill the gap by adopting a comprehensive model incorporating relationship quality into the conceptual and operational framework.

2.7.2.3 Entrepreneurship orientation and competitive advantage, internationalisation, and export performance

In the past, investigations into the entrepreneurship orientation–performance relationship have produced inconsistent results (Hughes & Morgan, 2007). While some studies report positive results of the effect of entrepreneurship orientation on performance (Jantunen et al., 2008), others have found the opposite (Stam & Elfring, 2008). The tendency of past studies has been to assume a unilateral positive relationship between entrepreneurship orientation and performance. However, Hughes and Morgan (2007, p. 657) propose that “[R]esearch into entrepreneurship orientation would...benefit from exploring indirect relationships...”.

The literature states that for a venture to realise these benefits from internationalisation it must have access to the resources that enable it to do so (Fernhaber et al., 2008). In addition, it notes that exhibiting an entrepreneurial orientation will place firms in positions of potentially great uncertainty and vulnerability as a function of the inherently exploratory nature of entrepreneurship (Green, Covin, & Slevin, 2008), particularly when firms operate in foreign markets that are distinct from domestic markets. Since opportunity-seeking behaviour is at the heart of entrepreneurship conceptualisation (Ireland, Hitt, & Sirmon, 2003), firms may develop opportunities for new business in foreign markets by obtaining knowledge of a foreign market through relationships with other firms (Johanson & Vahlne, 2006). Johanson and Vahlne (2003, p. 89) assert that such “experience [relationships] gives the firm an ability to see and evaluate business opportunities...”.

Extant literature emphasises long-term relationships as fundamental to SMEs' development of business activities (Freeman et al., 2006) in order to realise the potential benefits of a relationship with a partner. Freeman et al (2006) assert that managers in smaller entrepreneurial firms respond to the constraints of the internationalisation process by developing strategies that allow them to expand rapidly into international markets by sharing the risks. Furthermore, they posit that each strategy is strongly related to relationship networks derived from personal networks that have taken a long time to develop, a phenomenon that reflects the quality of the relationship. Since each relationship in the network is unique due to the characteristics of the relationship partners and the history of the relationship (Johanson & Vahlne, 2003), the impact of international entrepreneurship orientation on relationship quality differs across relationships in a network.

The advantage these firms have is their flexibility to adapt quickly to the external requirement. They overcome the barrier of lack of resources by channelling pro-activeness, innovativeness, and risk-taking initiatives to leverage foreign partners' competencies. Hence, this study offers the following hypotheses:

Proposition 2: Relationship quality mediates the relationship between entrepreneurship orientation and competitive advantage, internationalisation, and export performance.

Hypothesis 2a): Entrepreneurship orientation is positively related to relationship quality.

Hypothesis 2(b, c, d): Relationships between entrepreneurship orientation and the following outcomes of internationalisation are mediated by relationship quality.

- b) competitive advantage*
- c) internationalisation*
- d) export performance*

Hypothesis 2(e, f, g): Entrepreneurship orientation is positively related to the following internationalisation outcomes:

- e) competitive advantage*
- f) internationalisation*
- g) export performance*

2.7.3 Learning Orientation

Learning orientation is another organisational resource that is crucial for the international business activities of small firms. This construct has been widely investigated along the lines of market orientation. This section discusses the literature on the concept of learning orientation as well as existing studies on learning orientation.

2.7.3.1 Conceptual views of learning orientation

Learning orientation is the manifestation of an organisation's propensity to learn and adapt accordingly (Mavondo et al., 2005). Central to the concept of learning orientation is a set of values that guide firms to unlearn obsolete market knowledge, by "thinking outside the box" as well as by questioning organisational learning norms that may create bias in learning processes, and proactively replacing it with new perspectives, systems, and procedures (Baker & Sinkula, 1999). Learning orientation is also conceptualised as an organisational capability to deploy resources to create customer value and achieve higher performance (Nasution & Mavondo, 2008). In a similar vein, Calantone, Cavusgil, and Zhao (2002) maintain that learning orientation pertains to an organisation-wide activity of creating and using knowledge to enhance competitive advantage. This includes obtaining and sharing information about customer needs, market changes, and competitor actions, as well as development of new technologies to create new products that are superior to those of competitors. Thus, if a firm wants to obtain superior performance it needs to give serious consideration to learning orientation as a key component.

Learning orientation is a multidimensional construct. Mavondo et al (2005) suggest that key characteristics of learning orientation are the transfer of learning from individuals to groups, commitment to learning, an openness to the outside world, overall commitment to knowledge, systems for developing learning, and mechanisms for renewing the organisation. Nonetheless, scholars seem to converge on the notion that learning orientation consists of three components: commitment to learn, open-mindedness, and shared vision (Baker & Sinkula, 1999). Sinkula et al (1997) identified these components as organisational values routinely associated with the predisposition of the firm to learn. *Commitment to learning* is about fundamental values that the organisation holds towards learning; learning is unlikely to occur if little value is placed on it (Farrell & Mavondo,

2004). It is related to discussion of Senge's (1990) learning principles, Tobin's (1993) notions of "thinking literacy", and Galer and Van Der Heijden's (1992) belief in a "culture amenable to learning": a prerequisite for the ability to improve understanding of environments over time. *Open mindedness* refers to the concept of open-mindedly questioning existing knowledge of the marketplace, acquired through experience of successes and losses, and that become obsolete as time passes (Sinkula et al., 1997). Two fundamental concepts to learning-oriented organisation are [1] the ability to unlearn existing knowledge (Farrell & Mavondo, 2004), and [2] an organisational value of open-mindedness that may be necessary for unlearning efforts to occur (Sinkula et al., 1997). While commitment to learning and open-mindedness influences the intensity of learning, *shared vision* influences the direction of learning. A shared vision provides individuals, as learning agents, with the organisational expectations, outcomes to be measured, and theories in use (Wang, 2008). This means that even if individuals are motivated to learn, without shared vision it is difficult to know what to learn (Calantone et al., 2002).

Jerez-Gomez, Cespedes-Lorente, and Valle-Cabrera (2005) note that one of the conventional ways of measuring learning has been to use learning curves and experience curves. They argue that these curves are incomplete measuring instruments because, in search of short-term efficiency, they focus exclusively on learning by doing and measure learning in terms of the results obtained. Learning has also been measured by taking into account other variables, such as the number of patents or R & D expenditure. The authors propose that an organisation's learning capability is high if it shows a high degree of learning in each of the defined dimension. These dimensions are managerial commitment, systems perspective, openness and experimentation, and knowledge transfer and integration. Managerial commitment refers to management recognition of the relevance of learning, thus developing a culture that promotes the acquisition, creation, and transfer of knowledge as fundamental values. Systems perspective entails bringing together the organisation's various individuals, departments, and areas of the firm around a common identity, with a clear view of the organisation's objectives and understanding of how they can help in their development. Openness and experimentation are required to ensure a climate of openness that welcomes the arrival of new ideas, from both internal and external points of view, allowing individual knowledge to be constantly renewed, widened, and improved. Finally, knowledge transfer and integration refers to two closely linked processes, which occur simultaneously rather than successively: internal transfer and integration of knowledge.

Extant literature has emphasised that learning orientation should be analysed from behavioural and cultural perspectives. Scholars of the behavioural perspective emphasise the generation of concrete information and also dissemination systems as the mechanisms through which learning takes place. Organisational learning is a process by which information is transferred into learning and hence it is important to understand how an organisation processes information (Sinkula et al., 1997). Huber (1991) asserts that, in order to change its potential behaviours, an entity learns through its processing of information, which can involve acquiring, distributing or interpreting information. Huber's view is that organisational learning consists of four constructs; knowledge acquisition, information distribution, information interpretation, and organisational memory. Knowledge acquisition is the process by which knowledge is obtained. Information distribution is the process by which information from different sources is shared and thereby leads to new information or understanding. Information interpretation is the process by which distributed information is given one or more commonly understood interpretations. Organisational memory is the means by which knowledge is stored for future use.

On the other hand, scholars from a cultural perspective consider the firm as a “cognitive enterprise” and call for the need for a shared mental model, a shared organisational vision, and an open-minded approach to problem solving (Senge, 1990). Based on the cultural perspective, Sinkula, Baker, and Noordewier (1997, p. 309) suggest that learning orientation is:

“...giving rise to that set of organisational values that influence the propensity of the firm to create and use knowledge.”

More recently, Baker and Sinkula (1999, p. 413) define learning orientation as:

“...an organisational characteristic that affects a firm's propensity to value generative and double loop learning.”

It is suggested that the two views are not contradictory because understanding how things should be done reflects the underlying values and norms and influences actions (Wang, 2008). However, organisations with cultures conducive to learning and that actively

cultivate learning are more likely to learn from their experiences (Emden, Yaprak, & Cavusgil, 2005).

2.7.3.2 Research on learning orientation

Several theories, such as the Uppsala Model (Johanson & Vahlne, 1977) and the network approach (Johanson & Vahlne, 1990), underline the importance of learning in an international context. Johanson and Vahlne (2003) emphasise learning from experience in business relationships with partners as a platform for entering new foreign markets. The idea is that experience gained from operating in certain markets gives firms an ability to see and evaluate business opportunities in that market. Experience provides the opportunity for a firm to learn about customers, intermediaries, competitors, and public authorities, and to act and react in different situations. Since the process of developing foreign business skills and knowledge is time consuming and resource demanding, firms can instead build relationships through business network learning for entry into foreign markets.

Learning experience through interaction with partners facilitates the acquisition of foreign market knowledge by internationalising firms (Freeman et al., 2006). Knowledge channelled through the relationship results from a strong and closed relationship. This relationship becomes strong when firms gather experience during interaction and use that to anticipate and act according to the norms that satisfy the partner's needs. Johanson and Vahlne (2003) explain this process when they suggest that firms engage with three types of learning during the interaction process with partners. Firstly, through the interaction, the firm acknowledges partner specific information, such as the partner's way of reacting to certain kinds of action. In this way firms learn how to coordinate activities so that joint productivity [with a partner] is strengthened. Secondly, through interactions with partner firms, firms learn specific skills which may be transferred to, and used in, other relationships. Thirdly, through this interaction, firms also learn how to coordinate activities with those in another relationship such as relationships with several suppliers. Thus, through a capacity to learn, firms are able to gain knowledge, and make appropriate operational adjustments that lead to stronger partnerships, thus enhancing knowledge transfer (Perez-Nordtvedt, Babakus, & Kedia, 2010)

Notwithstanding the manifestation of the learning role in international business contexts, research explicitly examining the linkage between learning orientation and international

performance is scarce (Jantunen et al., 2008). This is surprising because learning orientation is clearly a relevant topic in this context. Besides the importance of learning for international growth, firms' survival and performance has also been emphasised in the literature (Zahra, Ireland, & Hitt, 2000). In international settings, learning has been shown to have a direct relationship with knowledge acquisition such that learning about internationalisation is a cumulative, dependent process in which each step abroad enhances the firm's knowledge (Weerawardena, Mort, Liesch, & Knight, 2007). When a firm enters new foreign business environments, it has to maximise its knowledge flow and learning across countries, and learn various skills to build capabilities to compete in highly complex markets (Zahra et al., 2000). Through learning, firms can improve their new product development technological distinctiveness and sustainability of product performance, and the competitive advantage gained from learning is suggested as becoming enhanced across boundaries (Perez-Nordtvedt et al., 2010).

Few studies investigate the effect of learning on international performance. For example, a study by Nguyen et al (2007) examined the influence of learning orientation on relationship quality, and showed that learning orientation helps in building high quality relationships in new and mature relationships. A study by Jantunen et al (2008) investigated the relationship between learning orientation and international performance among Finnish firms from several industrial sectors engaging in research and development. Learning orientation was measured using instruments developed by Sinkula et al (1997). Performance was measured in terms of sales volume, market share, profitability, market entry, image development, and knowledge development. This study found that the effect of learning on performance was moderated by an international growth strategy so that the effect is positive and significant when internationalisation occurs gradually but not when the strategy is accelerated.

The literature offers few conclusions as to the nature of learning-performance interaction among exporting firms. Even so, small firms appear to have the ability to acquire and absorb information faster due to their size. Since learning is subject to a specific routine, a small firm's advantage is its flexibility to unlearn an existing routine and learn a new routine. In order to learn how to "play a good game", organisations need many kinds of skills, mostly acquired in learning-by-doing, by developing coordination skills and routines that work as a consequence of repeated interaction (Dikova, Sahib, & van Witteloostuijn,

2010). The process is much easier for smaller firms and hence helps them acquire knowledge faster and achieve better performance.

Kropp, Lindsay, and Shoham (2006) acknowledge the benefits of learning in that learning serves as a buffer between a firm and the environment. It increases a firm's ability to deal with unexpected environmental changes and lessens the effect of environmental shocks. Consequently, the more knowledge a firm has gained through intensive learning efforts, the more willing it will be to utilise and exploit this knowledge through subsequent international activity. In other words, the more intensely a firm engages in activities aimed at updating its knowledge of foreign markets, the greater its store of foreign market knowledge, thereby enhancing the return from acting upon new foreign investment opportunities (De Clercq et al., 2005). For small businesses, to obtain the utmost benefits of foreign relations the culture of learning is a must rather than an option. It is the principal component in overcoming the shortage of financial and human resources. Clearly, learning guides the firm in the effort to leverage foreign partner competencies.

2.7.3.3 Learning orientation and competitive advantage, internationalisation, and export performance

Consistent with an RBV, the present study conceptualises learning orientation as the organisational capability (Nasution & Mavondo, 2008) that assists a firm in gaining the ability to learn faster, which is said to be the source of sustainable competitive advantage (Slater & Narver, 1995) and superior performance. Extant literature shows that a firm's heterogeneous capability lies in the manner in which unique resources are positioned and managed, and this influences the firm's performance (Gonzalez-Padron, Hult, & Calantone, 2008). Partnerships such as alliances have emerged as organisational designs that enable organisations to deal with the increasing complexity of building and learning new sources of competitive advantage to compete in the global economy (Lei, Slocum, & Pitts, 1997).

Learning orientation has been found to be positively and significantly related to learning from experience, which is defined as the ability of a firm to perform behavioural actions to absorb and accumulate knowledge and skill portfolios from its past experience with previous alliances (Emden et al., 2005). In inter-organisational relationships, the development of a close and quality relationship is time consuming and socially oriented.

The prospects of continuing a long-term relationship depend on what the partner has learned from past relationships and how the partner acts according to the norms that may potentially extend the term and quality of the relationship. This notion is supported by several studies such as Nguyen, Barret, and Nguyen (2007) and Gonzalez-Padron, Hult, and Calantone (2008). Both studies found that the relationship between learning orientation and relationship quality was positive and significant. Emden et al (2005) suggest that the more eager to learn through collaboration a firm is, the more likely it is that it will be able to balance the trade-off between competition and cooperation within the alliance. In line with the above discussion, this study offers the following hypotheses:

Proposition 3: Relationship quality mediates the relationship between learning orientation and competitive advantage, internationalisation, and export performance.

Hypothesis 3a): Learning orientation is positively related to relationship quality

Hypothesis 3(b, c, d): Relationships between learning orientation and the following outcomes of internationalisation are mediated by relationship quality.

b) competitive advantage

c) internationalisation

d) export performance

Hypothesis 3(e, f, g): Learning orientation is positively related to the following internationalisation outcomes:

e) competitive advantage

f) internationalisation

g) export performance

2.7.4 Human Capital

For small firms, human capital plays a central role in their operations, and in international market ventures, which are complex and hostile, the managerial function is even more obvious. This section discusses the literature pertaining to the construct of human capital in international marketing studies.

2.7.4.1 Conceptual views of human capital

Human capital theory upholds the idea that knowledge provides individuals with increases in their cognitive abilities and leads to more productive and efficient activity (Davidsson & Honig, 2003). Wiklund and Shepherd (2008) liken human capital to the knowledge and skills that assist in successfully engaging in entering new or established markets with new or existing goods or services. Ruzzier et al (2007) put forward the notion that human capital represents an investment in education and skills and is created when a person's skills and capabilities are improved. A similar notion but slightly different expression comes from Sturman, Walsh, and Cheramie (2008) who refer to human capital as intangible personal resources embedded in individuals [entrepreneurs] and developed through education, training and experience, and it is closely tied to know-how. Both Wiklund and Shepherd (2008) and Sturman, Walsh, and Chermaie (2008) seem to converge on a concept that associates human capital with the skills developed through education and experience. Nevertheless, in defining the construct of human capital, this study follows Coleman (2007, p. 304) who refers to human capital as:

“... education, employment or industry experience, and other types of experiences that help to prepare the entrepreneur for the challenges of business ownership.”

In the context of this study, Coleman's definition is appropriate because it specifically associates the concept of human skills with the managerial function of small business organisations.

Human capital is frequently cited as an intangible resource that is closely tied to know-how and contributes to a firm's performance and advantage. In the context of the present study, human capital is central in SMEs' internationalisation and performance (Ruzzier et al., 2006; Yeoh, 2004), and it is conceptualised as an important variable in internationalisation theory (Knight, Madsen, & Servais, 2004).

Scholars agree that human capital is a multidimensional construct, but at the same time they differ on the relevant dimensions. Although studies have identified several human capital aspects such as attitudes (Javalgi, Griffith, & White, 2003), national diversity [attitude] (Caligiuri, Lazarova, & Zehetbauer, 2004), and experience (Seleim, Ashour, & Bontis, 2007), these studies seem fragmented. Few studies employ a more comprehensive

approach to investigate a broader perspective on the human capital dimension. For example, Bruns et al (2008) advocate that human capital comprises two dimensions: general and specific. The general aspect of human capital provides the individual with all-purpose skills and broad problem-solving capabilities that are relevant within multiple contexts, and it is often associated with formal education. Specific human capital, on the other hand, is developed through training or experience. For example, on-the-job training, education, and experience can facilitate the development of some general human capital, but it also leads to a greater understanding of products, processes, and services specific to the firm. Among other researchers, Wiklund and Shepherd (2008) share a similar view of the dimensions in human capital.

Sturman, Walsh, and Cheramie (2008) describe human capital as having two aspects, namely specific and generic, that can be viewed on a continuum. At one extreme, they place highly specific human capital, which they describe as individuals with knowledge and skills unique to a single firm. This highly specific human capital loses most of its value when executives move between firms, because of its lack of transferability. At the other extreme is the generic concept of human capital. Generic human capital represents knowledge and skills that generate value or rents for any firm that makes use of them. This category refers to general managerial approaches to work, such as motivating staff, planning budgets, and working in a team that would be of value in any industry.

Ruzzier et al (2007) suggest four dimensions of human capital in the context of the SME entrepreneur, namely international business skills, international orientation, perception of environmental risk, and management know-how. *International business skills* refers to tacit knowledge acquired through experience in foreign markets, especially through involvement in multinational corporations or international organisations, exposing entrepreneurs to information and international, personal networks and relationships in foreign markets. *International orientation* is about the amount of time the entrepreneurs have spent abroad. Their exposure to foreign culture through living, working, or travelling abroad should increase the international orientation of entrepreneurs to foreign cultures and countries. *Perception of the environment* [risk perception] is defined as the entrepreneur's level of risk tolerance in international ventures. *Management know-how* refers to the skills and expertise developed over time by managing an enterprise, and the ways know-how and other capabilities influence a firm's ability to identify and acquire resources and ultimately use those resources to implement strategies. In the context of SMEs' performance in export

markets, the present study adopts the dimension of management know-how in the construct of human capital.

2.7.4.2 Research on human capital

In international marketing studies, human capital is viewed as an important construct strongly related to the internationalisation process of SMEs, due to the key role of the entrepreneur in firms (Wright et al., 2007). The logic of the resource based perspective postulates that firms may achieve superior performance in international ventures by utilising idiosyncratic resources and capabilities, particularly those intangible resources and capabilities that it owns or acquires through external sources such as close partners. Others suggest that valuable, rare, inimitable, and un-substitutable resources lead to sustainable competitive advantage (Barney, 1991, 2001b), and that knowledge is one of those kinds of resources. In the context of international ventures, central to the process is the discovery of opportunities (Johanson & Vahlne, 1990), while the know-how of the individual entrepreneur provides the knowledge, skills, and problem-solving abilities to exercise resource endowment to discover and exploit those opportunities, and more effectively and efficiently to pursue new entry (Wiklund & Shepherd, 2008).

Ruzzier et al (2007) posit that once a firm is engaged in exploiting an opportunity, or is in the process of internationalisation, entrepreneurs are responsible for many internationalisation related tasks such as setting objectives, gathering foreign market information, collecting and organising resources, and implementing internationalisation strategies. Following the view of Bruns, Holland, Shepherd, and Wiklund (2008), a higher degree of human capital lowers perceptions of risk and enhances awareness of a greater number of viable solutions in the decision making process, and increases perseverance towards successful business ventures. Wright et al (2007) suggest that policy makers concerned with maximising returns on their investment may benefit from targeting groups of entrepreneurs who offer greater ‘internationalisation potential’.

Past studies indicate that entrepreneurs’ human capital is positively related to export performance and internationalisation of SMEs. One such earlier study is by Axinn (1988) who investigated the impact of managerial related factors on export performance among managers in machine tool manufacturing in North America. Based on a sample of 105 firms, the author found that managerial perception and past overseas work experience were

significant indicators of export performance. In another study by Caligiuri et al (2004), using a sample of US multinational firms, national diversity of a firm's leadership was conceptualised as a surrogate for attitudes and found to be positive and significantly related to a firm's internationalisation and performance. In addition, Javalgi et al (2003) studied the effect of human capital on the internationalisation of 228 firms in the service sector. In this study the internationalisation construct was conceptualised and measured in the context of exports. The researchers found that management attitude was strongly correlated to internationalisation. In a recent study, based on a sample of 208 managers, Sousa, Ruzo, and Losada (2010) demonstrated that values significantly influenced strategic decisions and the export performance of firms. Those sampled were senior managers of Spanish exporting firms in multi-industry sectors. Finally, a study by Ruzzier et al (2007), which is closely related to the present study in its focus on SMEs' internationalisation, employed two measures of human capital: aggregate and individual. These scholars found that aggregate measure showed a direct significant impact of human capital on the degree of internationalisation of SMEs, and the findings suggest that internationalisation is best explained by the latent construct of human capital comprising its four indicators. However, in this study, no test was undertaken on the impact of aggregate measures of human capital on international performance.

2.7.4.3 Human capital and competitive advantage, internationalisation, and export performance

Although the literature acknowledges that a manager's past international experience helps develop international market knowledge and positive attitudes towards internationalisation, the dynamic of today's international market warrants an awareness of changing environments. Due to the liability of smallness that restricts SMEs in acquiring foreign market knowledge for superior performance, a large section of the literature advocates a strategic role for relational exchanges as a source of that knowledge (Freeman et al., 2006; Hahti et al., 2005). In SMEs, managerial human capital plays an important role in export activities and internationalisation success.

This study postulates that managers' know-how helps develop the capabilities to leverage relationship quality with foreign partners to gain knowledge of foreign markets and, ultimately, to achieve high performance in the international market. This is particularly true in the context of small firms where normally managerial characteristics are essential and

decisive in strategic outcomes. In addition, managers are the main factor behind the initiation, development, sustainability, and success of a firm's export venture (Sousa et al., 2010). In this case, when managers' preference for interpreting their environment or cognitive styles influences their interpretation of the situation (White, Varadarajan, & Dacin, 2003), knowledgeable and experienced managers are more competent to make crucial choices regarding the partnerships. As a result, when customers interact with competent sellers, which may include managers' knowledge and experience, they receive increased value, their relationship becomes more important, and they invest more effort to strengthen and maintain it (Crosby, Evans, & Cowles, 1990).

A strong and close working relationship ultimately facilitates the exchange of knowledge between partners. Exporters may use this knowledge to respond to local market environments such as customers' needs and competitors' positions. Thus, exporters are able to gain competitive positions and achieve superior export performance. Based on the above discussion, the following hypotheses are offered:

Proposition 4: Relationship quality mediates the relationship between human capital and competitive advantage, internationalisation, and export performance.

Hypothesis 4a: Human capital is positively related to relationship quality.

Hypothesis 4(b, c, d): Relationships between human capital and the following outcomes of internationalisation are mediated by relationship quality.

- b) competitive advantage*
- c) internationalisation*
- d) export performance*

Hypothesis 4(e, f, g): Human capital is positively related to the following internationalisation outcomes:

- e) competitive advantage*
- f) internationalisation*
- g) export performance*

2.8 PSYCHIC DISTANCE

Psychic distance, due to its central role, is one of the most studied constructs in cross-border research, and for this reason the construct is included in this study. This section

reviews the literature on psychic distance for its concepts and past studies as well as its relationship with competitive advantage, internationalisation, and export performance.

2.8.1 Conceptual Views of Psychic Distance

Since Johanson and Wiedersheim-Paul's (1975) explosive work, psychic distance has been extensively studied and regarded as an important construct in research into firms' internationalisation process. The concept of psychic distance is closely related to cultural distance. Despite calls from a number of scholars (Johanson & Vahlne, 1977; Shenkar, 2001; Stottinger & Schlegelmilch, 2000) for further work on the measurement of psychic distance, most studies employ cultural distance as a surrogate measure for psychic distance (Dow & Karunaratna, 2006). However, other scholars (e.g. see Ali, 1995; Evans & Mavondo, 2002) suggest a composite index to include cultural distance and business distance. The work of Hofstede (1991) has perhaps become the major source of reference for the study of cultural distance. According to Hofstede, national culture is based on four dimensions: individualism, avoidance of uncertainty, masculinity, and long-term orientation. Evans and Mavondo (2002), on the other hand, propose that business distance consists of four dimensions: the legal and political environment, the economic environment, market structure, and business practice and language.

Numerous definitions of psychic distance have been proposed by scholars, some of which compete with each other while others complement one another. In the context of the present study, two definitions are presented here for the purposes of discussion in order to develop an appropriate definition for this study. The first concept, developed by the Uppsala internationalisation school (Johanson & Wiedersheimpaul, 1975, p. 308), defines psychic distance as:

“...the sum of factors preventing or disturbing the flow of information between firm and markets.”

Johanson and Vahlne (1977, p. 24) emphasise the differences inherent in the notion of psychic distance when they state that, “[E]xamples [of psychic distance factors] are differences in language, education, business practices, culture, and industrial development.” The second definition is expanded by Evan and Mavondo (2002), who define psychic distance as:

“...the distance between the home market and a foreign market, resulting from the perception of both cultural and business differences.”

These definitions are consistent, in that both emphasise differences between the home country and the potential foreign market. This view finds support in the literature. Brewer (2007a, p. 46) writes “[A] review of recent research highlights the importance that is placed on differences between home countries and potential markets as representing psychic distance or, indeed, as being synonymous with the concept.” In fact, most of the recent research into psychic distance is based on measures of perceived differences between home countries and target market countries (Andersen & Buvik, 2002).

In a similar way, the study of psychic distance is closely associated with knowledge of foreign markets, which is also a key factor in the concept of internationalisation (Johanson & Vahlne, 1977; Johanson & Wiedersheimpaull, 1975). The connection between psychic distance and knowledge derives from the notion that a firm’s managers tend to enter the markets of countries that they can get to know easily, while they avoid markets that are difficult for them to get to know (Brewer, 2007b). However, the acquisition of knowledge demands resourcefulness, and SMEs, due to their size, have limited resources for obtaining such knowledge, especially experiential knowledge. Johanson and Vahlne (2003) argue that lack of experiential knowledge of foreign market operations can be substituted for by building relationships with foreign partners through knowledge about those partners. In addition, they suggest that knowledge about foreign markets is channelled through these relationships. Following this argument, and drawing from Klein et al (1990), this study defines psychic distance as *the exporter's perception of differences between the operating environments of the exchange partners, that is, the importer.*

2.8.2 Research on Psychic Distance

Although many studies have focused on psychic distance, few researchers agree on the empirical usefulness of psychic distance and its effects on firm performance (Evans et al., 2008). Conceptual development of a distinct view among researchers can be divided into two groups: first, those who find negative relationships between psychic distance and performance, and, second, those who find the positive relationships between the two variables. Traditionally, psychic distance generates complexity in international operations, as high cultural distance [a proxy for psychic distance] increases the overall risks in a

firm's business portfolio (Tihanyi, Griffith, & Russell, 2005). Several studies (for a review see Li & Guisinger, 1992) found a negative impact on businesses with higher cultural distance. When cultural distance is high, the language, laws and regulations, business practices, and consumer attitudes are, by definition, different (Ha, Karande, & Singhapakdi, 2004). However, reviews by Tihanyi et al (2005) reveal that the empirical evidence from previous studies shows mixed results. The second view argues that higher psychic distance positively impacts on performance, in that their empirical evidence shows that, in some cases, export sales to psychically distant countries are greater than to psychically close countries (Stottinger & Schlegelmilch, 2000).

Evans and Mavondo (2002) argue that operating in psychically close markets may encourage firms to overlook subtle but important differences and thus inadvertently create stronger competition than local firms. On the other hand, managers may perceive a high level of uncertainty in psychically distant markets and this may induce them to introduce measures to improve strategic decision-making and performance. Furthermore, the authors posit that expansion into distance markets may encourage unique opportunities. For example, firms based in highly competitive markets will perform well in less competitive markets. Based on these arguments in the literature, it is obvious that there is no clear consensus regarding the role of psychic distance in determining organisational performance, and that the apparent contradictions in the literature may exist because many of the relationships are explored in isolation (Evans et al., 2008). Thus, the current study proposes that psychic distance-performance relationships are context-dependent and nonlinear relationships are best explained by the impact of psychic distance on SMEs' internationalisation.

2.8.3 Psychic Distance and Competitive Advantage, Internationalisation, and Export Performance.

Evans, Mavondo, and Bridson (2008) argue that the relationship between psychic distance and organisational performance does not exist in a vacuum. The present study suggests a nonlinear relationship and proposes that the role of psychic distance on export performance is mediated by the quality of exporter relationship with the foreign partner. Although this notion has been conceptualised and tested empirically in previous studies, research along these lines still is lacking. Relationship quality has been characterised as a long-term and close relationship between partners, and it is nurtured by flows of information and

knowledge about partners (Johanson & Vahlne, 2003). But psychic distance has been noted to interrupt the communication flow and social interaction between the exchange parties (Bello & Gilliland, 1997), flow which is critical for the development of relationship quality (Dwyer, Schurr, & Oh, 1987). Moreover, because the interacting parties are kept apart by their lack of a common frame of reference, psychic distance may curtail the desire for the relationship to be important enough to warrant the maximum effort, to the detriment of channel member commitment (Leonidou, Barnes, & Talias, 2006).

In interacting with partners with higher cultural distance, there is a feeling of a lack of common ground, which may result in a higher degree of perceived behavioural uncertainty and lower trust (Ha et al., 2004). Skarmeas et al. (2008) maintain that in international exchange relations marked by high levels of psychic distance, relationship quality levels are likely to suffer. The lower the degree of dissimilarity, the lower the level of psychic distance surrounding the importer–exporter relationship (Stottinger & Schlegelmilch, 2000). Accordingly, the following hypotheses are offered:

Proposition 5: Relationship quality mediates the relationship between market orientation and competitive advantage, internationalisation, and export performance.

Hypothesis 5a: Psychic distance is positively related to relationship quality

Hypothesis 5(b, c, d): Relationships between psychic distance and the following outcomes of internationalisation are mediated by relationship quality:

- b) competitive advantage*
- c) internationalisation*
- d) export performance*

Hypothesis 5(e, f, g): Psychic distance is positively related to the following internationalisation outcomes:

- e) competitive advantage*
- f) internationalisation*
- g) export performance*

2.9 INTER-ORGANISATIONAL RELATIONS

This study conceptualises inter-organisational relations as a vehicle for SMEs to leverage foreign partner competencies and internationalise despite their disadvantage compared to bigger MNEs in international export markets. Specifically, the relationship with a foreign

importer is viewed as a low cost method of acquiring foreign market knowledge and overcoming the disadvantage of limited financial and human resources. This section therefore briefly discusses the origin of relationship paradigms and the existing study of international relationships in the SME context.

Systematic approaches to developing research in the context of exporter-importer relationships can be traced back to the work of the Industrial Marketing and Purchasing [IMP] group (Racela et al., 2007). The IMP group (1982) categorises the literature on business relationships into three groups: [1] studies based on a single organisation, [2] studies based on several organisations, and [3] studies of the organisation in a societal context. The first group is classified as the intra-organisational view of marketing processes, where a buyer is perceived as a passive participant. In the second group, marketing is viewed as a relationship among interacting organisations (Sweeney, 1972). The third group takes a social system perspective on marketing, viewing marketing as an integral and inherent part of society.

Inter-organisational analysis is rooted in intra-organisational properties (Van de Ven, Emmett, & Koenig, 1975) that narrowly view relationships as discrete events. In fact, the concept itself specifically excludes the elements of relations (Dwyer et al., 1987). In addition, neither the analyses of the interaction itself nor the specific aspects of other organisations, with which the central organisation has interacted, is required (Marrett, 1971). Moreover, Morgan and Hunt (1994) assert that distinguishing between discrete transactions and relational transactions is required for the understanding of relational exchange. Discreteness in a relationship, as defined by MacNeil (1980, p. 10) “...is one in which no relation exists between the parties apart from the simple exchange of goods.” Discrete exchange separates the transaction from all that is involved in the exchange process such as the participants, the history of the transaction, and its anticipated future. Toyne (1989), in discussing the exchange concept of international business, proposes that international exchange has three characteristics: [1] it involves the exchange of goods and/or services among two or more social actors in different countries for commercial reasons, [2] it is an exchange process involving relationships, input and outputs, between social actors located in different countries, and [3] It may be influenced by non-commercial considerations such as the social and political climate. In addition, he asserts that international trade and collaboration is an exchange process that begins with the exchange

of information regarding the matching of a product or foreign technology with a perceived market need at home or abroad.

Previous studies on international relationships have focused mainly on several perspectives of international relationships such as identification of relationship dimensions, factors impacting the relationship, and the performance outcome. Despite substantial scholarly works, the inter-organisational international relationship theory still suffers from a divergence of opinion among scholars, which surprisingly occurs even on the basic tenets of the paradigm such as its definition and its key dimension. Of particular interest is the export framework, where the critical tenets of the exporter-importer relationship are still subject to testing and further investigation (Styles, Patterson, & Ahmed, 2008). Another important note is that while previous studies have focused mainly on MNEs, the findings of such investigations however may not provide the same explanation for SMEs. This is because an MNE uses its internal resources to enter overseas markets rather than depending to any large extent on the relationship with foreign partners. SMEs, on the other hand, due to their inherently limited resources, are highly dependent on foreign partners for acquiring information and knowledge of foreign markets.

Notwithstanding the legitimacy of the above notion in extant literature (e.g. Freeman & Cavusgil, 2007; Mort & Weerawardena, 2006), intensive studies into SMEs' exporter-importer relationships are still lacking. For example, to date no extensive study has been undertaken which specifically tests the various dimensions of the relationship framework, factors affecting the dimensions, and outcomes. Perhaps the reason is that existing studies concentrate on network perspectives of relationships and ignore the critical role of inter-organisational relationships, which is the interest of this study. Business network is defined as a set of two or more connected business relationships serving as a second tier to inter-organisational relationships, which are the foundation of the business network (Anderson, Hakansson, & Johanson, 1994). A network can be extended, and the boundary becomes arbitrary. Since it is impossible to gain insight into network relationships, inter-organisational relationships serve as a starting point to better understand relationships and to acquire complete understanding of the inter-organisational relation. Another lack in previous studies is the absence of quantitative studies. Ultimately, little can be derived from these studies in order to accomplish a complete understanding of the SMEs exporter-importer relationship. Accordingly, this study seeks to contribute to the literature by tackling the existing gaps in the literature.

2.9.1 Relationship Dimensions

Dimensions of inter-organisational relationships can be explained by two broad streams: economic and behavioural (Nes et al., 2007). These two streams are viewed as complementing each other (Llanes & Melgar, 1993). Scholars have also classified these streams as a governance structure to mitigate inherent problems in the relationships (Aulakh & Gencturk, 2008). From an economic perspective, the relationship is described by dimensions such as uncertainty, specific investment, information asymmetry, and opportunism. The behavioural perspective emphasises the role of social structure, interdependence, norms, and history of relationships, and is described by such qualities as commitment, trust, communication, relationship, distance, and cooperation.

There is little agreement among researchers as to which construct best captures the association between a relationship and its outcome. For example, Hallen, Johanson, and Seyed-Mohamed (1991) view adaptation as an important aspect of inter-firm relationships because the exchange process of relationships requires every partner to adapt to the needs of others. On the other hand, Morgan and Hunt (1994) posit that commitment and trust are key to a successful relationship. A recent study of Leonidou, Talias, and Leonidou (2008) suggests that a firm can reap the benefits of a relationship provided there is trust in, and commitment towards, that relationship. On the relationship construct, Ambler and Styles (1999) have cautioned overemphasis on relationship paradigms. They used the analogy of making a cake, where a balanced mix of ingredients is far more important than the precise amount of each ingredient. In addition, researchers have focused more on the interaction between constructs, deconstructing constructs into smaller ingredients, which is of less concern for practitioners, rather than the impact of these constructs on performance. In contrast, some scholars (e.g. Johnson, 1999) propose a general concept of relationship quality, which posits that no single facet of a relationship construct describes the overall depth and climate of relationships. The meta analysis review of Palmatier et al (2006) found that objective performance was highly influenced by relationship quality. Following support from empirical research on the legitimacy of multiple constructs to evaluate international relationships (Samiee & Walters, 2003), the present study maintains that relationship quality functions best captures insight into SMEs' inter-organisational relationships.

2.9.2 Relationship Quality

Relationship quality is an “overall assessment of the strength of a relationship, conceptualised as a composite or multidimensional construct capturing the different but related facets of a relationship” (Palmatier et al., 2006, p. 138). Griffith and Meyer (2001, p. 94) refer to relationship quality as “the strength of an inter-organisational relationship and the potential for the relationship to continue the process of development”. It encompasses all those behavioural parameters that help to maintain a smooth, stable, and productive working relationship (Johnson, Sakano, Cote, & Onzo, 1993). Relationship quality is an important aspect in maintaining and evaluating buyer-seller relationships (Nguyen et al., 2007). This is well documented in literature (Crosby et al., 1990). Ultimately, it offers the most insight into relationship exchange (e.g. Kumar, Scheer, & Steenkamp, 1995).

Skarmeas et al (2008, p. 172) view relationship quality as “a higher-order construct composed of several distinct, though related, dimensions”, while in the context of exporting Lages et al (2005, p. 1040) describe relationship quality as the “relationships developed beyond national boundaries.” From these perspectives, two issues are worth noting and demand attention in this section. One is that of dimensionality and the other that of cross country factors.

Athanassopoulou (2009) comprehensively reviews the literature of business-to-business relationship quality published between 1987 and March 2007, drawing a major conclusion on the absence of a viable framework. As in scholarly work on relationship variables (e.g. see Naude & Buttle, 2000; Skarmeas & Robson, 2008), scholars disagree on the dimensions that explain the quality of relationships. In the interests of this study, this also applies to examination of cross-border ventures. Prior conceptualisation emphasises the importance of trust, satisfaction, and commitment (De Wulf, Odekerken-Schroder, & Iacobucci, 2001), and the only convergence among scholars in Athanassopoulou’s review is the acceptance of these dimensions as representative of relationship quality. Nevertheless, the fundamental components of cross-border relationship quality remain to be explored and warrant further investigation, particularly in SMEs, which are absent in existing studies.

Perhaps, in attempting to identify the relationship quality dimension, researchers should be aware that relationship quality does not naturally flourish but needs to be carefully cultivated (Kumar et al., 1995), and that in an international context the development process is more delicate and complex. In fact, researchers have been warned to be vigilant in dealing with international relationship domains because such relationships that develop beyond national boundaries are affected more by diversity between partners (Lages et al., 2005). Although cross-border relationships might involve a range of impacts, extant literature has highlighted the importance of incorporating cultural dimensions in the relationship paradigm. Hence, Ambler et al (1999) suggest that simply reapplying existing concepts to international business contexts is largely taking the international relationship for granted. The validity of the tendency to neglect cultural contexts in the study of international business relationships has been challenged (Mavondo & Rodrigo, 2001). Athanossopoulou's (2009, p. 603) review found that "the role of environment is neglected in relationship quality studies although it would be extremely critical for multi-country study". Nevertheless, recent studies of cross-border relationship quality by Lages et al (2005) and Skarmeas et al (2008), and another study by Skarmeas and Robson (2008), use data from the same sample, have taken notice of this. Based on current business trends, the interests of researchers seem to converge on Asian business practices, especially those in the eastern region of the continent. From hereon in this study, the Asian context of business relationships refers to eastern Asian cultural frameworks. Extant literature has highlighted the distinction between Western and Asian businesses. This deserves noting. The following section, then, discusses Asian values in the relationship paradigm.

2.9.3 Asian Context

Norms in Asian business activities are long-established, and key to successful relationships is an understanding of the cultural elements impacting on their formation (Fletcher & Fang, 2006). Thus, replicating existing dimensions, particularly those of Western origin, is questionable. The literature evidences this, and the idiosyncratic nature of Western and Asian contexts for the relationship paradigm have been legitimised conceptually (e.g. Ambler & Styles, 2000) and empirically (e.g. Ramstrom, 2008). According to Fletcher and Fang (2006), applying the Western concept of cultural dimensions in relationship formations ignores indigenous cultural traits unique to the Asian market. Ambler and Styles (2000) point to the Chinese concept of Guanxi and self-individualisation: Guanxi is equivalent to the Western concept of relationships, but with an important difference. In

Asian contexts, the individual is defined by their family and social context whereas, in the Western view, the individual defines his own context. Guanxi is a manifestation of a business relationship that is more prevalent in Eastern settings where relationships have provided the foundation for business practices for thousands of years (Ambler & Styles, 2000). Ramstron (2008) found that the Western concept of relationships was based on the notion of competition and underwent constant evaluation and incremental change. In Asia, on the other hand, relationships are relatively strong and enduring over the long term. Accordingly, greater understanding of the international business relationship context can be achieved with greater attention to the cross-cultural framework (Phan, Styles, & Patterson, 2005).

Another critical element of the Asian relationship paradigm is that inter-organisational relationships normally hail from the personal and social relationships of managers. For example, Chinese and Malay ethnics in Malaysia found that focusing on social and relational aspects of business transactions is important and understanding the interpersonal relationship is a primary value in business (Storz, 1999). The Chinese concept of Guanxi carries a meaning of relationship based on social interaction, which is often characterised by informal interpersonal connection, influenced by cultural values, and bonded with reciprocal expectations (Zhou et al., 2007). Consistent with that view, Mavondo and Rodrigo (2001) define Guanxi as interpersonal or social relationships that pertain to business. Chinese managers often rely on personal relationships to stabilise channel relations and to ensure cooperation for long-term business performance (Hsieh, 1994 in Ling-yee & Ogunmokun, 2001). A qualitative study by Ramstrom (2008) on northern European managers doing business with ethnic Chinese-owned firms in South East Asia found that interpersonal relationships nurtured through social personal interactions and harmony were a critical element in inter-organisational relationships and business success. Although most discussion on Guanxi concerns ethnic Chinese business practice, the concept is very much in existence across Asian multiethnic society in general (Ramasamy, Goh, & Yeung, 2006), and here it is apparent that interpersonal relationships are also important elements in business activities in many Asian countries.

The legitimacy of relationships and personal interaction as an important variable in international business activities has led to the recognition of interpersonal relationships in international business exchange transactions in Western contexts (Samiee & Walters, 2003). The importance of personal relationships in the relational exchange paradigm has

long been explicitly argued in the literature (e.g. see IMP Group, 1982; MacNeil, 1980). Partners are expected to engage in social exchange that may involve personal and non-economic satisfaction (Dwyer et al., 1987). Although the legitimacy of business relationships has been questioned and contested, on the grounds that many successful businesses depend on other factors such as product quality (e.g. see Iyer, Sharma, & Evanschitsky, 2006), various articles support the view that interpersonal relationships are widespread among SMEs. Two explanations have been offered for this. The first is that close social relationships among individuals in the firm are extremely important for the entrepreneurs' success abroad (Holmlund & Kock, 1998). The second is that, in SMEs, the most strategic decisions are more often than not centred in individual functions such as the functions of the managers (Andersen, 2006). Harris and Wheeler's (2005) qualitative study showed that all business relationships established by small and medium firms in Scotland in three different industries, namely electronic, furniture, and tourism, had strong personal and social elements. In another qualitative study, Freeman and Cavusgil's (2007) investigation of Australian SMEs revealed interpersonal contacts as helping accelerate the pace of internationalisation of these firms. A quantitative study by Yeoh (2000) in the United States found that firms may improve their overseas performance through experiential information in the form of personal interaction. Hence, the origin of inter-organisational relationships on personal and social interaction is also common among Western businesses, particularly SMEs, and this strengthens the view that interpersonal relationships may provide greater understanding of inter-organisational relational exchange.

Notwithstanding a call for greater attention to cultural dissimilarity in international relationship practices, in many instances researchers ignore the differences in cultural frameworks and their connections to relationships. For instance, Racela et al (2007) studied international business relationships among Thai export firms, focusing on the impact of market orientation on the relationship and performance outcome of the relationship. They examined three relationship dimensions: cooperation, dependence, and relationship distance. In another study, Nguyen et al (2007) tested relationship quality on 238 Vietnamese export firms, concentrating on four dimensions: trust, commitment, satisfaction, and minimal opportunism. These studies failed to incorporate the cultural factors embedded in Asian business practices, particularly the interpersonal dimensions of relationships. The present study seeks to differ by recognising the importance of cultural

frameworks in the Asian context of international business relations, and by applying the interpersonal and social elements in RQ constructs.

Although relationship quality dimensions have been intensively studied and appear frequently in the literature, empirical investigation of relationship constructs and SMEs, particularly in international contexts, has not been adequately researched. To date, it is not known which dimension provides better insight into SMEs' cross border relations. Notwithstanding the importance of organisational levels of relationships, personal relational exchange also plays a significant role in inter-organisational relationships. Thus, the focus of the present study is on both levels of relationship.

2.9.3.1 Social Bond

A major distinction of the Asian context of business relationships from its Western counterparts is the social orientation of the relationship. The concept of social bond has been developed in Western settings and validated in Asian contexts (Mavondo & Rodrigo, 2001) due to its fundamental nature. The term 'Guanxi' also carries the meaning of an informal social bond through which the individual carries expectations and obligations to facilitate exchanges of favours (Liu, Li, Tao, & Wang, 2008). However, surprisingly, social bonding has been neglected in most relationship studies of Asian business contexts.

Social bonding is defined as investments of time and energy that produce positive interpersonal relationships between the partners (Evans & Mavondo, 2002). Wilson (1995) defines social bonding as the degree of mutual personal friendship and liking shared by the buyer and seller. Social bonds dispose customers to self-disclosure, listening, and caring, which in turn improve mutual understanding between the customer and the service provider, their openness, and their degree of closeness (Chiu, Hsieh, Li, & Lee, 2005). Ramstrom (2008) asserts that establishing social bonds require a sense of closeness between the partners, both mental and emotional, and that it indicates satisfaction with a relationship partner: for instance, in the form of equity and benevolence. He further suggests that one aspect of social bonding is empathy in order "to get personal" with the other actor. Ramstrom defines empathy as the ability to understand someone else's desires and goals.

2.9.4 Organisational Level of Relationship Quality

Following the above discussion, a number of studies identify several dimensions in the Asian concept of interpersonal levels of SMEs' relationship quality, such as interpersonal commitment and trust (Mavondo & Rodrigo, 2001), satisfaction (Phan et al., 2005), communication (Ramasamy et al., 2006), and social bonding (Ramstrom, 2008). Ramasamy et al. (2006) viewed trust, commitment, and communication as important in Guanxi to facilitate the transfer of knowledge from the firm with knowledge to the firm receiving knowledge. They found that trust and communication related significantly to the degree of knowledge transfer between partners in the relationship. On the other hand, the study did not find commitment to be significant. The present study argues that since the Asian concept of relationships often occurs informally, commitment should be conceptualised at a personal level (Mavondo & Rodrigo, 2001) rather than at an organisational level. Harris and Wheeler (2005) suggest that the role of communication in domestic relationships differs between international contexts. This leads to greater diversity. Such diversity in a cultural framework demands competent communication skills. Ramstrom (2008) proposes that relationships in Asian contexts are socially oriented and social bonding is an important element that characterises the relationship. Accordingly, the following sections discuss five dimensions of relationship quality: trust, commitment, satisfaction, adaptation, and communication.

2.9.4.1 Trust

Trust is a vital component of international business relationships. Relationships in an Asian context are dependent on the trust of other individuals, and a formal contract is inadequate to guarantee the exchange process (Ramstrom, 2008). Trust is nurtured through long-term social interaction, and inter-organisation trust is often rooted in personal interaction. In fact, the concept of Guanxi involves cultivating personal relationships through the exchange of favours and gifts for the purpose of obtaining goods and services, developing networks of mutual dependence, creating a sense of obligation and indebtedness (Yang, 1994), and ultimately developing trust at a personal level and, eventually, between firms.

Trust is the foundation of any business relationship (Nes et al., 2007), particularly in the development of long-term relationships (Kumar et al., 1995). Trust is the belief by one party in a working relationship that the behaviour of the other is honest, sincere, and fair

(Leonidou, Katsikeas, & Hadjimarcou, 2002). Cavusgil, Deligonul, and Zhang (2004) define trust as the confidence or belief that the exchange partner possesses about the credibility and benevolence of other partners. Credibility is the belief that the exchange party is reliable, and in international relationships where both physical and psychic distances are great, the foreign partner must rely strongly on the local partner to manage the partnership on a daily basis (Phan et al., 2005). Benevolence is the belief that a party is genuinely interested both in the welfare of the other party and in joint gains. It is also referred to in some of the literature as “goodwill trust” (e.g. Liu et al., 2008). Some scholars suggest, with empirical support, that benevolence has limited benefits in business exchange (Cavusgil et al., 2004). The present study argues that an Asian business demonstrating caring behaviour towards a partner’s well-being is an important element. In fact both concepts are very much interrelated. Lee, Jeong, Lee, and Sung (2008) suggest that an importer's benevolence towards its exporters is the importer's voluntary helping behaviour beyond the call of duty, designed to enhance the well-being of its exporting partners. The same also applies to an exporter’s perspective. Another definition by Kumar et al (1995) is that trust is the willingness of an exporter to be vulnerable to the actions of another party based on the expectations that the other party will behave in a “right” (good) way to run the firm. This definition of trust reflects the idea that the term encompasses two essential dimensions: honesty and benevolence. Honesty is based on the belief that the firm stands by its words (Anderson & Narus, 1990), fulfils promised role obligations, and is sincere (Dwyer et al., 1987).

In the international context, trust “plays a crucial role in overcoming the challenges to successful international exchange” (Katsikeas, Skarmeas, & Bello, 2009, p. 133), such as becoming a mediator to counterbalance the potential harmful effects of cultural differences (Nevins & Money, 2008). Trust enhances an exporter’s competency to exploit local market opportunity and effectively curtail a distributor’s opportunism (Wu et al., 2007). In a trusting atmosphere, companies are more prone to disclose information which, under other circumstances, they would conceal (Gripsrud, Solberg, Ulvnes, & Carl Arthur, 2006). Siguaw et al. (1998) argue that individuals trust organisations that allow open communication and the opportunity to participate. Access to valid information from the partner will therefore be greater when there is high trust. Trust has been regarded as an alternative to price and authority in governing a relationship (Bradach & Eccles, 1989). For example, trust has been found as the most effective mechanism for the management of opportunism (Wathne & Heide, 2000), particularly in export markets (Cavusgil et al.,

2004). It reduces the likelihood of foreign distributor opportunism by increasing the costs of engaging in such behaviour (Hill, 1990). Jackson and Crockenberg (1998) suggest that open and honest information exchange between two people is positively associated with the level of trust between them. Trust, along with commitment, has been found to be an important element in relationship building (Morgan & Hunt, 1994) and is believed to be a central component of relationship quality.

2.9.4.2 Commitment

Morgan and Hunt (1994, p. 23) define relationship commitment as:

“...an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum effort to maintain it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely.”

At an interpersonal level, Mavondo and Rodrigo (2001) define commitment as “the dedication to a long-term interpersonal relationship of individual A with individual B”. When an individual is committed to the relationship with another individual from a foreign firm, he will bring the organisation closer and establish a strong partnership at an organisational level. Managers’ commitment to relationships is demonstrated by the ability to develop and maintain close relationships with partners (Phan et al., 2005).

Mavondo and Rodrigo (2001) propose three components of commitment: instrumental, expressive, and mixed. Instrumental commitment is established to acquire economic benefits, which are divided proportionately between partners according to contribution. This is governed by the equity rule. Expressive instrumental commitment involves personal feeling, values, and norms. Benefits are divided according to the needs of the partner instead of proportionally to contributions, and the governance occurs according to implicit “need rules”. This is consistent with relationships in Asian contexts and emphasises the situation where both partners gain benefit from the relationship. Mixed commitment is a combination of instrumental and expressive commitment that requires a long-term orientation.

At an organisational level, this study adopts the multi-component approach in conceptualising inter-organisational commitment. In the literature, Mavondo and Rodrigo

(2001) suggest three components: instrumental, attitudinal, and temporal commitment. Nguyen et al (2007), on the other hand, finds three main types of commitment in the literature: continuance, behavioural, and affective (see also Kim & Frazier, 1997).

Commitment has assumed a central role in the development of models of the buyer-seller relationship (Skarmeas et al., 2008). Saleh and Ali (2009) suggest that from an exporter's perspective, commitment is important because importers facilitate the exporter's internationalisation process by continuously providing access to foreign markets. Morgan and Hunt (1994) maintain that commitment, together with trust, is "key" to relationships for three reasons. The first is because commitment encourages marketers to work at preserving relationship investments by cooperating with exchange partners. Second, it discourages managers from attractive short-term alternatives in favour of the expected long-term benefits of staying with existing partners. Finally, with commitment, managers view potentially high-risk actions as being prudent because of the belief that their partners will not act opportunistically. Commitment has an important role in the development of relationships. Hence commitment is a highly important variable in the quality of relationships.

2.9.4.3 Satisfaction

Satisfaction is another important component of cross-border relationships. Satisfaction of customer needs is always at the centre of exchange relationships because a customer who is not satisfied cannot be expected to have good working relationships with firms (Roberts, Varki, & Brodie, 2003). Satisfaction is an affective or emotional state towards a relationship (Palmatier et al., 2006). In more specific terms, Geyskens, Steenkamp, and Kumar (1999) consider satisfaction as having a positive affective state resulting from the assessment of a firm's working relationship with another firm. In the export context, satisfaction is defined as a positive emotional and rational state resulting from the appraisal of all aspects of an importer's working relationship with an exporter.

Furthermore, satisfaction refers to social as well as economic aspects of the exchange (Skarmeas et al., 2008). Homburg, Krohmer, Cannon, and Kiedaisch (2002) posit that satisfaction [or dissatisfaction] is the result of comparing expected and perceived performance, and that perceived performance refers to product or service characteristics. Over the course of transactions, customers reassess and keep themselves informed about

their overall satisfaction by incorporating historical experiences and new information (Vazquez-Casielles, Alvarez, & Martin, 2010). As a result, it has a cumulative effect over the course of the relationship compared with satisfaction specific to each transaction (E. W. Anderson, Fornell, & Rust, 1997). As the focus of this study, overall satisfaction or satisfaction that accrues across a series of transactions is a more primary indicator of the firm's past and current performance (Vazquez-Casielles et al., 2010).

Satisfaction has been extensively analysed both conceptually and empirically in inter-organisational studies. In their review of literature published between 1970 and 1996, Geysken et al (1999) found that satisfaction was the most popular construct in an empirical study of channel relationships. The fact that satisfaction is a major construct in channel relationships has been documented in the literature as due to various reasons. These include the notion that satisfaction helps further the understanding of relationships, influences channel members' morale, facilitates the integration of logistic management, and more importantly satisfies channel members, who become less prone to exit the relationship and more inclined to participate collectively with other members (Geyskens et al., 1999). In this study, satisfaction with the relationship is considered a key dimension of relationship quality because it has been demonstrated that more satisfied buyers have higher quality relationships with selling firms (Dorsch, Swanson, & Kelley, 1998) as they tend to be more knowledgeable about the roles of selling firms and more perceptive about the quality of the relationship (Lages et al., 2005). In the past, satisfaction has been considered a prerequisite to relationship quality (Caceres & Paparoidamis, 2007) and hence it is an important indicator of successful relationship management (Homburg et al., 2002).

2.9.4.4 Communication

Communication can be described as glue (Anderson & Narus, 1990), which in the context of the present study means it holds together exporter and importer. Kropp, Lindsay, and Shoham (2006) refer to communication as the ability to empathise and communicate with customers. Palmatier et al (2006, p. 138) define communication as the "amount, frequency and quality of information shared between exchange partners". It is a means of transmitting from the importer information about the export market. Communication is the extent to which relationship members exchange meaningful and timely information. Lages et al (2005) posit that communication is the human activity that creates and maintains relationships between the different parties involved. Communication has also been

identified as a means of reducing conflict and as a precursor to trust (Morgan & Hunt, 1994). The success of business relationships over the long run is contingent on each partner's ability to communicate effectively throughout the duration of the relationship (Mohr & Nevin, 1990), where the exchange of information will improve the fluidity of the relationship and help firms to identify their customers' needs and their suppliers' abilities (Dwyer et al., 1987). Communication, therefore, becomes more relevant in the establishment and development of the relationships (Polo-Redondo & Cambra-Fierro, 2008).

This study adopts three components of communication, as proposed by Mohr and Spekman (1994): communication quality, information sharing, and participation. *Communication quality* is a multidimensional construct, and scholars seem to converge in their acknowledgment of four characteristics of communication: timeliness, accuracy, adequacy, and credibility of information exchange. Communication quality will help partners to make better decisions and consequently contribute to the success of the relationship (Phan et al., 2005). Research on inter-organisational relations has emphasised the importance of communication quality to resolve disputes, align perceptions, and define expectations (Bstieler & Hemmert, 2008). *Information sharing* is defined as “the mutual sharing of business and market information between exchange partners” (Wu, 2008, p. 123). Information sharing between firms refers to information shared between a buyer and a supplier that is detailed enough, frequent enough, and timely enough to meet a firm’s requirements (Carr & Kaynak, 2007). When the partners obtain detailed enough, frequent enough, and timely enough information they will be able to perform better in the relationship. Mohr and Spekman (1994, p. 139) refer to *participation* as “the extent to which partners engage jointly in planning and goal setting”. Phan et al (2005) have tested these components of communication at an interpersonal level on South East Asian business partnerships.

In international relations, communication is a bigger challenge due to the problems of physical distance that reduce face-to-face contact, and also due to language and cultural differences (Nes et al., 2007). Effective inter-organisational communication among members facilitates the benefits of strong relationships in the global marketplace (Griffith & Harvey, 2001). Without effective inter-organisational communications, learning among network partners will be diminished and the long-term effectiveness of the network will be damaged (Koza & Lewin, 2000). Mohr, Fisher, and Nevin (1999) found that

communication had a strong and positive effect on commitment, satisfaction, and coordination. Based on this argument, communication plays a vital role in building relationship quality.

2.9.4.5 Adaptation

If individuals are to interact for more than short periods, they must continue to adapt to each other's needs (Hallen et al., 1991). Hellen et al (1991) suggest that relationship-specific adaptations can be characterised as the investment of products, processes, or procedures to meet the specific needs of an exchange partner. Leonidou and Kaleka (1998) suggest that adaptation consists of [1] planning/structural adaptation and [2] procedural adaptation. Hallen et al (1991) posit that firms in relationships adapt for two reasons. The first is when a business in a long-term relationship carries a considerable number of sales, the firm needs to make significant adjustments to ensure continuous business exchange. Secondly, a dynamic business relationship requires partner[s] to make necessary adaptations to bring about initial harmony between needs and capabilities, as well as to fit into changing business environments. In a business-to-business relationship, adaptation is more frequent on the supplier/seller side partly due to the natural tendency of a supplier to adapt to their buyers' requirements (Boeck, Bendavid, & Lefebvre, 2009).

Adaptation is seen as a response to local needs and requirements, and confers many benefits. For example, relationship-adaptation can improve channel efficiency (Kent & Mentzer, 2003) and lower the customer cost and thus increase sales (Cannon & Homburg, 2001). In a study by Wong and Chan (1999), adaptation was found to have positive effects on close cooperation, mutual understanding and the joint development of products, and technical solutions. Hsieh, Chiu, and Hsu (2008) investigate the role of supplier-accommodation of customers on MO-customer satisfaction relationships among Taiwanese companies. The supplier's accommodation of the customer has the characteristics of flexibility and relationship-adaptation. They found that relationship-adaptation mediated the relationship between MO and customer satisfaction. The advantages of adaptation that contribute towards an enhanced relationship quality may be seen in more competitive products, increased revenue, cost reduction, or differential control over the agreed interactions (Wong & Chan, 1999).

In an export context, it is suggested that firms should find out how to adjust their marketing strategies and tactics (marketing mix elements) in order to fit market requirements (Vrontis, Thrassou, & Lamprianou, 2009). Given an ever-changing environment of international markets, management's reaction to environmental threats in the form of export adaptation strategies has been put forward as the key driver for superior export performance (Li, 2010). In an empirical study, Navarro (2010) found that marketing strategies adapted to the needs and preferences of the foreign markets would have positive effects on managers' perceptions about their achievement of competitive advantages, indirectly boosting managers' satisfaction with export activity. Nevertheless, it is only recently that scholars have started to pay attention to organisational practices, which refer to how organisational members conduct their work in a firm setting on a routine basis (Yu & Zaheer, 2009).

2.10 THE CONCEPTS OF MODERATOR AND MEDIATOR

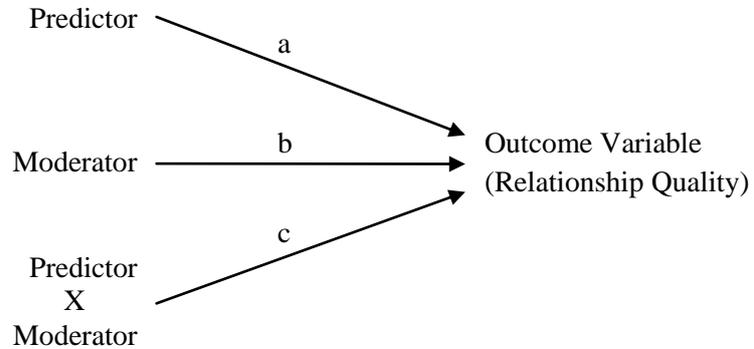
This section discusses the literature on the concepts of mediator and moderator and then develops key propositions and hypotheses that relationship quality mediates the impact of a firm's resources and capabilities and psychic distance on export markets in order to achieve competitive advantage, internationalisation, and export performance.

Baron and Kenny's (1986) seminal work has become the reference point in the literature on the terminology of moderator and mediator, and the role of the two constructs in independent-dependent relationships. For the purpose of this study, it is important to distinguish the concepts of mediator and moderator according to Baron and Kenny.

A moderator is a variable [qualitative or quantitative] that affects the direction and/or strength of the relationship between an independent [predictive] and a dependent [criterion] variable. The model in Figure 2.1 has three causal paths that feed into the outcome variable: the impact of a predictor (Path a), the impact of a moderator (Path b), and the interaction of the two (Path c). The hypothesis for the moderator is supported if the interaction (Path c) is significant. Additionally, it is desirable that the moderator variable not be correlated with either the predictor or the criterion (the dependent variable) so that it provides a clearly interpretable interaction term. Another property of the moderator variable evident in the model is that moderators and predictors are both causal variables

antecedent to certain criterion effects, and hence moderator variables always function as independent variables.

Figure 2.1: Moderating Concept

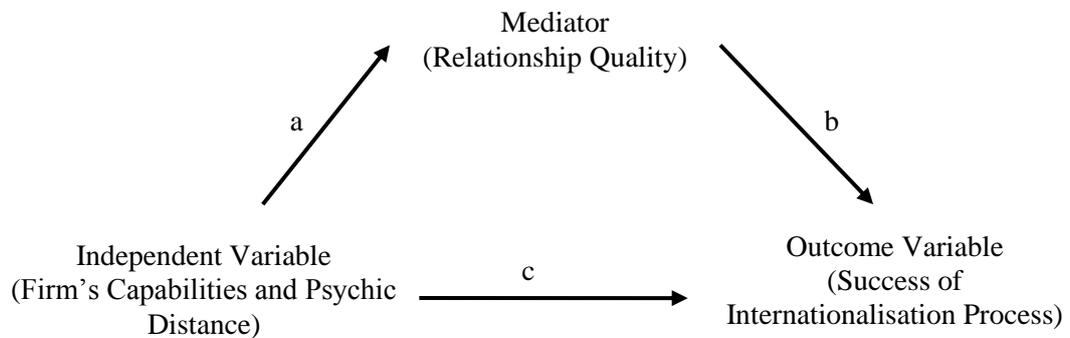


A mediator, in its most generic form, is a third variable that intervenes to affect the independent variable's [stimulus] impact on the dependent variable [response]. In other words, the relationship between dependent, independent, and mediating variables, described as an independent variable (X), causes an intervening variable (I), which in turn causes the dependent variable (Y) (MacKinnon, Lockwood, Hoffman, West, & Sheets, 2002). Although scholars use different terminologies in relation to mediation [for example: indirect effect, intervening variables, mediation], they agree on the notion that mediation occurs when the effects of one variable on another can be explained by a third, intervening variable (Wood, Goodman, Beckmann, & Cook, 2008). It is important to explain the causal relationship between an independent and a dependent variable when there is prior specification of indirect effect. James and Brett (1984) suggest that the mediator predicts the dependent variable in relation to the independent variable. McKinnon, Hoffman, West and Sheets (2002) conclude that testing of the intervening variable's effect is useful because they can then examine processes by which variables are related. Furthermore, such tests are critical for establishing the plausibility of causal sequences implied by the theory.

Figure 2.2 is a basic model involving mediation adopted from Baron and Kenny (1986). The authors assert that mediating a variable accounts for the relationship between the predictor and the criterion. In their analogy, a variable is said to function as a mediator when three conditions are fulfilled. Firstly, when variations in levels of the independent variables significantly account for variations in the presumed mediator [Path a]. Secondly, when variations in the mediator significantly account for variations in the dependent

variable [Path b]. Thirdly, given that path a and path b are controlled, when path c is reduced to zero [relationship between independent and dependent variables no longer significant] this demonstrates a strong effect of the mediator.

Figure 2.2: Mediating Concept of Relationship Quality



2.10.1 Relationship Quality as Mediator

The present study shows how the level of knowledge flow is dependent on the strength and closeness of the relationship between partners, which translates to the quality of that relationship. This notion is prevalent for internationalising SMEs where inherent resource limitations force them to look at external sources in order to acquire crucial information and knowledge of foreign markets. Furthermore, this view is consistent with Knight and Cavusgil (2004), who assert that a strong relationship with competent foreign partners facilitates early internationalising to achieve superior performance. From a strategic perspective, resource-poor firms can overcome the uncertainty and risk of foreign markets by leveraging foreign intermediaries for localised market knowledge and competencies (Knight & Cavusgil, 2004). Accordingly, it is expected that relationship quality will facilitate the flow of information and knowledge about foreign markets, which in turn helps build competitive advantage, achieve better performance, and internationalise. This notion accords with the literature which argues that the principal function of inter-organisation relationships can be viewed either as a resource (Griffith, Myers, & Harvey, 2006; Srivastava, Fahey, & Christensen, 2001) or as a source of resources (Gripsrud et al., 2006). From the viewpoint of Griffith et al (2006), relationship is a strategic resource characterised as idiosyncratic, and it generates a competitive advantage. At the same time, they argue, relationship resources underlie the development of another strategic resource: knowledge. Similarly, relationships often offer the best route to obtain knowledge

resources (Morgan & Hunt, 1999). Thus, by participating in international networks, SMEs create conduits of information flow and knowledge formation (Liesch & Knight, 1999). An open and honest information exchange between two people is dependent on the quality of interaction between the two parties (Phan et al., 2005). The strong ties in business relationships with foreign partners are positively associated with knowledge acquisition from those ties (Presutti, Boari, & Fratocchi, 2007).

Based on the above discussion, relationship quality should be considered a mediator because: [1] it is influenced by a firm's resources and capabilities and psychic distance, [2] it influences success in the internationalisation process, and [3] given that [1] and [2] are controlled, the relationship of the firm's resources and capabilities and psychic distance with the success of an internationalisation process will be reduced to zero.

At this juncture, it is understood that establishing relationships with other firms enables SMEs to overcome their inherent constraints (Freeman et al., 2006) and helps them identify and exploit market opportunities and facilitate the development of knowledge-intensive products (Mort & Weerawardena, 2006). Furthermore, relationships benefit SMEs in overseas operations by recruiting new customers (Bradley et al., 2006) and achieving better performance (Babakus et al., 2006).

2.10.2 Relationship Quality, Competitive Advantage, Internationalisation, and Export Performance

For small firms, relationship capabilities are seen to be the way to overcome resource scarcity, the main impediment to the process of internationalisation. In this context, partnerships with local importers are not an option but rather an important strategic move for international business ventures. Relationship capabilities are critical in building and maintaining strong and close partnerships by means of customer acquisition and retention. Exchange of resources between partners through relationship quality enables small exporting firms to obtain knowledge of local markets. Consequently, this knowledge is crucial in assisting firms to develop competitive strategies and achieve competitive advantage, to become more internationalised, and to acquire superior export performance.

The association of competitive advantage with export performance is well documented. Empirical investigations (Morgan et al, 2004) reported in extant literature demonstrate that

competitive advantage affects the performance of export ventures. Since relationship quality influences competitive advantage, the present study proposes that the relationship between relationship quality and export performance is mediated by competitive advantage.

The relationship between internationalisation and export performance has been the topic of debate among researchers for several decades. This is because research findings are divided into the positive and the negative effect of internationalisation on export performance. However, Lu and Beamish (2006) argue that most of these empirical studies focused on large and well-internationalised firm, and that the findings do not necessarily apply to SMEs. The authors suggest that the influence of internationalisation on SMEs' export performance is straightforward. By becoming more internationalised a firm increases its foreign market knowledge and experience. In turn, greater experiential knowledge of foreign market increases the firm's capabilities to produce a product that matches the consumers' needs and preferences, hence increases export sales. Accordingly, internationalisation affects export performance in a positive direction. In addition, it is proposed here that the relationship between relationship quality and export performance is mediated by internationalisation.

Based on the above discussion, the following hypotheses are proposed.

Proposition 6: Relationship quality is positively related to internationalisation outcomes.

Hypothesis 6a: Relationship quality is positively related to competitive advantage.

Hypothesis 6b: Relationship quality is positively related to internationalisation.

Hypothesis 6c: Relationship quality is positively related to export performance.

Hypothesis 6(d. e): Relationships between relationship quality and export performance are mediated by the following internationalisation outcomes:

d) competitive advantage

e) internationalisation

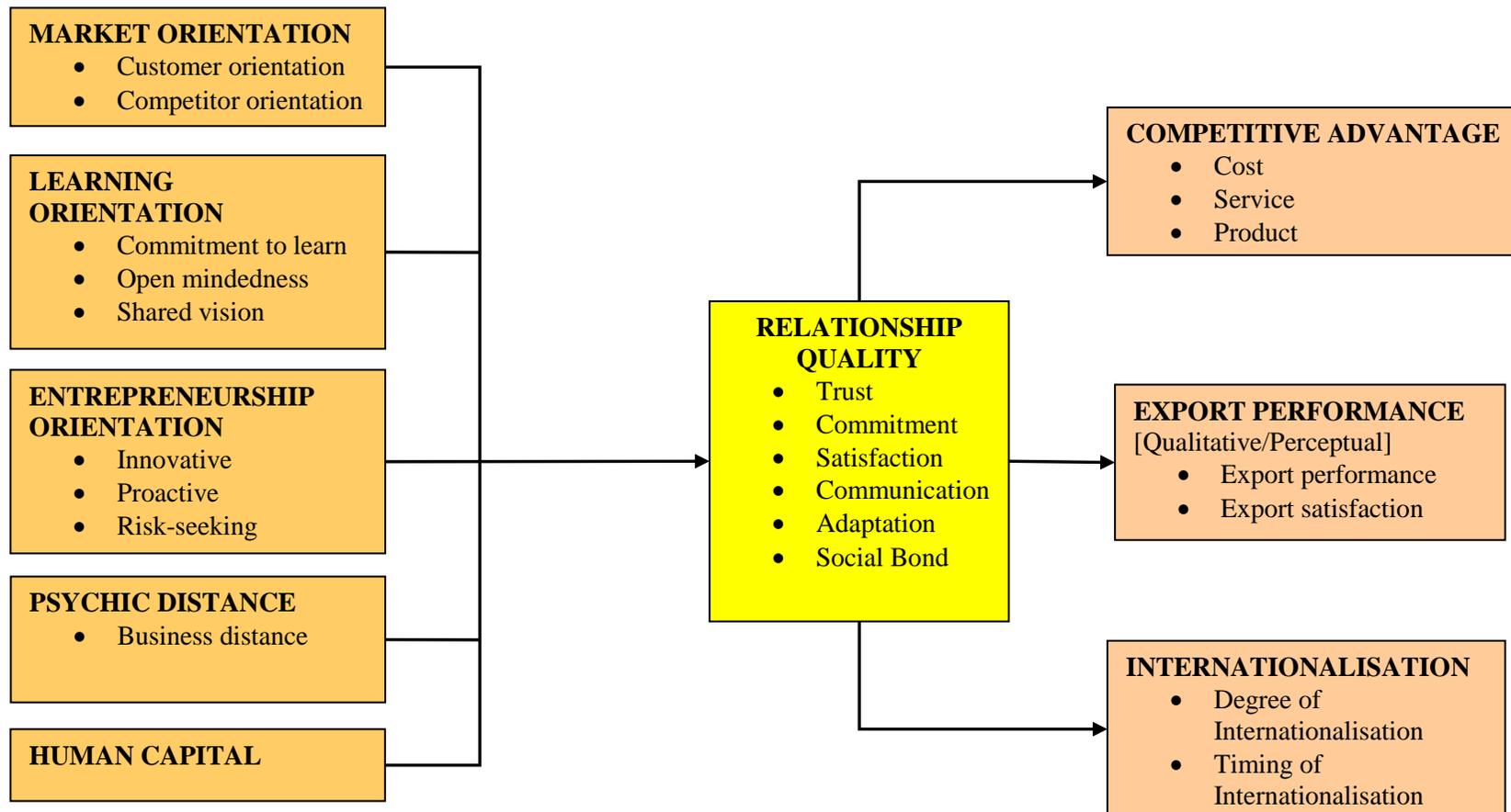
Hypothesis 7: Competitive advantage is positively related to export performance.

Hypothesis 8: Internationalisation is positively related to export performance.

2.11 CONCEPTUAL MODEL

Figure 2.3 shows the conceptual model of the present study. In this model, relationship quality is conceptualised as the mediator between the independent and the outcome constructs. The independent constructs consist of the following dimensions of organisational resources and capabilities: market orientation, learning orientation, entrepreneurship orientation, and human capital. In addition, psychic distance is also one of the variables of independent construct. Internationalisation outcomes comprise three constructs: competitive advantage, export performance, and internationalisation.

Figure 2.3: Full Conceptual Model – incorporating all the constructs



2.12 SUMMARY

This chapter has reviewed the literature pertaining to internationalisation, inter-organisational relationships, organisational resources and capabilities, psychic distance, competitive advantage, and export performance. The following points can be made based on these reviews.

First, although studies of firms' internationalisation have received much attention, few make reference to SME manufacturers. Hence, there is a need for more research to contribute to a greater understanding of internationalisation by small and medium enterprises. Second, earlier studies of internationalisation have depended on a single theory as the explanatory underpinning. However, due to the increased complexity of global business and difficulties in explaining firms' behaviour in international markets, it is suggested that researchers should integrate several theories to better explain SMEs' internationalisation behaviour. Third, in the initial stage of foreign market entry, the role of knowledge has been highlighted and supported theoretically as well as empirically. Nevertheless, for resource scarce firms like SMEs, the cost of acquiring foreign market knowledge is high, thus this scarcity undermines their ability to compete with bigger counterparts. One way of overcoming this is to build quality relationships with foreign firms, and consequently to leverage partners' capabilities in order to acquire foreign market knowledge. By doing so, SMEs can enter foreign markets successfully.

In this chapter, the related constructs of the study are modelled into a conceptual framework to address the existing gap identified in the literature. The independent constructs of market orientation, learning orientation, entrepreneurship orientation, psychic distance, and human capital are hypothesised to have positive effects on relationship quality. Relationship quality in turn mediates the relationship between the independent constructs and internationalisation outcomes. The following lists the hypotheses that have been developed in this chapter.

Hypothesis 1a: Market orientation is positively related to relationship quality.

Hypothesis 1(b, c, d): Relationships between market orientation and the following outcomes of internationalisation are mediated by relationship quality.

- b) competitive advantage*
- c) internationalisation*
- d) export performance*

Hypothesis 1(e, f, g): Market orientation is positively related to the following internationalisation outcomes:

- e) competitive advantage*
- f) internationalisation*
- g) export performance*

Hypothesis 2a: Entrepreneurship orientation is positively related to relationship quality.

Hypothesis 2(b, c, d): Relationships between entrepreneurship orientation and the following outcomes of internationalisation are mediated by relationship quality:

- b) competitive advantage*
- c) internationalisation*
- d) export performance*

Hypothesis 2(e, f, g): Entrepreneurship orientation is positively related to the following internationalisation outcomes:

- e) competitive advantage*
- f) internationalisation*
- g) export performance*

Hypothesis 3a: Learning orientation is positively related to relationship quality.

Hypothesis 3(b, c, d): Relationships between learning orientation and the following outcomes of internationalisation are mediated by relationship quality:

- b) competitive advantage*
- c) internationalisation*
- d) export performance*

Hypothesis 3(e, f, g): Learning orientation is positively related to the following internationalisation outcomes:

- e) competitive advantage*
- f) internationalisation*
- g) export performance*

Hypothesis 4a: Human capital is positively related to relationship quality.

Hypothesis 4(b, c, d): Relationships between human capital and the following outcomes of internationalisation are mediated by relationship quality:

- b) competitive advantage*
- c) internationalisation*
- d) export performance*

Hypothesis 4(e, f, g): Human capital is positively related to the following internationalisation outcomes:

- e) competitive advantage*
- f) internationalisation*
- g) export performance*

Hypothesis 5a: Psychic distance is positively related to relationship quality.

Hypothesis 5(b, c, d): Relationships between psychic distance and the following outcomes of internationalisation are mediated by relationship quality:

- b) competitive advantage*
- c) internationalisation*
- d) export performance*

Hypothesis 5(e, f, g): Psychic distance is positively related to the following internationalisation outcomes:

- e) competitive advantage*
- f) internationalisation*
- g) export performance*

Hypothesis 6(a, b, c): Relationship quality is positively related to the following internationalisation outcome:

- a) competitive advantage*
- b) internationalisation.*
- c) export performance*

Hypothesis 6(d, e): Relationships between relationship quality and export performance are mediated by the following internationalisation outcomes:

- d) competitive advantage*
- e) internationalisation*

Hypothesis 7: Competitive advantage is positively related to export performance.

Hypothesis 8: Internationalisation is positively related to export performance

The next chapter focuses on the context of this study, specifically highlighting the importance of the manufacturing sector and SMEs in Malaysia. The proposed model was tested using primary data collected from a sample of SMEs in the Malaysian manufacturing sector.

CHAPTER 3 – STUDY CONTEXT

3.1 INTRODUCTION

This chapter discusses the context of the research as well as the concepts identified in the literature review in chapter 2. The research context of this study is Malaysia, particularly SMEs in the manufacturing sector in Malaysia; these provide the sample population for this study. The chapter focuses on Malaysian economic development, the role of the manufacturing sector and issues related to Malaysian SMEs. The aim is to highlight the importance of SMEs to the Malaysian economy and to justify the significance of the study context.

To achieve the objective of this chapter, discussion starts with an overview of the outlook for the Malaysian economy. This is followed by analysis of the manufacturing sector in Malaysia. The chapter then discusses the SME sector in the country. In this section, the analysis includes a definition of SMEs and issues related to the industry, geographical distribution and the contribution of SMEs to the Malaysian economy in employment and output. The chapter ends with a summary.

3.2 MALAYSIAN ECONOMY

Today, with a population of 28.25 million, as of 2nd July 2010 (Malaysia, 2010), Malaysia has achieved remarkable economic development over four decades. The country is recognised as among the more successful developing countries in the world. This is indicated by the Global Competitiveness Index 2009–2010's ranking of the World Economic Forum (2009), in which Malaysia was acknowledged as the 24th most competitive economy. In addition, in 2008 it was ranked by the World Bank (2008) as the 36th biggest economy in terms of gross domestic product (GDP), outperforming many other bigger countries. These achievements among others have positioned Malaysia on the world map as one of the most important emerging markets, particularly in the Asian region. Consequently, it receives attention not only from the global business community but more importantly, in the context of this study, from researchers in various countries desiring a more in-depth understanding of the outward movement of local businesses and the inward movement of foreign firms.

Since independence in 1957, Malaysia's dramatic economic transformation has received enormous attention. Despite many internal and external challenges it has had to face during the intervening years, the country has managed to realise its full economic potential. The starting point was economic reform which began in 1970, following the racial riots of 13 May 1969 and the accompanying implementation of the New Economic Policy (NEP). The NEP aimed to eradicate poverty and reduce the economic gap between races (Stafford, 1997). As a result, the country's gross domestic product (GDP) in the 1970s and 1980s was averaging an outstanding 7.8 per cent and 6.2 per cent per annum respectively (Osman-Rani, 1996). This achievement continued in the 1990s, when the Malaysian economy reached a pinnacle of growth before unfortunately being struck by the worst economic turmoil it had ever experienced. In 1997 many Asian emerging economies experienced the biggest challenge in their economic history when the Asian financial crisis erupted throughout most of the East and South East Asian countries. Malaysia was one of the worst affected nations, experiencing the contraction of its economy by as much as 7.5 per cent (GDP) in 1998. Prior to the crisis, Malaysia was one of the fastest growing economies in the world (Doraisami, 2005). In 1993 it enjoyed full employment for the first time since independence (Saleh, 1996). Between 1990 and 1997 the country achieved 9.2 per cent average GDP growth which is higher than any other ASEAN country.

Ten years after the 1997 crisis, the country rebounded and was set to achieve its Vision 2020 to become a fully developed nation by the year 2020. From 1999 to 2008 GDP growth averaged 5.61 per cent per year (Malaysia, 2008). Nevertheless, the momentum was yet again dampened by another financial crisis in 2008, this time on a larger scale, which was caused by the United States of America's subprime mortgage crisis. The effect was devastating, with nearly all advanced economies recording contraction in GDP growth in 2009 (Fund, 2009) and Malaysia was no exception with a 1.7 per cent reduction in GDP (Malaysia, 2009). According to the World Bank, in 2009 the Malaysian economy suffered the steepest GDP reduction among East Asian middle-income countries, and export figures have since gone down to the lowest level since 1967 (Bank, 2010). Nevertheless, the coming years look more promising and Malaysia is expected to achieve growth of more than 5 per cent for the next two years.

The outstanding economic growth that Malaysia had been experiencing for the previous four decades was mainly due to several structural changes it had undergone. During that time a series of policies to promote the manufacturing sector by means of foreign direct investment (FDI) was exercised. The main change the policy brought was the shifting of

economic structure from an agricultural and commodity-dependent economy to an industrial-oriented economy, particularly in manufacturing. As reported by Osman-Rani (1996), the contribution of the manufacturing sector to the GDP jumped significantly, from less than 10 per cent in 1960 to about 30 per cent in 1993. Another contribution to the rapid growth was an aggressive export-oriented strategy due to the structural adjustment of the economy in the 80s, in conjunction with the objective of transforming Malaysia into a newly industrialised economy (Ang, 2009). This was done by creating a series of import-substitution heavy-industry projects while at the same time attracting foreign direct investment (FDI) (Stafford, 1997). Liberalisation of the investment regime had become the impetus of “...rapid expansion of the export-oriented industrial sector and strong manufactured export”, (Saleh, 1996, p. 29) which in turn was the key driver of the performance of growth (Chandran & Munusamy, 2009). Finally, to counter the slowdown and irregularity of foreign investment, the government launched its Domestic Investment Initiative (DII) in 1993 with the aim among others of strengthening the development of SMEs (Osman-Rani, 1996). Although the government’s commitment to the development of SMEs was evident in the 1970s (Saleh & Ndubisi, 2006), this obligation has become more evident in recent years, particularly in the field of manufacturing.

3.3 MANUFACTURING SECTOR IN MALAYSIA

Chandran and Munusami (2009) assert that the manufacturing sector has been regarded as the main driver of growth in Malaysian economic development and export performance. Based on the economic report of the Ministry of Finance of Malaysia (2010) in 2006, this sector experienced 7.1 per cent in growth, which translates to 31.1 per cent contribution to the growth of real GDP. The economic report of the Bank Negara Malaysia (BNM) (2009), Malaysia’s central bank, showed that despite the financial crisis in 2008, the manufacturing sector’s contribution to total GDP was still strong at 29.1 per cent .

Table 3.1 depicts time series data of gross output, value added, and employment in manufacturing for selected years from 1959 to 2007 provided by the Department of Statistics Malaysia (2009). The data shows that in 1959, two years after independence, Malaysian manufacturing gross output was RM 1.218 billion. However, the output increased by almost 300 per cent within 10 years, recording RM 3.621 billion gross output in 1969. The growth for the next 10 years was even more outstanding with the gross output of RM 25.906 billion in 1979, an increase of more than 700 per cent. Since then the growth has never slowed and in 2007 the gross output was RM 742.9 billion. In terms of value

added, manufacturing registered merely RM 0.234 billion in 1959 and in 1979 it had increased to RM 7.051 billion. By 2007, value added in manufacturing had increased to a staggering figure of RM 142.1 billion.

As far as employment is concerned, manufacturing has been the biggest contributor to total employment in Malaysia since 1992, when it employed 1.6396 million people or 23.3 per cent of total employment. This was a 10 per cent increment since 1982, when 0.816 million or 15.5 per cent of the population worked in this sector. This was an outstanding increase, considering the level of 1959 employment in manufacturing was only 60,570. However, in 2007 the number increased immensely to 1.8 million people.

Table 3.1 Gross Output, Value Added and Employment for Selected Years, 1959–2007

Year	Gross Output RM Million	Value Added RM Million	Employment as at 31st December
1959	1218	234	60,570
1969	3621	1,081	142,913
1979	25,906	7,051	450,556
1989	80,802	20,591	698,060
1999	361,389	87,790	1,358,176
2005	655,500	117,665	1,675,163
2006	710,200	129,800	1,721,433
2007	742,900	142,100	1,800,353

Source: Department of Statistics Malaysia (2009)

Manufacturing is also the main sector for export activities. In 2006, manufactured products constituted 74.7 per cent of total exports, an increase of almost 20 per cent from 58.8 per cent of total national exports in 1990. These figures mark the significant value of manufacturing to the national economy, considering that trade accounted for more than 200 per cent of gross domestic product (GDP) and that Malaysia is the 18th largest exporter in the global market. Despite the global economic crisis that has caused the slump in growth, coupled with investment competition especially from China and neighbouring countries, the manufacturing sector continues to be the biggest contributor to exports. Hence, in an export-oriented economy, manufacturing clearly remains the most important sector and has become the major focus for development of economic policy.

The role of the manufacturing sector in Malaysian economic development started way back during the colonial era when the industry concentrated on resource-based production such as rubber and tin. Industrialisation then continued, favouring an import-substitution (IS) regime after the country gained independence. However, due to rent-seeking activities and

the low value-added ratio-to-sale value of IS industrialisation in the late 60s, the government responded by shifting to an export-oriented industrialisation regime (Jomo, 2007). The main objective of the new regime was to attract and encourage investment from export-oriented multinational manufacturing firms by offering various incentives such as tax exemption and free trade zones (FTZ), where firms operating in the zone were not subject to import or export duties. Since then the economy has started to see the expansion of its own export-oriented industrial sector, particularly [1] resource based industries such as rubber, palm oil, and wood products and [2] electric and electronic industries. By the early 80s the government was promoting a heavy-industries policy to further develop and strengthen the manufacturing sector in the country. In the mid 80s, Malaysia suffered an economic downturn which eventually forced the government to launch a more coherent industrialisation program. Although the focus was still on the export-oriented manufacturing sector, the emphasis was also on developing technological capabilities and domestic sourcing of inputs (Li & Imm, 2007). However, after the Asian financial crisis, due to competition, investment policy was liberalised and the policy makers were compelled to abandon the requirement that the investment be export-oriented and contain a certain percentage of local content.

The growth of the industrial sector, manufacturing especially, was led by open economic policy and driven by the export-oriented industrialisation initiative adopted during the 70s and the 80s, and it continued until the early 90s with some intervention from the government under the arrangement of “selective protection instruments” (Gustafsson, 2007). By the mid 1980s the manufacturing sector had overtaken the agricultural sector as the biggest contributor to GDP (Osman-Rani, 1996). This policy was initially driven by import substitution industrialisation (ISI) regimes, and later the government adopted export-oriented industrialisation. As a small economy, Malaysia did not have the market to enable production to achieve efficiency levels. During that time the liberalisation of the economy, particularly the manufacturing sector, attracted manufacturers from around the globe to set up their operations in the country. With an attractive policy for FDI coupled with low-cost labour and political stability at the time, MNEs used their manufacturing plants in Malaysia as a base to produce products for global markets. This worked very well for Malaysia, which later successfully became an export-oriented economy. In their study, Chandran and Munusami (2009) found that the openness of the Malaysian economy contributed to growth in the manufacturing sector.

The outlook for the future of manufacturing continues but with even bigger challenges. Foreign investments are becoming increasingly competitive and, at the same time, Malaysian investment regimes are becoming more liberal. One way to tackle the threats is by focusing on home-grown small and medium businesses.

3.4 SMALL AND MEDIUM ENTERPRISES

Like many other countries in the world, the presence of SMEs in Malaysia is highly significant, especially from an economic point of view (Saleh & Ndubisi, 2006). For example, in 2007 SMEs represented 95 per cent of business establishments in manufacturing (Malaysia, 2008); they were largely locally owned, which suggests a potential structural change in future economic development from a high dependence on large FDI to a greater contribution from the domestic sector (Hassan, 2008). Yet on the other hand, as Hassan states; “... SMEs are very vulnerable, and the failure rate is ... so high that no nation can afford to ignore it” (2008, p. 369). Realising the roles and potential contributions of SMEs, in 1996 the government launched an agency known as the Small and Medium Development Corporation (SMIDEC). The principal function of this agency was to promote the development of SMEs by means of infrastructure facilities, financial assistance, advisory services, market access, and other support programs.

To further strengthen SMEs, the National SME Development Council (NSDC) was set up in 2004 as the highest policy-making body for SMEs. Its objectives are to formulate strategies for SME development across all economic sectors, coordinate the tasks of related ministries and agencies, encourage partnership with the private sector, and ensure effective implementation of the overall SME development programs in the country. Saleh and Ndubisi (2006) note that among the many challenges facing Malaysian SMEs, there is ineffective coordination of too many agencies for SMEs. On this issue, the NSDC decided to assign to SMIDEC overall responsibility for strategy and policy formulation for SMEs and coordination of programs across ministries and agencies. In October 2009, SMIDEC was transformed into the Small and Medium Enterprise Corporation Malaysia (SME Corp).

3.4.1 Definition of SMEs

Definitions of SMEs differ between countries. In Malaysia, the SMEs Corp (2010) defines these enterprises according to various indicators such as type of industry, size, and turnover, as depicted in Table 3.2. In industry, the enterprises are grouped into two broad

categories: [1] manufacturing, manufacturing related services, and agro-based industries and [2] services, primary agriculture, and information and communication technology (ICT). For the former, as depicted in Table 3.2, SMEs are defined as those enterprises with 150 or fewer full-time employees or annual sales turnover of RM 25 million or less. For the latter category, SMEs are much more narrowly defined as enterprises with 50 or fewer full-time employees or annual sales turnover of RM5 million or less.

Table 3.2 Definition of Malaysian SMEs by Industry and Size

Industry Type	Micro-enterprise	Small Enterprise	Medium Enterprise
Manufacturing, Manufacturing Related Service and Agro-based Industries	Sales turnover of less than RM 250,000 or fewer than 5 full-time employees	Sales turnover between RM 250,000 and less than RM 10 million or between 5 and 50 full-time employees	Sales turnover between RM 10 millions and RM 25 million or between 51 and 150 full-time employees
Services, Primary Agriculture and Information & Communication Technology (ICT)	Sales turnover of less than RM 200,000 or fewer than 5 full-time employees	Sales turnover between RM 200,000 and less than RM 1 million or between 5 and 19 full-time employees	Sales turnover between RM 1 million and RM 5 million or between 20 and 50 full-time employees

Source: SME Corp (2010)

Note: RM = Ringgit Malaysia, a Malaysian currency

The Malaysian definition of SMEs is relatively narrow by comparison with other countries. For example, the European Commission defines SMEs as enterprises that employ fewer than 250 people and have an annual turnover not exceeding 50 million euros and/or annual balance sheets not exceeding 43 million euros. In the US, the definition is even broader and the standard maximum employee number set by US Small Business Administration is 500. According to the Australian Bureau of Statistics, SMEs are categorised as enterprises with fewer than 200 employees. This variation in definition causes problems in comparing research findings across countries. In many cases, generalisation of research findings is limited by the variance in sample characteristics. Hence it is highly important for future studies to address this issue.

3.4.2 Sectoral Composition and Geographical Distribution

According to the Department of Statistics Malaysia (2008), there were 32,584 manufacturing establishments in Malaysia in 2007. As presented in Table 3.3, small-sized enterprises with fewer than 50 employees registered at 26,763 (82.1 per cent), followed by 3,629 (11.2 per cent) medium-sized enterprises (with 50–149 full-time employees), and 2,192 (6.7) per cent large enterprises with 150 or more employees.

Table 3.3 Number of Establishments by Group Size in 2007

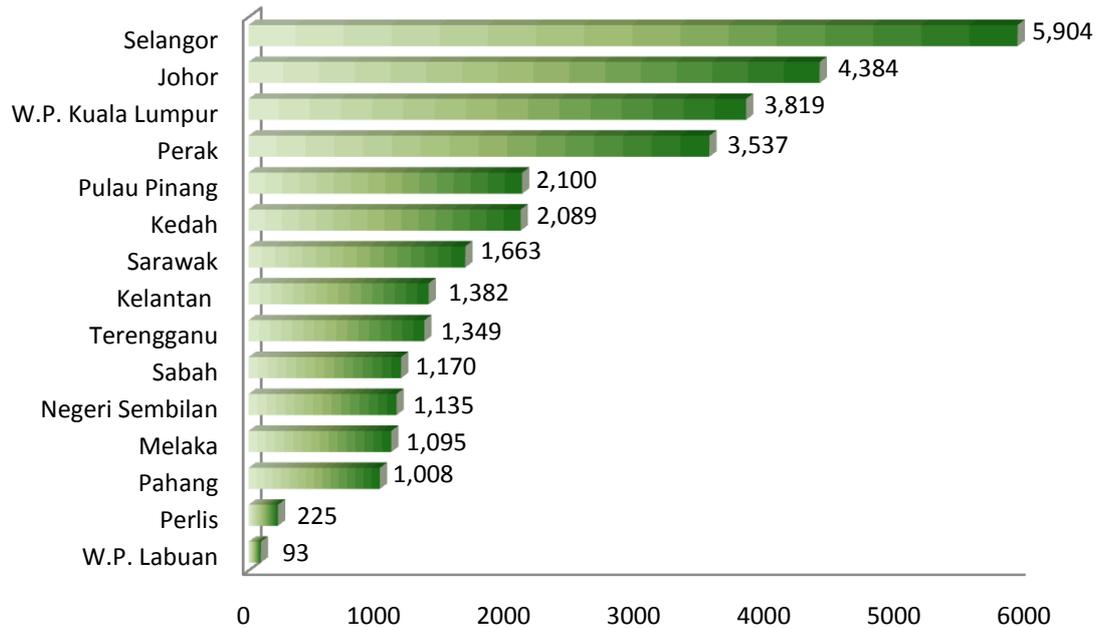
Group size by full-time employees	Number of establishments	
	Number	% Share
<50	26,763	82.1
50–149	3,629	11.2
150 and above	2,192	6.7
Total	32,584	100.0

Source: Adapted from Department of Statistics Malaysia (2008)

In the subsectors, textiles and clothing recorded the highest proportion of establishments (22.7 per cent of total establishment), followed by metal and non-metallic mineral products (18.6 per cent) and food and beverages (14.3 per cent). These three subsectors represented 55.6 per cent of total establishment. The remaining 44.4 per cent was made up by other subsectors, namely metal and metal products, wood and wood products, paper, printing, publishing, machinery and engineering, plastics products, electrical and electronics, petrochemical and chemical products, transport equipment, rubber and rubber products, palm oil and palm oil products, leather, and other.

Malaysia is a country with two major geographical areas. One is Peninsula Malaysia or west Malaysia and the other is east Malaysia. The majority of states are located in Peninsula Malaysia which is home to the majority of the Malaysian population. The geographical distribution of SMEs is highly concentrated on the west coast of Peninsula Malaysia (24,288 establishments or 78.5 per cent of total establishments). In particular, these firms are located in four states (54.1 per cent of SMEs): Selangor, Johor, Kuala Lumpur and Perak.

As shown in Figure 3.1, Selangor hosts the highest number of establishments (5,904 or 19.1 percent). The state of Selangor is also known as the industrial state and the most developed state in Malaysia. This is followed by Johor (4,384 establishments or 14.2 per cent), Wilayah Persekutuan (Federal Territory) – Kuala Lumpur (3,819 establishments or 12.3 per cent) and Perak (3,537 establishments or 11.4 per cent). In East Malaysia two states, Sarawak and Sabah, registered a total of 2,833 establishments only (9.2 per cent of the total establishments). Fewest establishments are recorded for Labuan (93 or 0.3 per cent), followed by Perlis (225 or 0.7 per cent).

Figure 3.1 SMEs by State

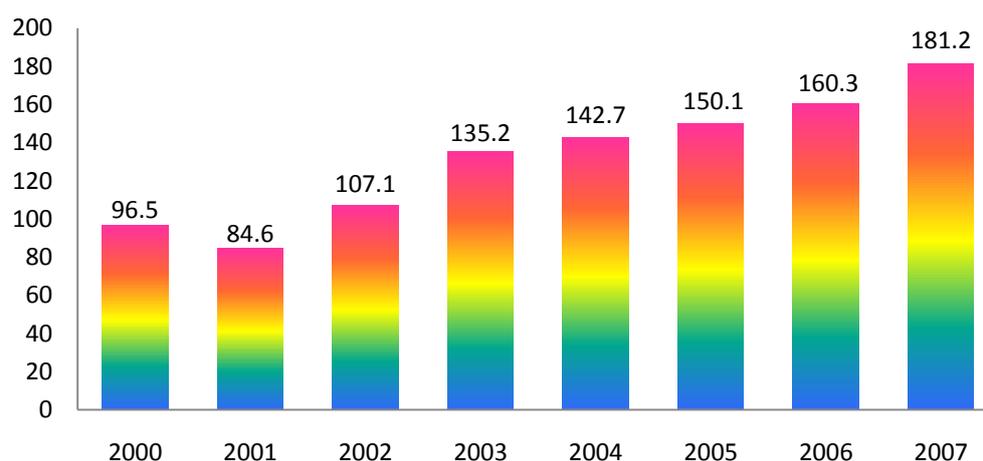
Source: Department of Statistics Malaysia (2008)

3.4.3 Contribution of SMEs in Malaysia

SMEs have been very important in Malaysia's high speed economic development, especially in relation to two aspects, GDP and employment. This section highlights the potential impact of these enterprises to future development of the Malaysian economy.

3.4.3.1 Contribution to GDP

Over the past decade, the contribution of SMEs to the country's output has increased in volume as well as in contribution. Figure 3.3 shows time series data for SMEs' output from 2000 to 2007. During that period, SMEs' output in terms of volume increased in every year except 2001. In those eight years, the output volume almost doubled, from RM 96.5 billion in 2001 to RM 181.2 billion in 2007. During that period SMEs' contribution to the total output of the manufacturing sector increased from 22 per cent in 2001 to 24.4 per cent in 2007. Nevertheless, in 2007 SMEs registered 27.9 per cent or RM 39.6 billion value-added in manufacturing.

Figure 3.2 SMEs Output by RM Billion 2000–2007

Source: Department of Statistics Malaysia (2008)

Medium-sized enterprises contributed a larger share of gross output than small-sized enterprises despite fewer medium-sized establishments. As Table 3.4 shows, in 2007 medium-sized enterprises recorded RM 109.6 billion gross output or 14.7 per cent of total manufacturing gross output compared to RM 63.1 billion (8.5 per cent) by small enterprises.

Table 3.4 Gross Output of Medium-sized Enterprises in 2007

Number of full-time employees	Gross output	
	RM Billion	% Share
Total	742.9	100.0
<50	63.1	8.5
50–149	109.6	14.7

Source: Adapted from Department of Statistics Malaysia (2008)

3.4.3.2 Contribution to employment

In 2007, SMEs employed a total of 596,559 people or 33.1 per cent of total employment in manufacturing. Of this number 95 per cent were in full-time employment. As presented in Table 3.5, small-sized enterprises employed a total 285,056 people (15.8 percent) in 2007 compared to 311,503 people (17.3 per cent) employed by medium-sized enterprises in the same year.

Table 3.5 Total Employment by Group Size in 2007

Number of full-time employees	Total employment	
	Number	% Share
Total	1,800,353	100.0
<50	285,056	15.8
50 – 149	311,503	17.3

Source: Department of Statistics Malaysia (2008)

3.5 SUMMARY

Manufacturing has been at the heart of Malaysia's industrialisation and economic transformation for the past four decades. Despite the challenges it has undergone, manufacturing will continue to be the core ingredient for future policy formulation of the Malaysian economy. In particular, SMEs will be the potential areas for growth in a highly competitive global market environment. As shown by the economic data for the last four decades or so, manufacturing has achieved a remarkable transformation and growth that supports economic development in Malaysia. In order to continue this momentum, Malaysia acknowledges the need to give more focus to SMEs. This analysis of the Malaysian economy and of the SMEs sector suggests a need to embark on further study in this context.

The following chapter, chapter 4, explains the methodology used in this study, the reasons for that methodological approach, including psychometric issues pertinent to this study.

CHAPTER 4 – METHODOLOGY

4.1 INTRODUCTION

This chapter describes the research methods carried out in this study to collect data in order to test the model and propositions developed in chapter 2. It therefore outlines in detail the research design, unit of analysis, measurement, sampling, questionnaire, data collection methods, and analytical procedures. To achieve the purposes of this research, a review of the literature was carried out in order to obtain information on the appropriate method for conducting quantitative and empirical research with significant validity and reliability.

The outline of this chapter is as follows. On the first topic, that of research design, it discusses the research plan, the unit of analysis, key informants, sampling, and method of data collection. There is then discussion on the development of the questionnaire and procedures that were used to collect data. This is followed by a discussion on analytic procedures, the operationalisation of constructs, coding of data and editing. The chapter ends with a summary.

4.2 RESEARCH PARADIGM

This study adopts an explanatory and positivist approach. Explanatory refers to the way the researcher poses the research question. Thus, the term explanatory refers to “studies that establish causal relationships between variables” (Saunders, Lewis, & Thornhill, 2007, p. 134). Positivism concerns the way the researcher thinks about the development of knowledge and this affects the way the researcher goes about doing research. Saunders et al (2007) explain that in this context the researcher would prefer to work with an observable social reality and that the product of such research can be generalised. In other words, only phenomena that the researcher can observe leads to the production of credible data. The fundamental principle of positivism is the ability of the researcher to make an objective analysis: that is, the ability to provide interpretations of the data in a value-free manner. Under the philosophy of positivism, the research technique should be [1] a highly structured methodology to facilitate replication, and [2] quantifiable observations that lend themselves to statistical analysis. Finally, the researcher is assumed to be independent, neither affecting nor affected by the subject of the research.

This research adopts an explanatory, positivist methodology for several reasons. Such an approach ensures the research has:

1. The ability to measure events and attitudes objectively and generalise findings to the population;
2. the ability to limit the cost of obtaining data so that appropriate funding is obtained for the research;
3. the ability to describe the sample in numerical terms and examine the relationships among several variables; and,
4. the ability to reach a large enough sample from which to make meaningful conclusions.

These four factors are the fundamental principles in the development of this method. The following sections provide details of the research methodology.

4.3 RESEARCH DESIGN

Malhotra (2007) defines a research design as the framework for conducting research by obtaining information needed to solve research problems. In addition, he details the methods necessary for attaining this information. Specifically, the research design contains clear objectives derived from the research questions: it specifies the source from which the researcher collects data, takes into account the constraints that the researcher will inevitably face, and discusses ethical issues (Saunders et al., 2007). On the other hand, in a broader perspective, the research design can be classified into two categories, namely, [1] exploratory, and [2] conclusive (Malhotra, 1996).

Exploratory research is designed to provide insight into, and understanding of, the problems in the research. Saunders et al (2007) note that the advantage of exploratory research is its flexibility and adaptability to change without losing the direction of the enquiry. This means that the focus is initially broad and becomes progressively narrow as the research progresses.

The authors propose three principal ways of conducting exploratory research: namely [1] a search of literature, [2] interviewing experts in the subject, and [3] conducting focus group interviews. In this study the problems have been defined through reviewing the literature on internationalisation theory, organisational capabilities, inter-organisational relationships, and exporting. Information on key constructs and scales that are appropriate

for measuring them have also been obtained. The exploratory research has resulted in the research propositions and models discussed in chapter 2.

Conclusive research, on the other hand, was structured to verify the insights gained in exploratory research. As Malhotra (2007, p. 79) writes:

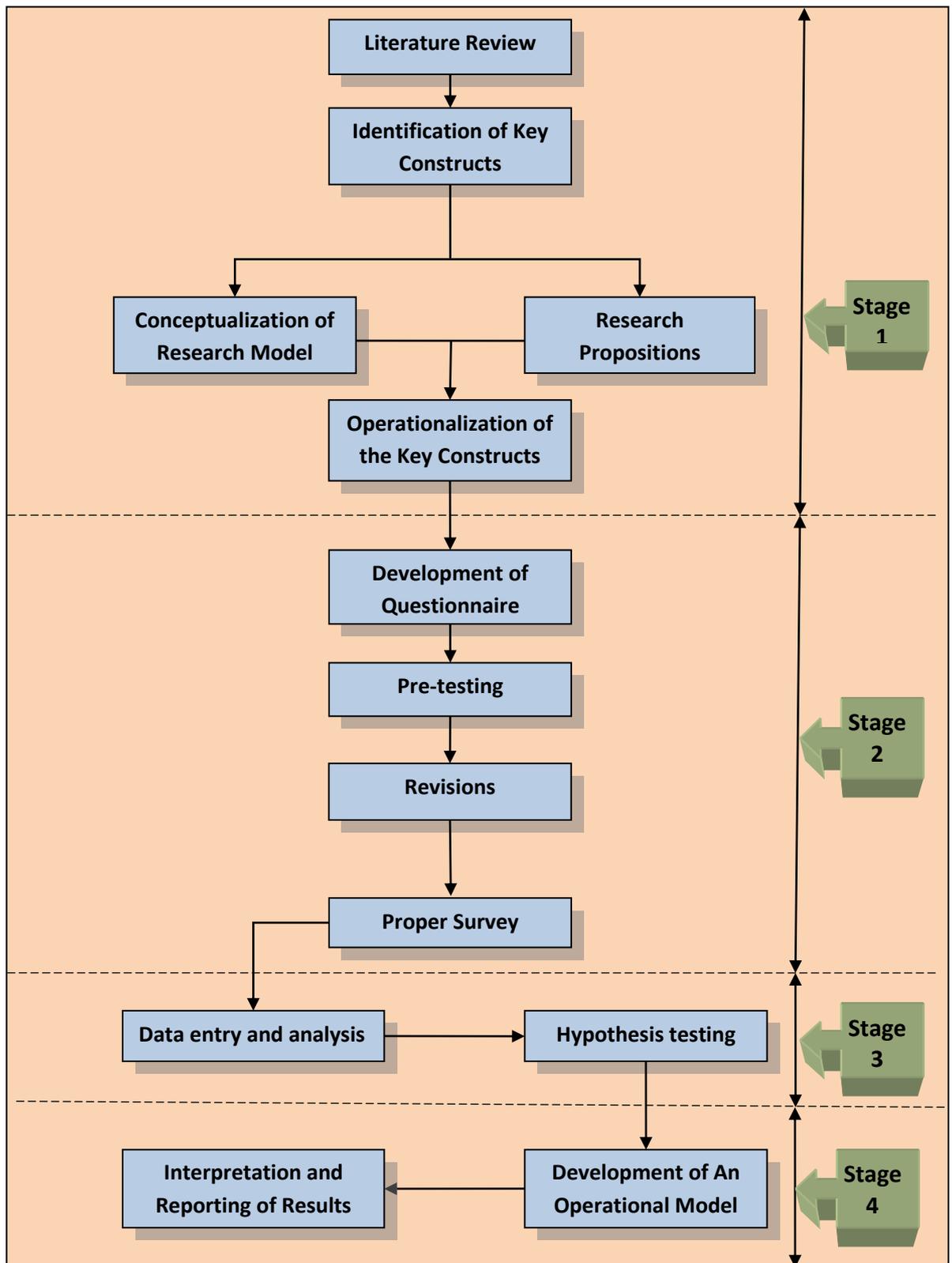
“[T]he objective of conclusive research is to test specific hypotheses and examine specific relations.”

In the context of the present study, conclusive research is expected to produce findings on the effect of the antecedent on relationship quality and the effect of relationship quality on outcome. Accordingly, at this conclusive stage, this research employed a survey method. In line with the research objectives, a structured questionnaire was developed and tested in a pilot study. As a result of the pre-test [pilot study], appropriate revision was made, particularly of the interpretability of the measure, instructions, and response formats. Following this, the actual field survey was conducted to collect data from a large and representative sample. This study follows an *ex post facto design*, where the subject has been exposed to the stimuli consisting of organisational capability, the relationship with a representative from the importer, and international operations.

4.3.1 Research Plan

Figure 4.1 shows a research map, based on Churchill (1979), that is divided into four stages. Accordingly, this research follows a carefully designed, systematic approach in order to obtain a significant level of reliability and validity for the findings. Stage 1 is an exploratory research stage where conceptualisation of the research framework and development of the research proposition occur. The remaining stages, stages 2, 3 and 4, work towards the research conclusions, by using a quantitative approach to test the propositions and thus produce the research findings. For this purpose, investigation starts with stage 2 which consists of the design and pre-testing of the questionnaire. Proper data collection is undertaken upon completion of the revised questionnaire. Stage 3 follows with data entry, analysis, and the eventual testing of propositions. Finally, the present research concludes with stage 4, namely the results.

Figure 4.1 Research Design



Source: Adapted from Churchill (1970)

4.3.2 Unit of Analysis

A unit of analysis is essential in order to define the research problem (Zikmund, 2000). It refers to the level of investigation upon which the study focuses (Malhotra, 2004). The selection of unit of analysis was *a priori*, well before the data collection process, because the unit of analysis determines how a scale is treated (Hair, Black, Babin, Anderson, & Tatham, 2006). The unit of analysis may take several forms such as exporter–importer dyads, individuals or groups. Once it is determined, then the research method will be developed accordingly.

This study is looking at the specific relationship between an SME manufacturer and its independent foreign importer. Hence, in line with others (e.g. Matanda & Freeman, 2009; Styles, 1998), a single export venture has been chosen as the unit of analysis. Respondents were asked questions about their most successful export venture that was profitable and met objectives set by the firm. By asking these questions, respondents consistently understood the criteria being used (Katsikeas, Leonidou, & Morgan, 2000) and, at the same time, the researcher was able to identify relationship quality in a specific relationship (Lages et al, 2005).

4.3.3 Key Informants

A single-key informant approach is the most commonly used method in organisational research (Kumar, Stern, & Anderson, 1993) and inter-organisational relationship research (Matanda & Freeman, 2009). This approach applies in this study. The key informant was a senior executive of the firm, such as a chief executive officer [CEO], president, managing director, export manager, marketing/sales manager, or someone directly involved in the management of the relationship in the particular SME.

The informants were chosen based on several criteria. Firstly, they were capable of understanding the concepts being measured and were able and willing to communicate the needed information (Kumar, Scheer, & Steenkamp, 1995). Secondly, the individuals had considerable knowledge in specific activities of the firm and experience with exporting in general. Finally, the informants were directly involved with the strategic and tactical operations of the relationship, being familiar, in their managerial positions, with overall corporate activities as well as with operations between the company and its foreign

distributor [importer]. The last criterion is consistent with past studies (e.g. Cavusgil, Deligonul, & Zhang, 2004; Zhang, Cavusgil, & Roath, 2003).

4.3.4 Sampling

Sampling is an important aspect of research as it helps the researcher reduce the cost of data collection and data analysis as well as the time needed for a research project (Parasuraman, Grewal, & Krishnan, 2007). Malhotra (2007) defines sampling as representation of the elements of the target population and suggests a sampling frame consists of a list or set of directions for identifying the target population. Ultimately, the researcher's aim in sampling is to be able to make deductions from a sample extracted from the population which is generalisable to that population.

The prospective respondents for this study were drawn from the Malaysian manufacturing industry. Like other studies (Lages et al, 2009; Morgan, Kaleka, & Katsikeas, 2004), firms in the service sector were excluded from this study because the literature (e.g. Erramilli & Rao, 1993) had showed that manufacturing and service sectors differed in their international strategies. The respondents were segmented into three distinct groups, namely small, medium, and large firms, based on the number of employees. Finally, large firms were excluded, leaving small and medium enterprises as the final respondents for this study. The sampling frame for this study consisted of cross-industry Malaysian small and medium-sized manufacturers currently engaged in export activity. The adoption of multi-industry sampling, in line with other studies (e.g. Bello & Gilliland, 1997; Morgan et al, 2004), was meant to increase observed variance and to strengthen the generalisability of the findings (Lages et al, 2009). Samples were identified from the major databases of the Malaysian External Trade and Development Corporation (MATRADE) and the Federation of Malaysian Manufacturers (FMM). MATRADE is a government agency with the objective of promoting Malaysia's international trade by providing export assistance to Malaysian companies. The FMM, on the other hand, is an association of Malaysian manufacturers and its role is to promote and support the interests of the manufacturing sector in Malaysia. These databases provided the firm's name, contact person[s], name of the CEO/Manager, address, email, telephone number[s], number of employees, export location[s], and the type of industry.

Several criteria were chosen in selecting firms for the study. Firstly, the firms needed to be current exporters with no minimum specification on the ratio of export sales to total

production. Unlike some scholars who suggest 25 per cent (e.g. see Knight & Cavusgil, 2004) or 5–10 per cent (Zahra & Garvis, 2000) minimum cut-off, the present study prefers varying degrees of firm internationalisation without a cut-off. Based on the criteria, a total of 851 representatives were selected from nationwide firms. The population consisted of all independent Malaysian wholly-owned, small and medium-sized firms with between 20 and 250 employees. The geographic location was divided into the 14 states of Malaysia. The industry was categorised based on FMM criteria.

Secondly, according to Bell et al (2004), the firm should be independent and indigenous (i.e. not a subsidiary of a larger domestic or international company, to avoid potential resource and cultural influences on decision-making). In addition, in line with Skarneas (2006), the researcher selected companies that were engaged in foreign market entry and expansion in global markets through the use of independent foreign importers. To ascertain this, firms were asked to confirm the status of trading partners as independent firms. Those firms that did not fulfil this requirement were eliminated from the study.

Thirdly, in terms of the number of employees, a minimum cut-off in this study was 20, based on the following studies. The minimum cut-off of employee numbers was applied to capture an appropriate measure of constructs. Marino, Lohrke, Hill, Weaver, and Tambunan (2008) suggest that to ensure the respondent qualifies as a key informant, the minimum number of employees should be six. This is supported by other theories suggesting that firms of this size are extensions of the individuals in charge (Lumpkin & Dess, 1996). Kuivalainen et al., (2007) on the other hand, assert that a minimum number of 50 employees should be used to avoid firms with no strategic commitment to international operations. However, to avoid disqualifying a large number of firms and, at the same time, to capture an appropriate measure of constructs, the present study contends that the minimum cut-off of 20 employees is appropriate in the context of the study. On another note, the chosen limit of 250 was beyond the SME Corp's maximum cut-off number of 150 and this consideration was made for the very same reason as for the minimum cut-off number of employees. In addition, a large number of studies have used a maximum cut-off number of employees beyond 150, and a number of them (e.g. see Crick, 2007; Majocchi, Bacchiocchi, & Mayrhofer, 2005; O'Regan & Ghobadian, 2005; Wiklund & Shepherd, 2003) precisely limit the definition of an SME as up to 250 employees. For that reason, the definition of SMEs in this study maintains the comparability of the results.

4.3.5 Data Collection Method

A combination of methods was applied for data collection to ensure a higher response rate. These methods included drop-off for firms located close to research stations, mail survey to cover distant locations, and the services of a local research company. The majority was via mail survey; this method was effective as it covered a wide geographic area. In addition, the respondents could complete the questionnaire at their own convenience and pace (Sekaran, 2003).

Mail survey methods also have weaknesses. A major disadvantage of this method is the typically low response rate (Sekaran, 2003) and the difficulty of establishing a sample because those responding to the survey may not represent the population they are supposed to represent. Besides, there is a possibility that respondents are also unable to verify the responses they give. However, to ensure a higher response rate, steps have been taken to encourage respondents to participate. This is explained in the next paragraph.

Notification was made to respondents about the forthcoming survey prior to the mailing of the questionnaire. This notification was made by telephone call and email. This method is suggested in order to obtain a better response rate (Sekaran, 2003). A questionnaire followed that included a cover letter, questions, and a self-addressed return envelope. The cover letter contained a designed logo of Monash University, name and address of the respondent company, a statement of the importance of company participation, a promise that a summary of the findings would be sent to participating firms, research confidentiality, and signature. In addition, an expression of appreciation for the respondent who participated by returning the questionnaire was also included in the cover letter. A follow-up reminder was sent one week after the first letter. A follow-up mail questionnaire was sent four weeks after the first mailing. For a drop-off survey, a follow up was made by a call to respondent firms. The questionnaire was personally collected by the researcher.

Different methods of data collection – postal, personally delivered, research agency – were compared and no significant differences were found. These methods provided an opportunity to assess measure equivalence, possibly reflecting the theory of selection of data collection approaches in Malaysia and possibly in South-east Asia. There is no *a priori* reason to expect to find a lack of measure equivalence, but this empirical question needs to be examined and tested.

Based on the directory of FMM, only 851 firms fulfilled the criteria for this research. Out of this number, 68 firms either refused to participate or were not reachable, or had closed down. Finally, a total of 228 firms participated in the survey, where the effective response rate was 29.12 per cent (228/783). Table 3.2 presents details of the sample outcome.

Table 4.1 Outcome of Mail Survey, Personal Interviews and Research Agency

OUTCOME	NUMBER
Eligible sample	851
Less:	
Refused to participate	45
Not reachable/closed down	23
(Sub-total)	68
Remaining sample	783
Valid responses	228
Response rate	29.12%

To check for non-response bias, the researcher compared the early respondents and the late respondents by number of years of exporting, number of full-time employees, and number of export markets. The researcher defines early responses as the first 50 per cent of respondents, and the remaining 50 per cent as late respondents. There were no significant differences between early and late respondents which suggests that response bias was not a problem in this study.

4.4 ETHICS AND CONFIDENTIALITY OF INFORMATION

Approval was sought from the relevant bodies to ensure the ethical code of conduct of the present study. The Standing Committee on Ethics in Research on Humans (SCERH) approved all research projects involving human subjects conducted through Monash University. Since data collection for the present study was in Malaysia, approval was also obtained from the Economic Planning Unit, a Malaysian government agency monitoring foreign based research undertaken in Malaysia.

Steps were also taken to ensure confidentiality of the information provided by the respondents, to build up trust. Firstly, the questionnaire was not coded, thus rejecting the possibility of any means of tracking responses. Secondly, statements such as “ALL INFORMATION WILL BE STRICTLY CONFIDENTIAL” were provided in the questionnaire booklet. To further guarantee the ethical process of the present research, the statement depicted below was included in the booklet: Data would be stored in a secure

location for five years to ensure that the questionnaire could be located, if needed in the future.

If you have any concerns about the manner in which this research is conducted, please do not hesitate to contact The Standing Committee on Ethics in Research on Humans at the following address:

The Secretary
 The Standing Committee on Ethics in Research on Humans
 P. O. Box 3A, Monash University,
 Victoria 3800
 Australia
 Telephone: 603-9905 2052
 Facsimile: 603-9905 1420
 Email: SCERH@adm.monash.edu

4.5 QUESTIONNAIRE DESIGN

Sekaran (2003) defines a questionnaire as a formulated, written set of questions to which respondents record their answers. She suggests that a sound questionnaire focuses on three areas: [1] principles of wording, [2] principles of management, and [3] general setup. Keeping these principles as a guide, this section discusses the design of the questionnaire, which includes the questionnaire format and scaling.

Questionnaires can be divided into two types; (1) a structured questionnaire with specified alternative responses, and (2) an unstructured questionnaire with open-ended responses (Sekaran, 2000). In this study, a structured questionnaire was developed for greater simplicity in the administering and analysing stages and, at the same time, for reliability (Churchill, 1979). Closed-ended questions were used for all sections of the questionnaire except internationalisation. The closed-ended questions were chosen to allow respondents to make quick decisions in choosing from several alternatives (Sekaran, 2003), thereby reducing the time it would take to complete. For questions related to internationalisation, an open-ended format was applied. The questions were carefully designed with appropriate language and wording and were as brief as possible while also fulfilling the purpose of the question.

4.5.1 Questionnaire Presentation

The questionnaire was prepared with a view to making it easy for the respondent to answer and also attractive and neat. It was presented in an A4-sized booklet format comprising a

black and white coloured cover with Monash University logo, title of the research, and a picture of a globe depicting international elements. The A4-sized booklet was chosen because of ease of handling and to avoid it falling apart. The instructions were on page two, and the rest of the booklet was filled with research questions. On the second page, there was a statement of confidentiality, an approximate time to answer the questions, and instructions about how to return the questionnaire, as well as the return address. There were eight pages in the booklet. The questionnaire was presented in double-page format.

The end of the questionnaire included an appreciation from the researcher for the respondent's participation and contribution. Respondents were also allowed to comment on the research. Lastly, accompanying the questionnaire was a reminder to the respondent to return the questionnaire as soon as possible using the postage-paid envelope.

4.5.2 Questionnaire Format

The questionnaire was divided into four sections, following the sequence presented below. Details of the measures for each item are presented in Tables 4.1 to 4.9 in the following section.

Following Ling-Yee and Ogunmokun (2001), each respondent of the firm was asked in the instruction section to provide information of a single successful export venture that was profitable and also fulfilled the objectives of the firm. This method of asking respondents to choose one export venture within a specific period helped to exclude ad hoc export activities from the study.

- **Section one** concerned the firm's resources and capabilities and psychic distance between exporter and importer. In this section, questions pertained to the independent constructs such as organisational resources and capabilities, which consisted of market orientation, learning orientation, entrepreneurship orientation, and human capital, as well as psychic distance. The respondents were asked to rate the extent to which their firm took on the practices listed in the questions on market orientation, entrepreneurship orientation, and learning orientation. Respondents were required to rate their top managers on competencies. Questions on psychic distance required respondents' indication of the difference between their country and the country of their major importer.

- In **section two** the mediating construct was examined, namely the quality of the exporter–importer relationship, and the moderating construct. In this section, there were 35 questions divided into six dimensions. Respondents were asked to indicate the extent to which they agreed or disagreed with the statements in relation to their firm’s relationship with major importers. Although the questions were related to dyadic issues, information given by one party (in this study, the exporter) of the relationship was appropriate and consistent with other studies (Lages et al, 2005; Mavondo & Rodrigo, 2001).
- **Section three** pertained to the investigation of the outcomes, such as export market competitive advantage, the firm’s internationalisation, and export performance. To identify the firm’s competitive advantage, the respondents were required to indicate the position their firm offered in the export venture as to whether it was better or worse compared to the main competitor. For export performance measures, the respondents answered questions by rating their degree of satisfaction with their firm’s export performance. In the internationalisation part, the respondents were asked to respond to the open-ended questions.
- Finally, in **section four**, data about the firm was sought, including questions on demography. Questions in this section were in the last part of the questionnaire because these topics were considered sensitive. A number of scholars (Aaker, Kumar, & Day, 2001; Converse & Presser, 1986) have recommended this strategy, for several reasons. Negative questions early in a questionnaire risk offending respondents and their negative reaction might then influence responses to the rest of the questionnaire. By placing potentially negative questions at the end of the questionnaire, respondents would by then be convinced of the genuineness of the questions, and would therefore be more likely to be open to answer sensitive questions. Finally, these questions were considered fairly easy and thus could be welcome if earlier questions had been difficult.

The questionnaire was presented in a single language to avoid it becoming too long. English was used as the written language in the questionnaire for the study as English is a business language in Malaysia and widely used in business dealings among firms, including SMEs.

4.5.3 Scaling

In measuring the items representing the theoretical constructs shown in the conceptual model, the researcher used the multi-scaling method: the Likert Scale, and open-ended questions. Malhotra (2007) describes scaling as the process of locating the respondents on a continuum. The scaling procedure for all items in the first section was a seven-point Likert Scale anchored on 1 = not at all, and 7 = to a great extent. For section two, the seven-point Likert Scale ranged from 1 = strongly disagree to 7 = strongly agree. For the outcome variables, all items except internationalisation employed a seven-point Likert Scale. For competitive advantage, the scale ranged from 1 = much worst to 7 = much better. Export performance on the other hand used a scale ranging from 1 = strongly dissatisfied to 7 = strongly satisfied. A ratio scale was used for items measuring internationalisation. The last section, seeking information about the firm and the respondents, used a nominal scale. The actual scales that were used in the questionnaire are presented in Appendix. [The number will be added later]

Although the Likert Scale has weaknesses, it also has several advantages for behavioural research which made the scale appropriate for this study: it is easy to construct and administer; in addition, the scale's format is easy for the respondent to use. This point is particularly important for a mail survey such as this study, where the respondent was dependent only on the questionnaire to give their response. Furthermore, the scale is relatively flexible. The Likert Scale helped to increase the response rate, minimising the informants' time and effort.

Another issue related to the Likert Scale is the number of response options. The researcher decided to use a range from three points to ten points and to employ either odd numbers or even numbers. For this study, an odd-numbered seven-point scale was used on several grounds. Odd-numbered was chosen because it provides an option along the midpoint of the scale for subjects with neutral opinions about an item. A typical choice of response option could be the 5-point and 7-point scale. However, the 7-point scale was preferable because it increased reliability compared to the 5-point scale (Churchill, 1979).

4.5.4 Pre-testing and In-depth Interview

In line with research objectives, a structured questionnaire was developed and tested in a pilot study. This is also known as pre-testing. Pre-testing refers to the testing of the

questionnaire on a small sample of respondents to identify and eliminate potential problems (Malhotra, 2007). Pre-testing was the last stage in the design of the questionnaire, where mistakes were detected before the final survey was implemented, and it was used to refine the instrument and identify errors which may only be apparent to the population of concern (Diamantopoulos, Reynolds, & Schlegelmilch, 1994). The respondents in the pre-test and the actual survey had similar backgrounds, attitudes, and behaviours in relation to the topic (Malhotra et al., 1996), and the pre-test survey involved an environment and context similar to that of the actual survey (Malhotra, 2007).

The pre-test was conducted in the form of personal interviews among 10 experts from academic and industrial associations and related agencies such as MATRADE, the Small and Medium Industrial Development Corporation [SMIDEC], the Federation of Malaysian Manufacturers [FMM], and the Small and Medium Industries association [SMI], as well as small and medium businesses in the areas of Bangi and Kajang, for geographic convenience, both being located approximately 30 km south of Kuala Lumpur. Prior to the pre-test, the instrument was inspected for its compliance with the rules for developing the questionnaire.

The first stage of the pre-test questionnaire dealt with experts' opinions. This is in line with Churchill (1979), who suggests refinement of measures through interviews with people capable of understanding the nature of the concept being measured. This was done to ensure face and content validity. The feedback was used to revise the questionnaire. Then, in the second stage, a telephone call was made to 10 SMEs, followed by a drop-off questionnaire one week before the interview took place. Following the pre-test [pilot study], appropriate revision was made, particularly of the interpretability of the measure, instructions, and response formats. Then, the actual field survey took place for data collection on a large and representative sample.

4.6 DATA ANALYSIS AND PROCEDURES

In this study the researcher is interested in investigating the mediating role of relationship quality. The independent variables were organisational resources and capabilities and psychic distance. Dependent variables on the other hand were competitive advantage, internationalisation, and export performance. As mentioned, two methods of analysis, namely exploratory and confirmatory, were applied. To achieve the objectives of data analysis, SPSS statistical software and AMOS were used in testing the reliability and

validity of constructs, in the analysis of multiple regression and investigation of causal effects through structural equation modelling (SEM).

4.7 DATA CODING AND EDITING

Raw data from returned questionnaires were coded in numerical form. To convert data for analytic purposes, responses were individually keyed into the statistical package for the social science (SPSS) files. Initially, each response was given a number, and data for each respondent was keyed in sequentially by the assigned number from 1 to 228. By doing this, the researcher was able to trace data in the file back to the correct questionnaire. This is important for the purpose of data checking due to omissions and errors. Then responses were carefully entered by item number as assigned in the questionnaire. For example, the first construct was market orientation and the first question for market orientation was coded as A-1, followed by the second question coded as A-2. The second construct was psychic distance, and the first question coded B-1, the second question B-2. This coding method continued for the remaining constructs. During the data key-in, process measures were taken to minimise errors. Upon completion of the data key-in process, descriptive statistical techniques employing the SPSS were used to calculate means, frequencies, standard deviations, and percentage in each category to check for errors and detect outliers that would have a confounding effect on any calculations.

4.7.1 Missing Value

Missing values or responses represent an unknown value of a variable, due to either ambiguous answers or because the answers are not properly recorded (Malhotra, 2007). The concern about a missing value is the distribution of the unknown value rather than its amount, particularly when the distribution is non-random. It is a common phenomenon, and according to Roth (1994, p. 538), “missing data may bias coefficient correlation downward”. Tabachnik and Fidell (1996) note that the concern about missing data is not only the amount but also the distribution.

Saunders et al (2007) suggested that there were four reasons for missing data:

1. The data were not required, because of a skip generated by a filter question.
2. The question was not answered, as the respondent had no opinion (a non-response).
3. The data were not available for some other reason.

4. Leaving part of a question in a survey blank implied an answer: in such cases the data were not classified as missing.

For the treatment of missing data, initially the data were examined by observing the distribution of missing data. In this case there were no patterns of missing data found to exist that required casewise deletion (Tabachnick & Fidell, 1996). Consequently, the missing values were substituted by a neutral value, that is, the mode value of responses to the variable in this case.

4.8 SUMMARY

This chapter has outlined the research design adopted to ensure the validity and reliability of the study. The research design consists of four stages. The first stage, presented in chapter 2, involves a review of extant literature, leading to identification of, and the relationships between, constructs. The present chapter discusses stages two, three and four. The second stage covers the research design in depth, highlighting the process of gathering data. The third stage concerns data entry and analysis to test the hypotheses of this study. Finally, the last stage discusses the final model and the interpretation of results.

This chapter has focused on the literature related to the development of the questionnaire, which included the literature on the operationalisation of constructs, the design of the questionnaire, and the testing. It has also ascribed importance to the details of the sampling method and the measurement of constructs upon which the reliability and validity of gathered data depend.

In chapter 5 the operationalisation of the constructs is discussed as well as presentation of results for validity and reliability of the scales. This is an important chapter because findings and their interpretation will depend on establishing rigorous psychometric properties of the measures.

CHAPTER 5 – CONSTRUCT OPERATIONALISATION AND VALIDITY

5.1 INTRODUCTION

This chapter is about the operationalisation of constructs and assessment of their validity and reliability. For operationalisation purposes the literature was searched to obtain information on the scales appropriate for measuring the constructs. The assessment of validity and reliability is important because this study adopts a multi-item scale that should be evaluated for its accuracy (Malhotra, 2007).

Discussion on validity and reliability are often viewed as separate issues although they are interrelated. The relationship can be explained as follows: a measure that meets the conditions of validity is reliable but a reliable measure does not necessarily meet the conditions of validity. Hence, following others (e.g. Venkatraman & Grant, 1986), this study suggests that reliability is to be included in the overall concept of validity. The focus of this study is mainly on types of validity: content validity, construct validity, and criterion validity. In addition, convergent validity, discriminant validity, and nomological validity are highlighted as components of construct validity. To assess validity and reliability, this study uses coefficient alpha, exploratory factor analysis, and confirmatory factor analysis.

The chapter begins by discussing the operationalisation of the constructs. It continues with a content analysis as the first step of overall construct validation. Construct validity is then analysed to assess the degree to which observed variables measure the construct (Schwab, 1980). In this section, the analysis of construct validation concentrates on a series of empirical tests pertaining to uni-dimensionality, reliability, and validity. This outline of the overall validity process ends with a discussion on common method variance; finally there is a chapter summary.

5.2 OPERATIONALISATION OF CONSTRUCTS

A review of the literature provided guidance on the dimensions in, and measurement scale, of the construct under investigation. In this section, Tables 5.1 to 5.9 present information on the scale for each of the study's constructs.

Constructs that have been developed in stage 1 of the research design were operationalised using existing scales in the literature. Some scales were retained in their original form. However, most were modified and rephrased to suit the purpose and the context of this study, the context being Malaysia and exports. Nevertheless, extra care was taken to keep the original meaning and intention of the scale items. For these reasons, in-depth interviews with selected SMEs and academics were conducted, and consequently items were refined. This method is consistent with procedures suggested by Churchill (1979) for the development of multi-item measures. Accordingly, constructs were operationalised using a combination of original and adapted scales stemming from the literature, personal interviews, and pre-testing.

The study had three main groups of constructs, namely antecedents (independent), mediator, and outcomes. The construct of antecedent consisted of market orientation, entrepreneurship orientation, learning orientation, human capital, and psychic distance. The mediating construct was represented by relationship quality, which was conceptualised as consisting of six dimensions: trust, commitment, satisfaction, communication, adaptation, and social bonding. Finally, the outcome variables were competitive advantage, internationalisation, and export performance. Each of the constructs was measured using multi-items ranging from five to 34 items. Explanations on the application of multi item measures are presented in the section on reliability. This section focuses on the development of measures for every construct in the study.

5.2.1 Market Orientation

A scale for market orientation is well established in the literature, particularly in the study of organisational behaviour. Notably, the scales developed by Jaworski and Kohli (1993) and Narver and Slater (1990) have gained wide acceptance among scholars. In contrast, for the last decade or so, scholars such as Cadogan et al (1999) have tried to develop a scale specifically focusing on export context. Nevertheless, a number of studies (e.g. Nguyen, Barrett, & Nguyen, 2007; Racela, Chaikittisilpa, & Thoumrungroje, 2007) have used Jaworksi and Kohli's scale, as well as that of Narver and Slater, in international contexts, particularly in Asian settings. In fact, Mavondo (1999) suggests that Narver and Slater's model is useful in different environments, thus applying it in his cross-countries investigation. The present study adapts Pelham and Wilson's (1996) scale for market orientation by using it in the context of exports studies. The original version of the scale

was based primarily on Naver and Slater (1990). The same scale was also used by Pelham (2010).

The measure of market orientation comprises a scale of nine items, modified and rephrased from the version used by Pelham and Wilson (1996). Table 5.1 shows the final items used to measure market orientation in this study. Respondents were asked to specify to what extent their firm undertook the practices indicated by the items. This was a 7-point Likert scale with a range of 1 as “not at all” to 7 as “to a great extent”.

Table 5.1 Measures for Market Orientation

Construct	Final measures used in the current research	Item No
Market Orientation (Pelham & Wilson, 1996)	Our firm strategy for competitive advantage is based on thorough understanding of customer need	A-1
	Our managers understand how they can contribute to creating customer value	A-2
	We respond quickly to negative customer satisfaction information	A-3
	Our market strategies are driven by the need to create value for customers	A-4
	Information on customers, marketing success, and marketing failures is communicated across functions in the firm	A-5
	All our functions are responsive to, and integrated in, serving target markets	A-6
	Our managers frequently discuss competitive strength and weaknesses	A-7
	We quickly take advantage of competitors weaknesses	A-8
	We respond immediately toward competitor’s campaigns targeted at our customers	A-9

5.2.2 Entrepreneurship Orientation

Many studies employ a scale for entrepreneurship orientation with three dimensions. Consistent with current developments for international entrepreneurship orientation, this study used items developed by Knight and Cavusgil (2004), Nasution and Mavondo (2008), Zhou (2007), Wang (2008), and Covin and Slevin (1989) for three constructs, namely pro-activeness, risk taking, and innovativeness. Items adapted from the work of Zhou, Wang, and Knight and Cavusgil were extended from Covin and Slevin (1989). This scale has been used extensively in previous studies, suggesting it is a viable instrument for measuring entrepreneurship orientation. While pro-activeness and innovativeness were measured by six items each, risk taking was measured using a five-item scale. As mentioned, in this scale, some measures replicated the original while others were adapted. The respondents were asked to what extent their firm performed each of the entrepreneur practices depicted by each of the items. The scale was the 7-point Likert scale with a range of 1 as “not at all” to 7 as “to a great extent”. Table 5.2 presents these measures.

Table 5.2 Measures for Entrepreneurship Orientation

Construct	Measure used in the current research	Item No
Pro-active (Zhou, 2007; Covin & Slevin 1989; Jantunen et al, 2008)	We actively seek contact with clients in international markets	C-1
	We regularly monitor the trend of export markets	C-2
	We actively explore business opportunities abroad	C-3
	We constantly seek opportunities to improve our business performance	C-4
	We are always ahead of our competitor in responding to market challenges	C-5
	We actively adopt the best practices in our sector	C-6
Risk-taking (Nasution & Mavondo, 2008)	In this organization uncertainty is treated as a challenge	C-7
	Employees are encouraged to venture into unexplored territories	C-8
	Management accept that certain suggestions may fail when implemented	C-9
	Our firm emphasises opportunity for success rather than chances for failure	C-10
	In this organization new venture failure is viewed as a learning experience	C-11
Innovativeness (Zhou, 2007; Wang, 2008)	We are open to innovative ways of exploiting international market opportunities	C-12
	We continuously search for new export markets	C-13
	We actively adopt “new ways of doing things” by main competitors	C-14
	We are willing to invest in new ways of doing business	C-15
	We encourage our people to think and behave in novel ways	C-16
	We value creative new solutions	C-17

5.2.3 Learning Orientation

Like market orientation and entrepreneurship orientation, the scale for learning orientation is also well established, due to the popularity of this construct in organisational studies. Although various versions of the scale have been proposed in the literature, in this study the items used to measure learning orientation were mainly based on the work of Jerez-Gomez et al (Jerez-Gomez, Cespedes-Lorente, & Valle-Cabrera, 2005). Some items were revised and adapted from the works of Sinkula et al (1997) and Nasution and Mavondo (2008). Five-item scales were used to measure each dimension of learning: commitment to learn, open mindedness, and shared vision. The respondents were asked to what extent their firm undertook the practices as illustrated by each item. The scale used was the 7-point Likert-scale with a range from 1 “not at all” to 7 “to a great extent”. Table 5.3 presents the details of the measures.

Table 5.3 Measures for Learning Orientation

Dimension	Measure used in the current research	Item No
Managerial Commitment (Jerez-Gomez et al, 2005; Sinkula et al, 1997)	Managers involve their staff in important decision making process	E-1
	Management seeks to keep ahead of new environmental situations	E-2
	Employee learning is considered a key factor in this firm’s success	E-3
	In this firm, innovative ideas are rewarded	E-4
	Managers agree that our ability to learn is the key to our competitive advantage	E-5

Systems perspective (Jerez-Gomez et al, 2005; Nasution & Mavondo, 2008; Sinkula et al, 1997)	All employee have knowledge regarding this firm's objectives	E-6
	Every department, sections, work team, and individual in this firm is aware of how they contribute to achieving the overall objective	E-7
	All departments work in a coordinated fashion	E-8
	Every person in this firm is aware of long term vision of the firm	E-9
	There is an agreement in our business unit's vision	E-10
Openness & Experiment (Jerez-Gomez et al, 2005; Nasution & Mavondo, 2008; Sinkula et al, 1997)	We promote experimentation as a way of improving the work processes	E-11
	We adopt the practices and techniques of other firms believed to be useful	E-12
	We consider experiences and ideas provided by external sources [advisors, customers, training firms etc.] useful for learning	E-13
	Our employees can express their opinions and make suggestions regarding the procedures and methods in place for carrying our tasks	E-14
	We value employees' ideas that may increase firm's success	E-15

5.2.4 Human Capital

Human capital represents the competence of the top manager. Drawing from Huselid, Jackson, and Schuler (1997), Ling and Jaw (2006), and Jaw, Wang, and Chen (2006), the construct of entrepreneurs' human capital comprised a scale of eight items. All of the items were revised and adapted for this study. The respondents were asked to what extent the top managers of their firm had the competencies as depicted by each of the items. The scale used was a 7-point Likert scale with a range from 1 "not at all" to 7 "to a great extent". The items are shown in Table 5.4.

Table 5.4 Measures of Human Capital

Construct	Measure used in the current research	Item No
Top Managerial Competence (Huselid et al, 1997; Ling & Jaw, 2006; Jaw et al, 2006)	The capacity to take appropriate ways of exploiting international market opportunities	D-1
	Ability to effectively manage organizational change	D-2
	Broad knowledge of many export activities	D-3
	Significant international experience	D-4
	Significant international customer contact	D-5
	The ability to communicate in foreign languages	D-6
	The capacity to absorb information from international source	D-7
	Broad experience in related industries	D-8

5.2.5 Psychic Distance

The conceptual framework of the scale for psychic distance was borrowed from Evans and Mavondo (2002), based on a composite index consisting of one component: business distance. These scholars developed the original scale of 10 variables based on two groups: cultural distance and business distance. Following Evans, Mavondo, and Bridson (2008), this study proposes that business distance consists of legal/political aspects [seven items],

market structure [five items], economic environments, business practices, and languages. The respondents were asked the extent to which the country of the major importer was different, on each of the statements presented in the items. The scale used was a 7-point Likert scale with a range from 1 “not at all” to 7 “to a great extent”. For this study, this scale has been summarised into a 15-item scale as depicted in Table 5.5.

Table 5.5 Measures of Psychic Distance

Source	Final measures used in the current research	Item No
(Evan, Mavondo and Bridson, 2008)	Stability of political structure	B-1
	Consumer protection legislation	B-2
	Licensing legislation	B-3
	Competitive practices legislation	B-4
	Physical distribution systems	B-5
	Number of direct competitors	B-6
	Strength of competitors	B-7
	Gross domestic product [GDP] per capita	B-8
	Country's exposure to economic risks	B-9
	Stability of demand for goods and services	B-10
	Setting of demand for goods and services	B-11
	Setting operating procedures	B-12
	Credit and financial arrangements with banking institutions	B-13
	Language used to communicate in business transactions	B-14
	Language used to communicate in social settings	B-15

5.2.6 Relationship Quality

The scale for RQ was drawn from a composite of six constructs: trust, commitment, satisfaction, communication, adaptation, and social bonding. The scales for commitment and trust each consisted of seven items. These scales were revised and adapted for this study from the original version developed by Leonidou, Katsikeas, and Hadjimarcou (2002a) and Skarmeas, Katsikeas, Spyropoulou, and Salehi-Sangari (2008). The scale for satisfaction was revised and adapted for this study from the works of Ha, Karande, and Singhapakdi (2004), Skarmeas et al (2008), and Lages et al (2005). For communication, the scale [five items] was devised by Mohr and Spekman (1994). Finally, the scale for adaptation [five items] was developed by Leonidou and Kaleka (1998), and for social bonding [five items] by Mavondo and Rodrigo (2001). The respondents were asked the extent to which the statements depicted by the items applied to their firm's relationship with major importers. The scales used were a 7 point Likert scale with a range from 1 “strongly disagree” to 7 “strongly agree”. Items used to measure communication, adaptation, and social bonding are depicted in Table 5.6.

Table 5.6 Measures of Relationship Quality

Construct	Measures used in the current research	Item No
Trust (Leonidou et al, 2002a; Skarmeas et al, 2008)	This importer has been frank in dealing with our firm	F-1
	Promises made by this importer are reliable	F-2
	This importer is knowledgeable about the product	F-3
	This importer has made sacrifices for us in the past	F-4
	This importer cares for my firm's welfare	F-5
	This importer is like a friend	F-6
	This importer does not make false claim	F-7
Commitment (Leonidou et al, 2002a)	We like being associated with our importer	F-8
	We enjoy our relationship with our importer	F-9
	Our positive feeling towards the importer are the reason we continue working together	F-10
	We have a strong sense of loyalty to this importer	F-11
	We defend this importer when others criticize them	F-12
	We are willing to make long-term investments in this importer	F-13
	We dedicate sufficient resources to maintain the relationship	F-14
Satisfaction (Ha at el, 2004; Lages et al, 2005; Skarmeas et al, 2008; Ha et al, 2004)	We are proud of having this working relationship	F-15
	We are very satisfied with importer's performance	F-16
	We are delighted with the overall experience of this relationship	F-17
	In general we enjoyed our dealing with this importer	F-18
	This importer is a good company to do business with	F-19
Communication (Mohr and Spekman, 1994)	We keep this importer well informed about what is going on in this distributorship	F-20
	This importer seeks our advice and counsel about its marketing efforts	F-21
	We provide this importer with frequent feedback on this performance	F-22
	This importer and we make it a point to keep each other well informed	F-23
	This importer and we exchange accurate and precise information	F-24
Adaptation (Francis et al, 2009)	We modified our standard product to suit the requirement of the customer	F-25
	We modified our operation process to suit the requirement of the customer	F-26
	We changed our inventory management practices to meet customer's requirement	F-27
	We changed our capital equipment and tools to meet customer's requirement	F-29
	We adjusted our personnel to suit the requirement of the customer	F-30
Social Bond (Mavondo & Rodrigo, 2001)	I often interact with my partner on a social basis outside of work	F-31
	My partner and I are to talk openly as friends	F-32
	I consider my partner as being almost as close to me as a family	F-33
	If I were to change business partners, I would lose a good friend in my current partner	F-34
	I would consider whether my partner's feelings would be hurt before I made an important decision	F-35

5.2.7 Competitive Advantage

Competitive advantage has been investigated by many researchers in organisational studies and hence the scale is well established. In this study, the scale for competitive advantage was drawn from Kaleka (2002) and Chrysochoidis and Theoharakis (2004). This scale

was revised and adapted in this study and consists of items grouped into three dimensions: cost advantage, product advantage, and service advantage. Each of the three dimensions of competitive advantage was measured by five items. The respondents were asked the extent to which the statements depicted by the items referred to the firm's relationship with major importers. The scales used were a 7-point Likert scale with a range from 1 "much worst" to 7 "much better". Items used to measure competitive advantage are shown in table 5.7.

Table 5.7 Measures of Competitive Advantage

Construct	Final measures used in the current research	Item No
Cost Advantage (Kaleka, 2002; Chrysochoidis and Theoharakis, 2004)	Cost of production	G-1
	Cost of good sold	G-2
	Selling price to overseas customers	G-3
	Transport cost to overseas markets	G-4
	Credit facilities to overseas importers	G-5
Product Advantage (Kaleka, 2002; Chrysochoidis and Theoharakis, 2004)	Product quality	G-6
	Packaging	G-7
	Design and style	G-8
	Provision of warranty	G-9
	Range of product offered	G-10
Service Advantage (Kaleka, 2002; Chrysochoidis and Theoharakis, 2004)	Ease of ordering the product	G-11
	After-sales service	G-12
	Reliable product delivery	G-13
	Highly experience staff	G-14
	Staff capable of handling unusual order	G-15

5.2.8 Export Performance

In the literature, debate about which scale is the best to capture export performance measure is manifest. Scholars are divided between subjective and objective measures. Although both have merit, this study used the subjective measure. Thus, for this study to capture the firm's export performance, five items were revised and adapted from Katsikeas, Leonidaou, and Morgan (2000) and Shoham (1998). The respondents were asked to what extent they were satisfied with the statements in the items about the firm's export performance. The scales used were a 7-point Likert scale with a range from 1 "strongly satisfied" to 7 "strongly dissatisfied". Items used to measure competitive advantage are shown in Table 5.8.

Table 5.8 Measures of Export Performance

Construct	Final measure used in the current research	Item No
Export Performance (Katsikeas et al, 2000; Shoham, 1998)	Percentage of export volume to total sale volume (quantity)	I-1
	Percentage of export revenue to total sales revenue	I-2
	Contribution of export profit to total profits	I-3
	Growth rate of export sales	I-4
	Overall export performance	I-5

5.2.9 Internationalisation

Scholars have different views about the best way to measure internationalisation. However, in this study, the internationalisation construct was viewed as consisting of three dimensions. One was the degree of internationalisation, a measure developed by Sullivan (1994), and it consisted of two items. A second was the speed of internationalisation, a measure developed by Acedo and Jones (2007). Speed of internationalisation was measured by the number of years the firms took to start exporting after the establishment. For this purpose two items were used, [1] the year when the firm start exporting and [2] the year when the firm established, and the interval between the two items is taken as the measure of speed of internationalisation. The third dimension was the number of export destinations (countries), which was measured by a single item. Table 5.9 depicts the scale used to measure internationalisation.

Table 5.9 Measures of Internationalisation

Dimension	Measures used in the current research	Item No
Degree of Internationalisation (Sullivan, 1994)	What is the percentage of export sale to total sale of your firm?	H-1
	What is the percentage of foreign profit to total profit of your firm?	H-2
Speed of Internationalisation (Acedo and Jones, 2007)	In what year did your firm start exporting?	H-3
	In what year was your firm established?	H-4
Number of Export Destinations	How many country to which you export?	H-5

5.3 VALIDITY

Malhotra (2007) defines the validity of a scale as the extent to which differences in observed scale scores reflect true differences among objects on the characteristic being measured, rather than systematic or random error. Systematic error is caused by stable factors that affect the observed score in the same way each time the measurement is made; hence it does not have an unfavourable impact on reliability. Random error, on the other hand is due to random changes in respondents' situations or measurement situations that cause inconsistency and may lead to lower reliability. In simple terms "*Are we measuring what we think we are measuring?*" (Kerlinger & Lee, 2000), which reflects the idea that validity is about the accuracy of measurement (Malhotra, Hall, Shaw, & Crisp, 1996). Measurement accuracy implies that the observed score is the true score of the characteristic being measured. The irony is that all measures hold some degree of random error (O'Leary-Kelly & Vokurka, 1998) that affects their accuracy. Since excessive random error may lead to false acceptance of the null hypotheses (Nunnally, 1978), the process for

measurement validity and reliability has been given due attention in this study to minimise random error and eventually to achieve an acceptable level of validity.

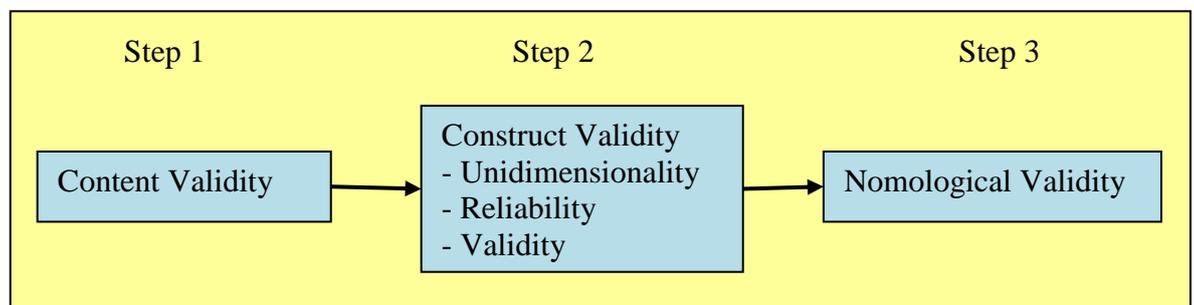
Several measures have been used in this study as a guide to ensure the validity of the measurement instrument and are as follows:

1. Large sample size.
2. Reasonable items to capture the domain. The present study used established scales that had been validated.
3. The wider the scale the more likely normal distribution. Hence, the researcher chose the 7-point Likert scale.
4. Careful construction of questionnaire and items to ensure consistency with theory and good practice.
5. Pre-testing, to reduce ambiguity and improve the clarity of each question

Further details are given in chapter 4.

There are several types of validity normally used in research: content validity, construct validity [which consists of convergence, discriminant, and nomological validity] and criterion validity [predictive and concurrent validity] (Sekaran, 2003). Figure 5.1 shows the overall process of validity in this study adapted from O'Leary-Kelly and Vokurka (1998). It is suggested that the process is multifaceted and has three steps: content validity, construct validity, and nomological validity. In step one, the examination of validity began with content validity. This was followed by construct validity and finally nomological validity. Criterion validity, although not in the chart, will also be highlighted.

Figure 5.1 Construct Validity Process



Source: O'Leary-Kelly and Vokurka (1998)

5.4 CONTENT VALIDITY

The purpose of content validity, which is also known as face validity, is to show that the empirical indicators (measurement items) are logically and theoretically connected to the construct (Nunnally, 1978; Pedhazur & Schmelkin, 1991). Martin and Eroglu (1993) posit that content validity concerns the degree of representativeness of the items of the construct. According to Kerlinger and Lee (2000), it is a subjective form of validity measure, where each item in the instrument must be judged for its presumed relevance to the property being measured. To achieve this, Churchill's (1979) suggestion that the first four steps, from the identification of key constructs to the development of the questionnaire in the procedure for developing better measurement, as shown in Figure 4.1 in chapter 4, is included in the measure of content validity. Content validity helps by providing a commonsense interpretation of the scale scores (Malhotra, 2007).

The process for content validity was conducted following pre-testing. Pre-testing aims to reduce ambiguity and improve the clarity of each question. As discussed in Chapter 4, questionnaires were circulated to selected managers of small and medium firms, industry experts, and established researchers. The selected respondents reviewed and provided comments on the items that aimed to measure the constructs under investigation. This procedure was applied to confirm whether the scale items adequately covered the entire domain of the construct being measured (Malhotra, 2007).

5.5 CONSTRUCT VALIDITY

Construct validity is said to be the most important measure from the scientific research point of view (Kerlinger & Lee, 2000) because it deals with theory development and testing (Steenkamp & van Trijp, 1991) and, more importantly, as a process to assess the adequacy of measures (Schwab, 1980). However, it is also the most sophisticated and difficult type of validity to establish (Malhotra, 2007). Construct validity consists of convergence validity, discriminant validity, and nomological validity. The term construct validity refers to the degree to which a measure adequately assesses the construct it is purported to describe (Martin & Eroglu, 1993). Construct validity concerns the adequacy of the domain of observables relating to a construct and can be tested by analysing how item scores correlate with each other (Churchill, 1979; Nunnally, 1978). Kerlinger and Lee (2000) assert that a major distinction between construct validity and other types of validity is its preoccupation with theory concerning the testing of hypothesised relations.

O'Leary-Kelly and Vokurka (1998) suggest that construct validity involves three components: unidimensionality, reliability, and validity. Unidimensionality involves the establishment of a set of empirical indicators relating to only one construct. This can be assessed using two methods: exploratory factor analysis (EFA) and confirmatory factor analysis (CFA), which will be discussed further in the next section. Martin and Eroglu (1993) maintain that more substantive evidence of construct validity can be obtained via an examination of the two types of measures: [1] convergent validity, and [2] discriminant validity.

Components of construct validity as mentioned above were tested, and the results are discussed later in this chapter. However, prior to the validity test, following Churchill (1979), multi-item measures needed to be refined because in practice only a sample of items or a sample domain that reflects the true score can be used. Items not drawn from an appropriate domain are unreliable. The process of refinement was undertaken with via factor analysis, which is discussed in the next section.

5.5.1 Factor Analysis

Hayton, Allen, and Scarpello (2004) maintain that factor analysis can be characterised as a statistical method for data reduction and for reaching more understanding of measured variables (items). In other words, factor analysis is used for summarising a large number of items into a manageable level (Malhotra, 2007). Items that are correlated with one another combine into factors. Factors reflect the underlying processes that have created the correlations between variables that were largely independent of each other (Tabachnick & Fidell, 2001). There are two types of factor analysis, namely, exploratory factor analysis (EFA) and confirmatory factor analysis (CFA).

Conway and Huffcut (2003) suggest that EFA is an important tool for organisational research because it can be used to refine measures (scale development) and to evaluate construct validity. EFA can also be used to generate theory (Henson & Roberts, 2006) where there is no prior specification of the number of factors (Anderson & Gerbing, 1988; Hurley et al., 1997).

Confirmatory factor analysis (CFA) is used to test theory when there is sufficiently strong rationale regarding what factors should be in the data and what items should define each

factor (Henson & Roberts, 2006). Hence, the measurement model needs to be specified a priori (Anderson & Gerbing, 1988). Hurley et al (Hurley et al., 1997) posit that CFA is often used in data analysis to examine the expected causal connection between variables. Thus, in the present study, both the first order measurement model (i.e. trust) and the second order measurement model (i.e. relationship quality) were tested. The most common assessment tools for CFA are goodness-of-fit indices.

The choice between EFA and CFA as the most effective factor analytic technique has become the subject of debate (Hurley et al., 1997). However, researchers seem to converge on the notion that appropriateness of technique depends on the study context. Following O'Leary-Kelly and Vokurka (1998) and other scholars (e.g. see Conway & Huffcutt, 2003; Hurley et al., 1997), this study considers the use of CFA more appropriate to reassess the measurement properties of existing instruments. However, in this study both methods of factor analysis were employed as each method had its own purpose. Measures of constructs were evaluated according to the paradigm suggested by Churchill (1979). To increase validity and reliability, the measurement scale was initially refined and examined in terms of dimensionality and internal consistency. The survey data was then explored using EFA. Following Ruerkert and Churchill (1984), correlation of item-to-total score of each dimension was computed and examined to determine whether each item correlated primarily with one dimension. Items that were not statistically significant in terms of higher correlation to the dimension to which they are hypothesised to belong were eliminated. To control uni-dimensionality, following Nes, Solberg, and Solkoset (2007) and Anderson and Gerbing (1988), this study used CFA with maximum likelihood extraction.

5.5.2 Uni-dimensionality

Anderson et al (1987) define uni-dimensionality as the existence of one latent trait or construct underlying a set of measures. Achieving uni-dimensional measurement is a crucial undertaking in theory testing and development (Anderson & Gerbing, 1988) because it is a necessary condition for assigning meaning to estimated constructs. Two types of uni-dimensional measurements are [1] Cronbach-Alpha and [2] internal consistency. These two measurements are actually measuring the reliability of items that belong to each construct. The following sections present detailed discussion of the concept of reliability and give the results of two measurement tests of reliability.

5.5.3 Reliability

Kerlinger and Lee (2000) define reliability as the lack of distortion or precision of a measuring instrument. A highly reliable measure is measuring something precisely or consistently. Errors may occur which distort the observed scores away from the true scores.

It has been suggested that a *multi-item measure* helps reduce measurement errors and obtain high reliability (Peter, 1979). As Churchill (1979, p. 66) writes: "...individual items typically have considerable measurement error; they produce unreliable responses in the sense that the same scale position is unlikely to be checked in successive administrations of an instrument". Individual items usually have considerable uniqueness or specificity in that each item tends to have only a low correlation with the attribute being measured and tends to relate to other attributes as well. In addition, single items tend to categorise people into a relatively small number of groups. For example, a seven-point rating scale can at most distinguish between seven levels of an attribute. Finally, individual items produce unreliable responses because the same scale position is unlikely to be checked in successive administrations of an instrument. These difficulties in measurement can be diminished with multi-item measures: (1) the specificity of items can be averaged out when they are combined, (2) by combining items, one can make relatively fine distinctions between people, and (3) reliability tends to increase and measurement error decrease as the number of items in a combination increases (Churchill, 1979). Multi-item measurement models allow the most unambiguous assignment of meaning to the estimated constructs (Anderson & Gerbing, 1988).

Henson (2001) suggests that reliability of score in any study is central to understanding the observed relationship between variables. The most commonly used reliability measure is internal consistency. Internal consistency relates to item homogeneity, or the degree to which the items on a test jointly measure the same construct (Henson, 2001). To assess internal consistency, Fornell and Larcker (1981) suggest the following formula to compute composite reliability:

$$\rho_{\eta} = \frac{(\sum_{i=1}^p \lambda_{yi})^2}{(\sum_{i=1}^p \lambda_{yi})^2 + \sum_{i=1}^p \text{Var}(\eta_i)}$$

where:

ρ_{η} = reliability of construct η ,

p = number of observed dependent variables,

λ_{yi} = regression coefficient of i number of independent variable (y),

$\text{Var}(\eta_i)$ = Variance of construct η .

Scholars (e.g. Hulland, 1999; Sarkar, Echambadi, Cavusgil, & Aulakh, 2001) advocate causal modelling techniques for theory testing and development as it allows researchers to simultaneously examine theory and measure. Based on this feature, according to Fornell and Larcker (1981), internal consistency is superior to alpha coefficient, the other measuring technique to be discussed later in this section.

Cronbach's (1951) coefficient alpha [α] is another commonly used reliability test, as it provides a good estimate in most situations. It is the average of all possible split-half coefficients resulting from different ways of splitting the scale item. According to the split-half measure, the items on the scale are divided into two halves and the resulting half scores are correlated (Malhotra, 2007). The value of the coefficient varies from 0 to 1. Higher value indicates satisfactory internal consistency reliability. Nunally (1978) suggests a 0.7 cut-off. A value of 0.7 or greater implies a shared variance of 50 per cent or greater between the item and the construct (Sarkar et al., 2001). The satisfactory level tends to be greater as the number of items increases. On the other hand, a lower value means either too few items or little commonality among items.

Anderson and Gerbing (1988) argue that an important condition for theory testing and development is that the measures that are posited as alternate indicators of each construct must be acceptably uni-dimensional. That is, each measure is intended as an estimate of only one construct.

5.5.4 Exploratory Factor Analysis for Construct Dimensionality

Data was analysed for dimension identification underlying the latent construct. To achieve the purpose, data was run using SPSS 17, and some items were grouped according to factor loading while others were eliminated.

Two decisions generally confront the user of EFA. The first is the number of factors to retain (Hayton et al., 2004), and in this regard the most common method is the Kaiser

method (Kaiser, 1960), which retains factors with eigenvalues greater than 1. The second is the decision to transform, or rotate, to make factors more interpretable (Tamimi, 1995). Normally a Varimax rotation is used because it can minimise the number of variables that have high loadings on the orthogonal factors.

Hair et al. (1998) suggest that measurement items to be removed from subsequent analysis are [1] the item does not load significantly on any factor, or [2] the item has a high loading on more than one factor, or [3] the communality of the item is less than 0.3. Nevertheless, O'Leary-Kelly and Vokurka (1998) suggest that, in making a decision on which measurement items to retain and which are to be grouped together, it is also important to demonstrate that the items are logically and theoretically connected to the construct. Hence, in this study the decision to group and eliminate items was based on both evaluations: level of factor loading and theoretical support.

To confirm the presence of correlation between items and thus support the appropriateness of the factor model (Malhotra, 2007), two tests were carried out, namely, [1] Bartlett's test of sphericity, and [2] the Kaiser-Meyer-Ohlin (KMO) measure of sampling adequacy. Bartlett's test of sphericity was used to test the null hypotheses that the variables were uncorrelated. The desired value was the large chi square that favoured the rejection of the null hypotheses. Kaiser (1974) proposes that a figure exceeding 0.70 suggests appropriate degrees of common variance among the measurement item.

The results from Bartlett and KMO tests shown in Table 5.10 supported the appropriateness of factor analysis for all constructs. As illustrated in the tables, the chi square values for all constructs were high, with 0.001 significant levels, and thus they support the rejection of the null hypotheses. All KMO's figures were greater than 0.80, indicating appropriate correlations among the measurement items.

Table 5.10 describes the results of EFA for all the variables in this study. At this stage, one item (F-27) was removed from subsequent analysis due to low communality (0.135). Three items, e.g. A-7, B-12, C-5 and C-12, were eliminated for high cross-loading on more than one factor. Measurement items for three constructs, top manager competence, learning orientation, and export performance, were loaded into a single factor, indicating unidimensionality of the constructs. Except for learning orientation, these findings were consistent with the theory and as expected. Previous studies suggest that items representing learning orientation can be grouped into three dimensions (e.g. Jerez-Gomez et al., 2005;

Nasution & Mavondo, 2008). This conceptual view has been tested in a large number of studies and the findings were positive. Accordingly, following the conceptual underpinning, further analysis was conducted on CFA, and the findings are presented in the next section to confirm the dimensionality of the construct.

As shown in Table 5.10, items measuring market orientation were loaded into two-factors as expected. Items measuring psychic distance, entrepreneurship orientation, competitive advantage, and the mediator, were loaded into three factors each, confirming multidimensionality of the constructs.

The concept of internationalisation consists of three dimensions: the degree of internationalisation, the speed of internationalisation, and number of export destinations. Speed of internationalisation aims to capture the number of years taken by the firm to start exporting after its establishment. In order to measure this dimension, the interval between the year the firm started exporting (H-3) and the year the firm was established (H-4) was calculated and a new item, H-6, was assigned. The four items measuring internationalisation, H-1, H-2, H-5, and H-6, were loaded into two-factors. Two items, H-5 and H-6 which loaded into one factor, were eliminated due to the low Cronbach-alpha (0.105). The remaining two, H-1 and H-2, are shown in Table 5.10.

In the case of relationship quality, the construct was originally conceptualised as consisting of six dimensions. Although factor analysis results showed that items representing the dimensions of relationship quality loaded into six factors, these items, particularly items for measuring trust, commitment, and satisfaction, were mixed up and did not load into factors that they were intended to measure (hypothesised). Hence, analysis continued, and in accordance with the literature, items were grouped initially into six dimensions of relationship quality based on EFA. Based on the result of convergent and discriminant validity tests, a decision was made to separate the items into the factors that they were intended to measure. On another note, decisions were also made to separate three dimensions from the others on the grounds of trust, commitment, and satisfaction that had been shown in many studies to be closely related. In addition, these variables have also been consistently conceptualised and tested as the main components for relationship quality in a large number of studies (for review, see Athanasopoulou, 2009).

The remaining three dimensions, namely communication, adaptation, and social bond, were tested further in this study as moderating variables in the relationship between

independent constructs and relationship quality. These constructs were tested separately for reliability, and the results in Table 5.10 show that the scores for Cronbach-Alpha for all constructs were above 0.80.

Table 5.10 also shows Cronbach Alpha for all constructs in this study. Cronbach Alpha ranged from 0.748 to 0.924, which was well above 0.70 as proposed by Nunally (1978). Specifically, except for market structure and economic environment (0.748), reliability scores for the rest of the constructs were 0.80 and above. The results indicate that, after the refinement process, items correlated to one another. In addition; these items met the conditions of the reliability satisfactorily.

Table 5.10 Final Item and Cronbach Alpha (α) for Constructs

Construct	Item	No	α
Market Orientation			
KMO = 0.844; Bartlett = 879.836, df = 36, Sig = 0.000			
Customer Orientation	Understanding of customer needs	A-1	0.85
	Creating customer value	A-2	
	Customer satisfaction information	A-3	
	Create value for customers	A-4	
	Communication across function	A-5	
	Response to target market	A-6	
Competitor Orientation	Competitor's weaknesses	A-8	0.80
	Competitor's campaign	A-9	
Entrepreneurship Orientation			
KMO = 0.917; Bartlett = 2433.614; df = 136, Sig = 0.000			
Pro-activeness	We actively seek contact with clients in international market;	C-1	0.87
	We regularly monitor the trend of export markets;		
	We actively explore business opportunities abroad;	C-2	
	We constantly seek opportunities to improve our business performance	C-3	
Risk-Taking	We actively adopt the best practices in our sector;	C-6	0.81
	In this organization uncertainty is treated as a challenge;	C-7	
	Employees are encouraged to venture into unexplored territories;	C-8	
	Our firm emphasises opportunity for success rather than chances for failure	C-10	
Innovativeness	We actively adopt "new ways of doing things" by main competitors;	C-14	0.87
	We are willing to invest in new ways of doing business;	C-15	
	We encourage our people to think and behave in novel ways;	C-16	
	We value creative new solutions	C-17	
Learning Orientation			
Managerial Commitment	Management seeks to keep ahead of new environmental solutions;	E-2	0.87
	Employee learning is considered a key factor in this firm's success;	E-3	
	In this firm, innovative ideas are rewarded;	E-4	
	Managers agree that our ability to learn is the key to our competitive advantage	E-5	

Systems Perspective	Every department, sections, work team and individual in this firm is aware of how they contribute to achieving the overall objectives;	E-7	0.88
	All our departments work in a coordinated fashion;	E-8	
Openness & Experimentation	Every person in this firm is aware of long term vision of the firms;	E-9	0.92
	There is an agreement in our business unit's vision	E-10	
	We promote experimentation as a way of improving the work processes;	E-11	
	We adopt the practices and techniques of other firms believed to be useful;	E-12	
	We consider experiences and ideas provided by external sources useful for learning;	E-13	
	Our employee can express their opinions and make suggestions regarding the procedures and methods in place for carrying out tasks;	E-14	
	We value employees' ideas that may increase firm's success	E-15	
Human Capital			
Top Manager Competency	The capacity to take appropriate risks to accomplish objectives;	D-1	0.91
	Ability to effectively manage organizational change;	D-2	
	Broad knowledge of many export activities;	D-3	
	Significant international experience;	D-4	
	Significant international customer contact;	D-5	
	The ability to communicate in foreign languages;	D-6	
	The capacity to absorb information from international sources;	D-7	
	Broad experience in related industries	D-8	
Psychic Distance			
KMO = 0.871; Bartlett = 1739.700; df = 91, Sig = 0.000			
Legal/Political & Business practices	Stability of political structure;	B-1	0.92
	Licensing legislation;	B-3	
	Competitive practices legislation;	B-4	
	Physical distribution systems;		
Market structure & Econ. environment	Setting operating procedures	B-11	0.75
	Number of direct competitors;	B-6	
	Strength of competitors;	B-7	
	Gross domestic product per capita;	B-8	
Language	Language used to communicate in business transaction;	B-13	0.92
	Language used to communicate in social settings;	B-14	
Competitive Advantage			
KMO = 0.890; Bartlett = 2680.939; df = 105, Sig = 0.000			
Cost Advantage	Cost of production;	G-1	0.89
	Cost of goods sold;	G-2	
	Selling price to overseas customers;	G-3	
	Transport cost to overseas markets	G-4	
Product Advantage	Product quality;	G-6	0.92
	Packaging;	G-7	
	Design and style;	G-8	
	Provision of warranty;	G-9	
	Range of product offered	G-10	
Service Advantage	Ease of ordering the product;	G-11	0.89
	After-sale service;	G-12	
	Reliable product delivery;	G-13	
	Staff capable of handling unusual order	G-15	

Relationship Quality			
KMO = 0.928; Bartlett = 2956.880; df = 171, Sig = 0.000			
Trust	This importer has been frank in dealing with our firm;	F-1	0.82
	Promises made by this importer are reliable;	F-2	
	This importer is knowledgeable about the product;	F-3	
	This importer has made sacrifices for us in the past;	F-4	
	This importer cares for my firm's welfare;	F-5	
	This importer is like a friend;	F-6	
Commitment	We like being associated with our importer;	F-8	0.88
	Our positive feeling towards the importer are the major reason we continue working together;	F-10	
	We have a strong sense of loyalty to this import;	F-11	
	We are willing to make long-term investments in this importer;	F-13	
Satisfaction	We dedicate sufficient resources to maintain the relationship	F-14	0.91
	We are proud of having this working relationship;	F-15	
	We are very satisfied with importer's performance;	F-16	
	We are delighted with the overall experience of this relationship;	F-17	
	In general we enjoyed our dealing with this importer	F-18	
Moderators			
Communication	We provide this importer with frequent feedback on its performance;	F-22	0.88
	This importer and we make it a point to keep each other well informed;	F-23	
	This importer and we exchange accurate and precise information	F-24	
Adaptation	We modified our operation process to suit the requirement of the customer;	F-25	0.88
	We changed our capital equipment and tools to meet customer's requirement;	F-29	
	We adjusted our personnel to suit the requirement of the customer	F-30	
Social Bond	I often interact with my partner on a social basis outside of work;	F-31	0.91
	My partner and I are able to talk openly as a friends;	F-32	
	I consider my partner as being almost as close to me as family;	F-33	
	If I were to change business partners, I would lose a good friend in my current partner;	F-34	
	I would consider whether my partner's feelings would be hurt before I made an important decision	F-35	
Export Performance			
	Percentage of export volume to total sales volume (quantity);	I-1	0.97
	Percentage of export revenue to total sales revenue;	I-2	
	Contribution of export profit to total profits;	I-3	
	Growth rate of export sales;	I-4	
	Overall export performance.	I-5	
Internationalisation			
	What is the percentage of export sale to total sale of your firm?	H1	0.92
	What is the percentage of foreign profit to total profit of your firm?	H2	

5.5.5 Confirmatory Factor Analysis for Construct Validity

This section discusses the output of CFA. First, the measurement model is described as it is a basic component of CFA. Then, several measures will be presented and examined such as goodness-of-fit, convergent, and discriminant validity.

5.5.5.1 Measurement models

CFA uses management theory to specify measured variables that represent constructs involved in the model (Hair, Black, Babin, Anderson, & Tatham, 2006). Hence, the measurement model operationalises the conceptual construct and depicts how the variables in a given scale are represented by the same latent constructs. The model specifies factor loadings for each variable in its construct and goodness-of-fit measures that provide an assessment for convergent and discriminant validity (Fornell & Larcker, 1981).

The model depicts how observed variables (measurement items) are causally related to unobserved variables. The unobserved variables or latent constructs are represented by ellipses and connected to items by single-headed arrows. The variables at the base of the arrow affect the variables at the head of the arrow. The number adjoining every arrow represents the standardised factor loading or regression weight and signifies the strength of the relationship. The observed variables are represented by rectangles and the small circles linking each items represent error terms. Double-headed arrows in multidimensional constructs link the unobserved variables.

The measurement models were estimated using a software package known as Analysis of Moment Structure (AMOS) graphic version 17. The measurement model focused on two elements: standardised factor loading (SFL) and goodness-of-fit measure. The desirable score for factor loading was 0.7 as this would result in a square value of 0.49, which would explain at least 50 per cent of variance. However, some experts suggest a lower factor loading of 0.5. The goodness-of-fit was explained in section 5.5.5.2.

5.5.5.2 Goodness-of-fit measures

Schumacker and Lomax (1996) assert that goodness-of-fit measures establish the degree to which the hypothesised model fits the data. In other words, sample data was used to test the model that has already been specified. The main focus in the estimation process was to get

the parameter values such that the discrepancy between the sample covariance matrix and the population covariance matrix was minimal (Byrne, 2010). There are three criteria to determine the fitness of the model to the data, namely, *model fit*, *model comparison*, and *model parsimony*.

Model fit determines the extent to which the measurement model fits the data. This criteria normally consists of measures of chi-square (χ^2), goodness-of-fit index (GFI), the adjusted-goodness-of-fit index (AGFI), and the root-mean-square error of approximation (RMSEA).

Model comparison criteria, also known as incremental fit, compare the proposed model with a null or congeneric model as a baseline model. It commonly comprises the Tucker-Lewis index (TLI), the normed fit index (NFI) and the comparative fit index (CFI). However, CFI is preferred because unlike the other two it is not affected by sample size (Tabachnick & Fidell, 2007).

Model parsimony, the number of estimated coefficients needed to reach a specific level of fit, is measured by comparing over-identified models with a restrictive model (Schumacker & Lomax, 1996).

Tormaken and Waller (2003) divide the statistic of model fit into two types: the likelihood ratio chi-square statistic and fit indices. The χ^2 was computed to test whether the model fitted perfectly in the population, the objective being to achieve the rejection of null hypotheses of exact fit. Nevertheless, Tormaken and Waller identify three well known weaknesses of χ^2 . First, the structural model is only an approximation of reality. Second, the test usually imposes an overly unrealistic criterion. Finally, the outputs are dependent on sample size, where large sample size leads to near rejection of the null hypotheses even in a case of a miss-specified model and because a small sample size might lead to acceptance of a poorly specified model. These, according to Tormaken and Waller, have caused methodologists to develop alternative procedures of fit indices.

The indices are commonly known to be less affected by sample size, and this may well indicate that the model fits well, even though the χ^2 test rejects the null hypotheses. The following are the most common indices to evaluate overall model fit based on Hooper, Coughlan, and Mullen (2008):

- **GFI – Goodness of fit index:** according to Tabachnick and Fidell (2007) this index was created by Joreskog and Sorbom (1993) as an alternative to the Chi-Square test. GFI is a measure of the relative amounts of variance and covariance in the sample covariance that is jointly explained by the population covariance (Byrne, 2010). This statistic has a normal value ranging from 0 to 1, with larger samples increasing its value. The GFI has a downward bias when there are a large number of degrees of freedom in comparison to sample size. By convention, an omnibus cut-off point of 0.90 has been recommended for the GFI.
- **AGFI – Adjusted goodness of fit:** AGFI is adjusted GFI based on the degrees of freedom in the specified model. Byrne (2010) notes that AGFI also addresses the issue of parsimony by incorporating a penalty for the inclusion of additional parameters. AGFI tends to increase with sample size. Like GFI, values for the AGFI also range between 0 and 1, and it is commonly accepted that values of 0.90 or greater indicate well fitting models.
- **NFI – Normal fit index:** This statistic measures the model by comparing the fit value of the model to the fit of the null model when all items are construed to be independent of each other. The null/independence model is the worst case scenario, as it specifies that all measured variables are uncorrelated. Values for this statistic range between 0 and 1, with values greater than 0.90 indicating a good fit.
- **CFI – Comparative fit index:** the Comparative fit index is a revised form of the NFI, which takes into account sample size and that performs well even when sample size is small. Values for this statistic range between 0.0 and 1.0, with values closer to 1.0 indicating good fit. A cut-off criterion of $CFI \geq 0.90$ is considered as representative of a well fitting model.
- **RMSEA – Root mean square error approximation:** The RMSEA tells us how well the model, with unknown but optimally chosen parameter estimates, would fit the population covariance matrix (Byrne, 2010). Today it is regarded as one of the most useful fit indices because of its sensitivity to the number of estimated parameters in the model. It is strongly recommended for three reasons (Byrne, 2010): [1] It would appear to be adequately sensitive to model misspecification, [2] its commonly used interpretative guidelines would appear to yield appropriate conclusions regarding model quality, and [3] it is possible to build confidence intervals around RMSEA

values. An RMSEA in the range of 0.05 to 0.10 is considered an indication of fair fit and one with values above 0.10 an indication of poor fit.

Another fit index that is useful for this study is Tucket-Lewis coefficient.

- TLI – Tucker-Lewis coefficient: For TLI values ranging from 0 to 1 with value more than 0.90 being indicative of good fit.

Table 5.11 shows the summary of good-of-fit criteria and respective indices that are used in the present study. The fit values vary across indices. Based on model fit criteria, the model has an acceptable fit if it achieves *Cmin/df* value less than 3.0, *GFI*, *AGFI* and *CFI* values more than .90, and *RMSEA* values less than .08.

Table 5.11 Goodness-of-fit Criteria

Criteria	Indexes	Acceptable Level	Interpretation
Model Fit	χ^2 value	Low value	Associated P > 0.05 reflects acceptable fit
	Cmin/df	< 3.0	Values close to 1.0 indicate good fit; Values < 3.0 reflect acceptable fit
	GFI	> .90	Values close to 0.9/1.0 reflect good fit
	AGFI	> .90	Values close to 0.9/1.0 reflect good fit
	RMSEA	< .08	Values < 0.05 indicates good fit; Values <0.08 indicate reasonable fit
Model Comparison	TLI	> .90	Values close to 1.0 reflect good fit
	NFI	> .90	Values close to 1.0 reflect good fit
	CFI	> .90	Values close to 1.0 reflect good fit
Model parsimony	Parsimonious Fit Index (Pclose)	> .90	Compares values in alternative models >.90 indicates good model fit

Source: Schoemaker and Lomax (1996)

Table 5.12 shows results for goodness-of-fit measures for the main constructs in this study. As shown in the table, for the chi-square (χ^2) testing only two constructs, namely human capital and export performance, recorded a values greater than 0.05, thus complying with the null hypotheses, which assumes that there is no significant difference between the observed and the expected value. However, for the CMIN/df ratio all constructs indicated an acceptable fit, as the ratios values were lower than 3.0.

Further testing for model fit was conducted on two indices; GFI and AGFI. In terms of GFI, the results indicated that data for all constructs fitted the model, as the values were greater than 0.90. However, it was not the case for AGFI, as only three constructs

registered the value above 0.90. Nevertheless, values for other constructs were near 0.90, thus suggesting that the goodness-of-fit was acceptable.

For testing of model comparisons, also known as incremental fit, three types of indices are discussed: TLI, NFI and CFI. Overall, goodness-of-fit values for the three indices recorded higher values above 0.90 and some even greater than 0.95, which indicated good fit.

Finally, RMSEA values covered a range from good fit as indicated by export performance (RMSEA = 0.39) to acceptable fit as indicated by entrepreneurship orientation (RMSEA = 0.87). All constructs recorded values either less than or close to 0.80, hence overall models in this study were well-fit.

Based on the above discussion, overall results indicate this model is satisfactory as all goodness-of-fit indices met at least the minimum level of acceptable fit.

Table 5.12 Confirmatory Factor Analysis Results for Main Construct

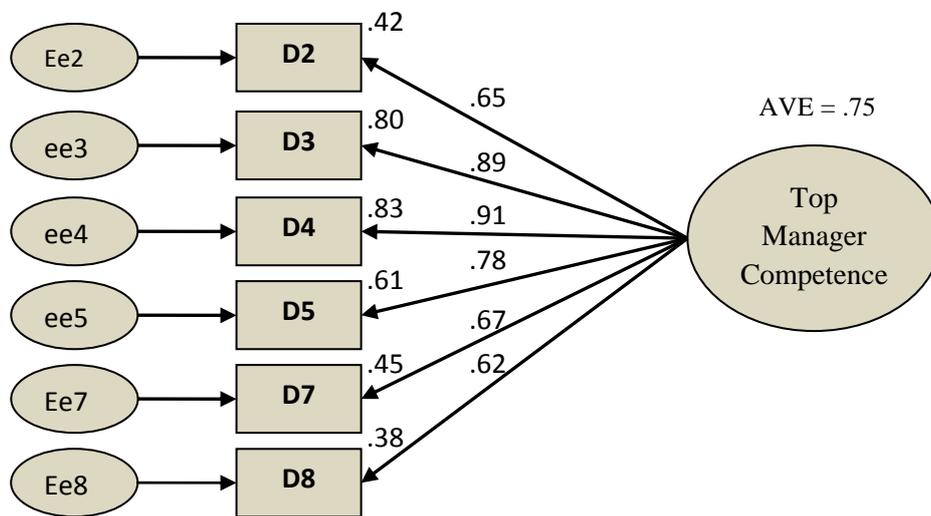
Construct	χ^2	Degree of Freedom	P-Value	CMI N/DF	GFI	AGFI	NFI	TLI	CFI	RMSEA
Market Orientation	49.413	19	0.0001	2.601	.945	.896	.934	.938	.958	.084
Entrepreneurship Orientation	139.606	51	0.0001	2.737	.911	.864	.911	.924	.941	.087
Learning Orientation	130.903	62	0.0001	2.111	.915	.876	.941	.960	.968	.070
Human Capital	18.098	7	0.012	2.585	.974	.922	.971	.979	.987	.084
Psychic Distance	67.638	32	0.0001	2.114	.944	.904	.941	.954	.967	.070
Relationship Quality	150.514	84	0.0001	1.792	.919	.884	.931	.960	.968	.059
Moderator	107.855	41	0.0001	2.631	.923	.877	.939	.947	.961	.085
Export Performance	2.470	2	0.291	1.235	.996	.968	.998	.998	1.00	.032
Competitive Advantage	152.957	62	0.0001	2.467	.906	.862	.932	.948	.958	.080

5.5.6 Convergence Validity

Convergent validity is established when the scores obtained from two different instruments measuring the same concept are highly correlated. Kerlinger and Lee (2000, p. 671) define convergence as “...evidence from different sources gathered in different ways all indicate the same or a similar meaning of the construct”. Accordingly, the different instruments of measurement should converge on the construct and hence to confirm the convergent validity the researcher examined the loading of items on the latent construct.

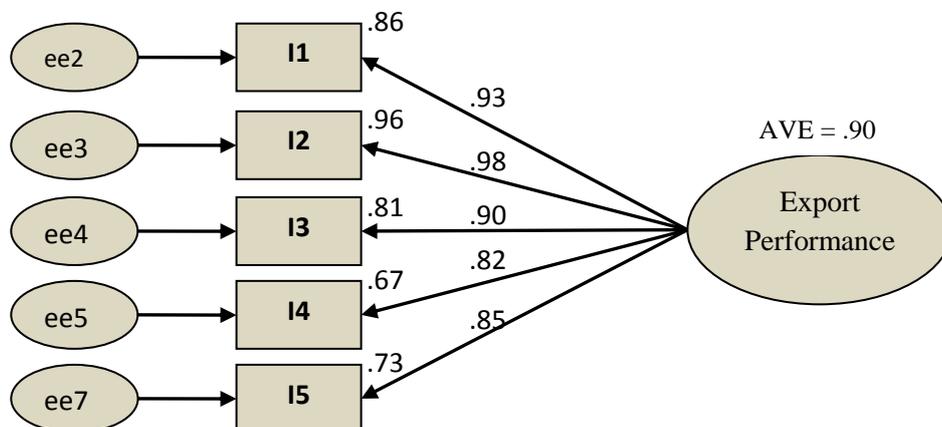
Figures 5.2 to 5.10 show the measurement models of confirmatory factor analysis for the main constructs. Figures 5.2 and 5.3 show the measurement models for human capital and export performance respectively, as well as the associated values of goodness-of-fit indices. Measurement models for other constructs are presented in Figures 5.4 to 5.10. All standardised factor loadings range from 0.55 to 0.98, well above the minimum level of 0.50. Accompanying the tables are the goodness-of-fit score for every construct. The analysis in earlier sections demonstrated that they met the requirements of acceptable fit and thus confirmed the existence of convergence validity for items measuring the respective constructs.

Figure 5.2 Measurement Model for Human capital



$\chi^2 = 18.098$, $df = 7$, $p = .012$, $CMIN/df = 2.585$
 GFI = .974; AGFI = .922; TLI = .971; NFI = .979; CFI = .987; RMSEA = .084

Figure 5.3 Measurement Model for Export Performance



$CMIN (\chi^2) = 2.470$, $df = 2$, $P = .291$, $CMIN/df = 1.235$
 GFI = .996; AGFI = .968; NFI = .998; TLI = .998; CFI = 1.000; RMSEA = .032

5.5.7 Discriminant Validity

Discriminant validity involves demonstrating whether a construct can be differentiated from other constructs that may be somewhat similar (Nes et al., 2007). One method of assessing the discriminant validity of a measure is to show that the measure has a latent structure that is distinct from the latent structure of relevant but conceptually distinct variables (Byrne, Dominick, Smither, & Reilly, 2007). Discriminant validity exists to the extent that one can empirically differentiate the construct from other similar constructs and can indicate what is unrelated to the construct (Martin & Eroglu, 1993). Discriminant validity needs to be established in this study, as the domain of the construct is multi-dimensional (Campbell & Fiske, 1959).

To measure the discriminant validity, cross-construct correlations were assessed using correlation matrix and descriptive statistics for the constructs, and significant [χ^2] difference from 1.0 implies the presence of the validity. Fornell and Larcker (1981) suggest the use of average variance extracted (AVE), the average variance shared between a construct and its indicators (items). An AVE score higher than correlation between two constructs suggests the existence of discriminant validity. The scores for AVE are shown in diagonal in Table 5.13.

To test for discriminant validity SEM was run using AMOS version 17. Figures 5.4 to 5.10 depict the measurement models for constructs that were conceptualised of having dimensions, and each model is discussed in detail in the next sections. Table 5.13 shows the correlation between constructs and descriptive statistics for constructs. As shown in the table, internal consistency (column two) for constructs ranged from .77 to .96 suggesting that the scale items for the construct it intended to measure in this study were highly reliable.

Table 5.13 Internal Consistency, Average Variance Extracted (AVE) and correlations of first order constructs

Construct	α	1	2	3	4	5	6	7	8	9	10	11	12
1. Customer Orientation	.85	.70											
2. Competitor Orientation	.80	.46***	.82										
3. Legal & Business	.84	.42***	.32***	.72									
4. Market Structure	.75	.37***	.43***	.60***	.72								
5. Language	.92	.17*	.20**	.47***	.30***	.93							
6. Pro-active	.87	.40***	.33***	.35***	.28***	.12*	.80						
7. Risk-Taking	.81	.55***	.34***	.45***	.28***	.19**	.50***	.72					
8. Innovativeness	.87	.48***	.41***	.37***	.28***	.27***	.54***	.68***	.80				
9. Human Capital	.90	.54***	.43***	.45***	.43***	.29***	.55***	.51***	.63***	.73			
10. Manager Commitment	.87	.49***	.36***	.27***	.25***	.20***	.43***	.61***	.69***	.57***	.80		
11. System Perspectives	.88	.52***	.28***	.36***	.22**	.20**	.47***	.55***	.57***	.56***	.72***	.81	
12. Open & Experiment	.92	.47***	.27***	.35***	.31***	.22**	.51***	.62***	.65***	.55***	.75***	.77***	.83
13. Trust	.82	.32***	.33***	.28***	.21**	.20**	.43***	.40***	.42***	.48***	.47***	.44***	.47***
14. Commitment	.88	.40***	.27***	.31***	.25***	.12*	.44***	.44***	.38***	.42***	.38***	.34***	.40***
15. Satisfaction	.91	.42***	.25***	.31***	.24***	.10	.39***	.44***	.40***	.44***	.36***	.42***	.39***
16. Communication	.88	.41***	.21***	.24***	.12*	.11*	.41***	.46***	.33***	.42***	.45***	.44***	.41***
17. Adaptation	.88	.18**	.20**	.34***	.22**	.27***	.21**	.32***	.34***	.26**	.33***	.30***	.34***
18. Social Bond	.91	.22**	.23***	.36***	.28***	.20**	.25***	.33***	.43***	.38***	.45***	.46***	.44***
19. Cost Advantage	.89	.34***	.34***	.27***	.17*	.09	.38***	.38***	.34***	.47***	.42***	.40***	.34***
20. Prod Advantage	.92	.31***	.31***	.33***	.24***	.24***	.23***	.34***	.37***	.41***	.35***	.36***	.34***
21. Service Advantage	.89	.29***	.25***	.29***	.22**	.15*	.37***	.43***	.37***	.44***	.42***	.43***	.43***
22. Export Perform	.96	.16*	.17*	.19**	.13*	.00	.38***	.32***	.27***	.38***	.26***	.26***	.27***
23. Internationalisation	.91	-.13*	-.18*	-.12*	-.02	-.08	.04	.14*	.00	.08	-.14*	-.07	.00
Internal Consistency		.85	.81	.84	.77	.93	.90	.81	.88	.89	.87	.88	.92
Mean		5.61	5.06	5.17	5.04	4.85	5.33	5.099	5.24	5.21	5.36	5.26	5.29
Standard Deviation		.77	1.14	.946	.96	1.29	1.03	.98	1.08	.87	.98	.97	1.01
Skewness		-.83	-.65	-.74	-1.00	-.79	-.88	-.52	-.85	-.96	-1.11	-.87	-.78
Kurtosis		1.84	.61	.48	1.35	.65	1.37	.37	1.08	1.57	1.88	1.02	.59

***. Correlation is significant at the 0.001 level (1-tailed); ** Correlation is significant at the 0.01 level (1-tailed); * Correlation is significant at the 0.05 level (1-tailed).

Note: Average Variance Extracted (AVE) value is shown in diagonal; Internal Consistency value is shown in the second column of α .

Table 5.13 Internal Consistency, Average Variance Extracted (AVE) and correlations of first order constructs (Continue)

	α	13	14	15	16	17	18	19	20	21	22	23
13. Trust	.82	.64										
14. Commitment	.88	.70***	.75									
15. Satisfaction	.91	.61***	.75***	.84								
16. Communication	.88	.58***	.61***	.68***	.79							
17. Adaptation	.88	.39***	.28***	.31***	.34***	.78						
18. Social Bond	.91	.43***	.44***	.51***	.50***	.49***	.84					
19. Cost Advantage	.89	.47***	.33***	.35***	.44***	.38***	.40***	.82				
20. Prod Advantage	.92	.33***	.31***	.38***	.37***	.29***	.35***	.41***	.84			
21. Service Advantage	.89	.42***	.43***	.46***	.45***	.38***	.52***	.44***	.67***	.82		
22. Export Perform	.96	.36***	.32***	.33***	.31***	.19***	.25***	.37***	.38***	.43***	.90	
23. Internationalisation	.92	.15*	.13*	.12*	.10	.07	-.02	.00	.00	.06	.37***	.88
Internal Consistency		.81	.80	.87	.85	.83	.92	.86	.89	.89	.98	.94
Mean		5.23	5.49	5.56	5.51	5.03	5.18	5.12	5.51	5.53	4.73	33.19
Standard Deviation		.80	.83	.83	0.86	1.21	1.06	.95	.93	.90	1.30	25.48
Skewness		-.27	-.84	-.46	-0.72	-.84	-.44	-.32	-.67	-.43	-.69	0.94
Kurtosis		.22	3.41	.26	0.80	1.13	.29	-.17	1.49	.03	-.10	0.06

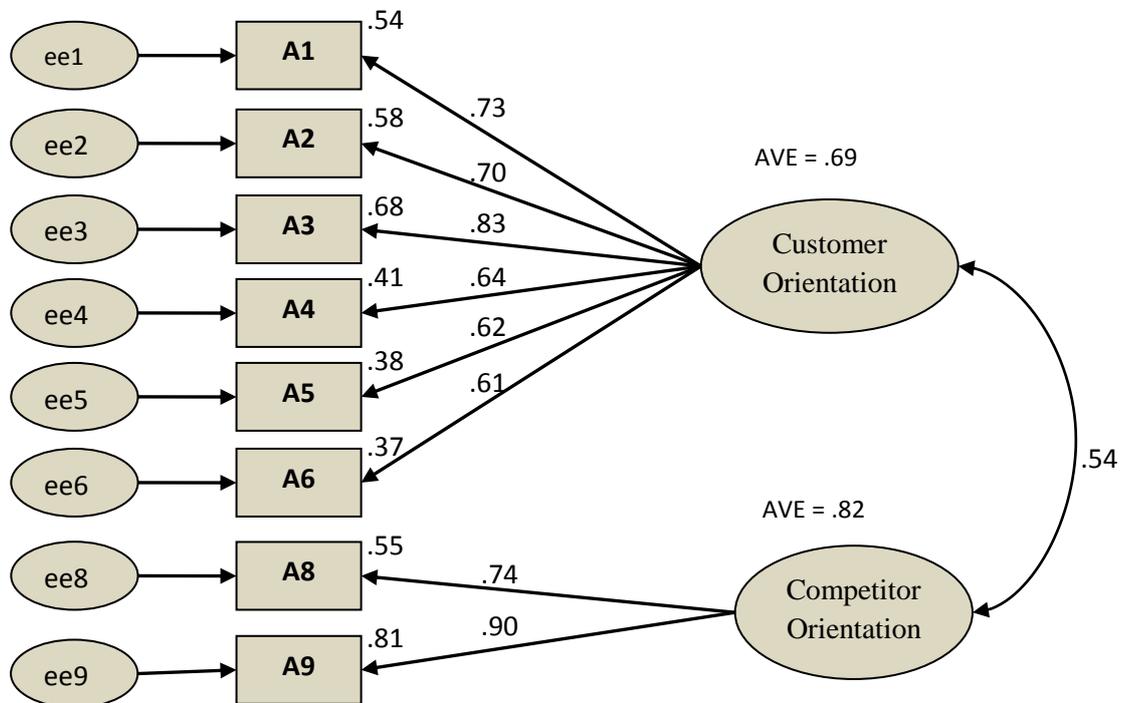
***. Correlation is significant at the 0.001 level (1-tailed); ** Correlation is significant at the 0.01 level (1-tailed); *. Correlation is significant at the 0.05 level (1-tailed).

Note: Average Variance Extracted (AVE) value is shown in diagonal; Internal Consistency value is shown in the second column of α .

5.5.7.1 Market orientation

Market orientation consists of customer orientation and competitor orientation. As shown in Table 5.13, average variance extracted for customer orientation (.69) was significantly higher than its correlation (.54) with competitor orientation. Average variance extracted for competitor orientation (.82) was even higher than the correlation between the two constructs. The results suggested that the construct of customer orientation was distinct from competitor orientation and should be separated as two dimensions of market orientation.

Figure 5.4 Measurement Model for Market Orientation



CMIN (χ^2) = 49.413, df = 19, P = 0.000, CMIN/df = 2.601

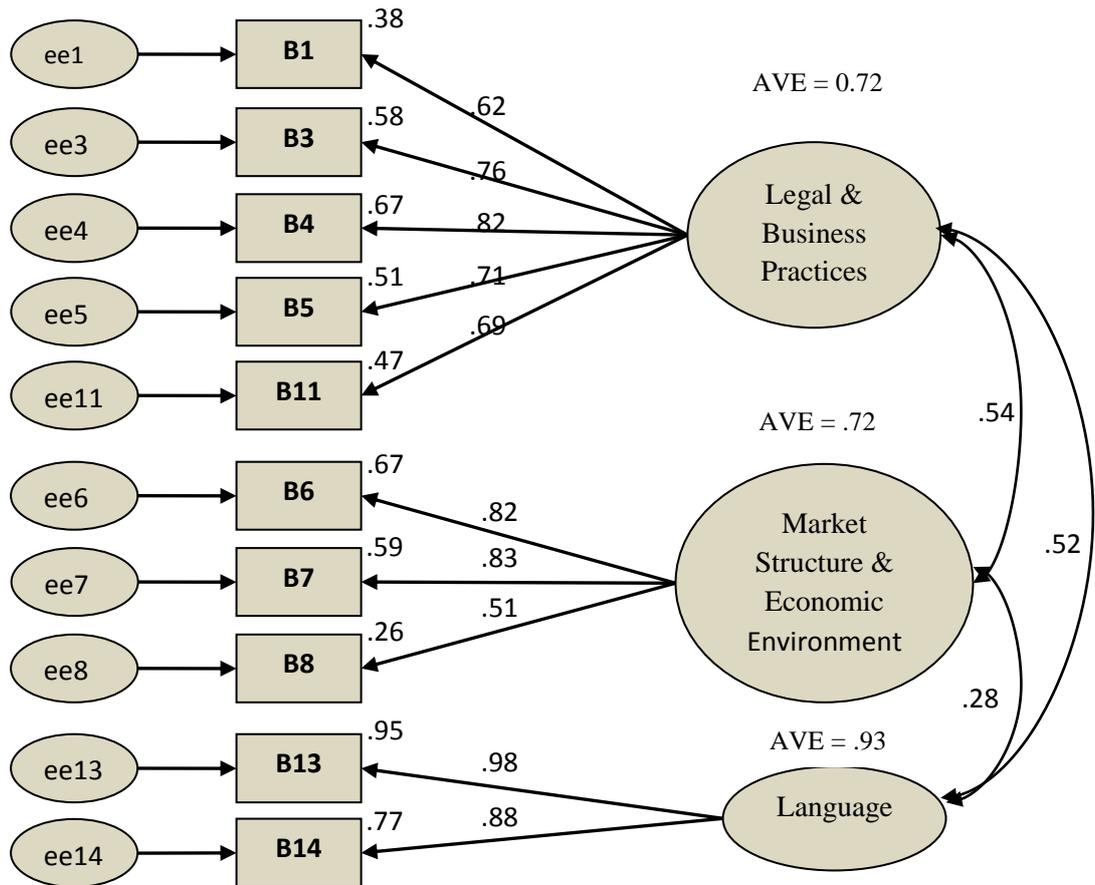
GFI = .945; AGFI = .896; NFI = .934; TLI = .938; CFI = .958; RMSEA = .084

5.5.7.2 Psychic Distance

Average variance for legal and business practices was 0.72 and this was higher than its correlation with market structure and economic environment (0.60) and language (0.47). These results indicated that the construct of legal and business practices was different from the other two dimensions of psychic distance. The average variance for market structure and economic environment was also 0.72. The correlation between market structure and economic environment and legal and business practices was 0.60, and correlations between market structure and economic environment was 0.30. Both correlations were lower than

average variance, thus suggesting that market structure and economic environment and the other two dimensions were distinct. The third dimension of business distance is language with average variance equal to 0.93. The average variance was significantly higher than the correlation values between language and the others two dimensions, 0.47 and 0.30. Hence, language was also different from market structure and economic environment and legal and business practices.

Figure 5.5 Measurement Model for Psychic Distance

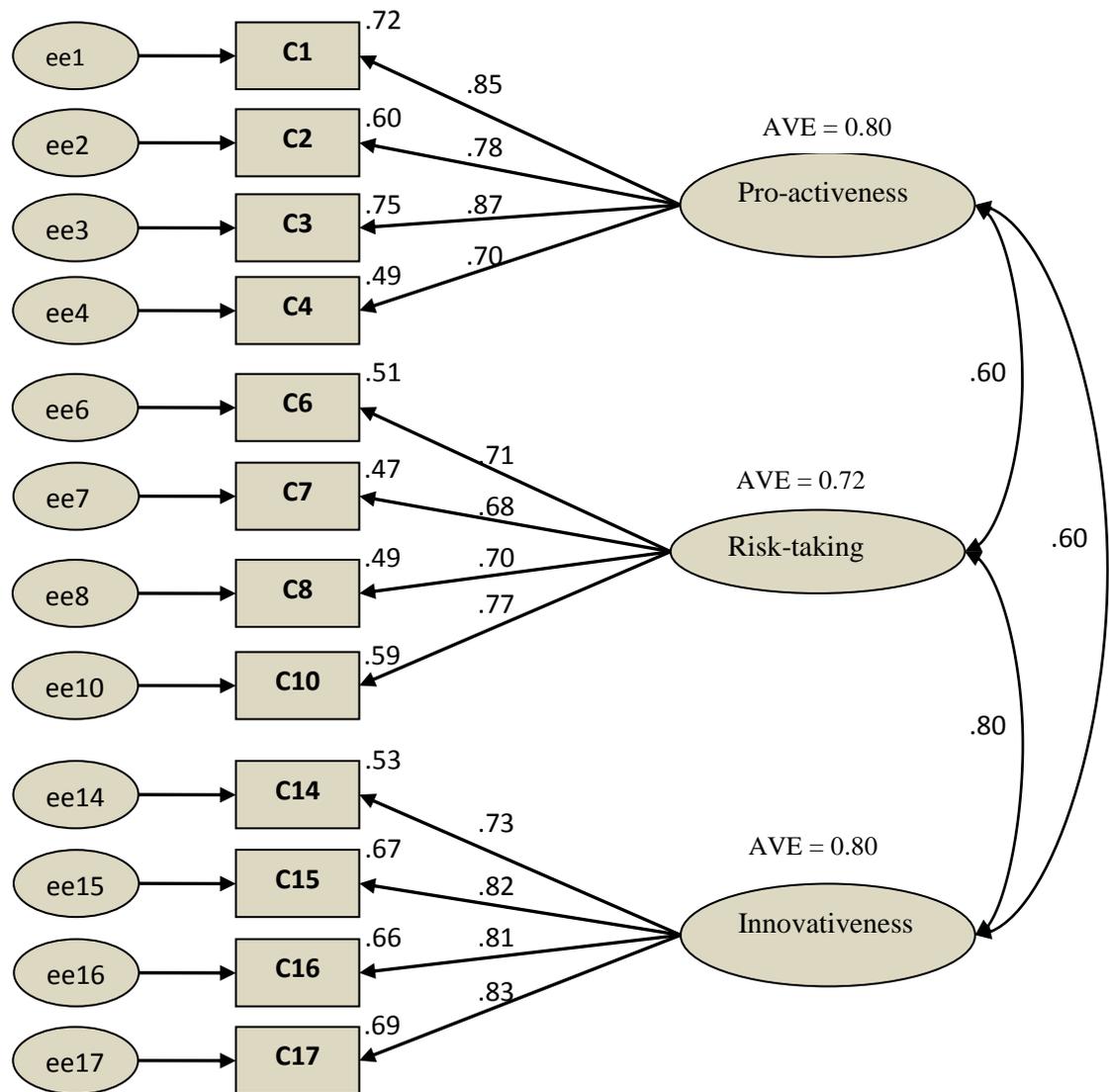


CMIN (χ^2) = 67.638, df = 32, P = 0.000, CMIN/df = 2.114
 GFI = .944; AGFI = .904; NFI = .941; TLI = .954; CFI = .967; RMSEA = .070

5.5.7.3 Entrepreneurship orientation

The average variance for pro-activeness is 0.80, and the correlations between pro-activeness and risk-taking, and pro-activeness and innovativeness, are 0.50 and 0.54 respectively. Higher average variance suggests that pro-activeness is different from risk-taking and innovativeness. The average variance for risk-taking is 0.72 which is marginally higher than the correlation between risk-taking and innovativeness (0.68) and pro-activeness and innovativeness (0.50).

Figure 5.6 Measurement Model for Entrepreneurship Orientation



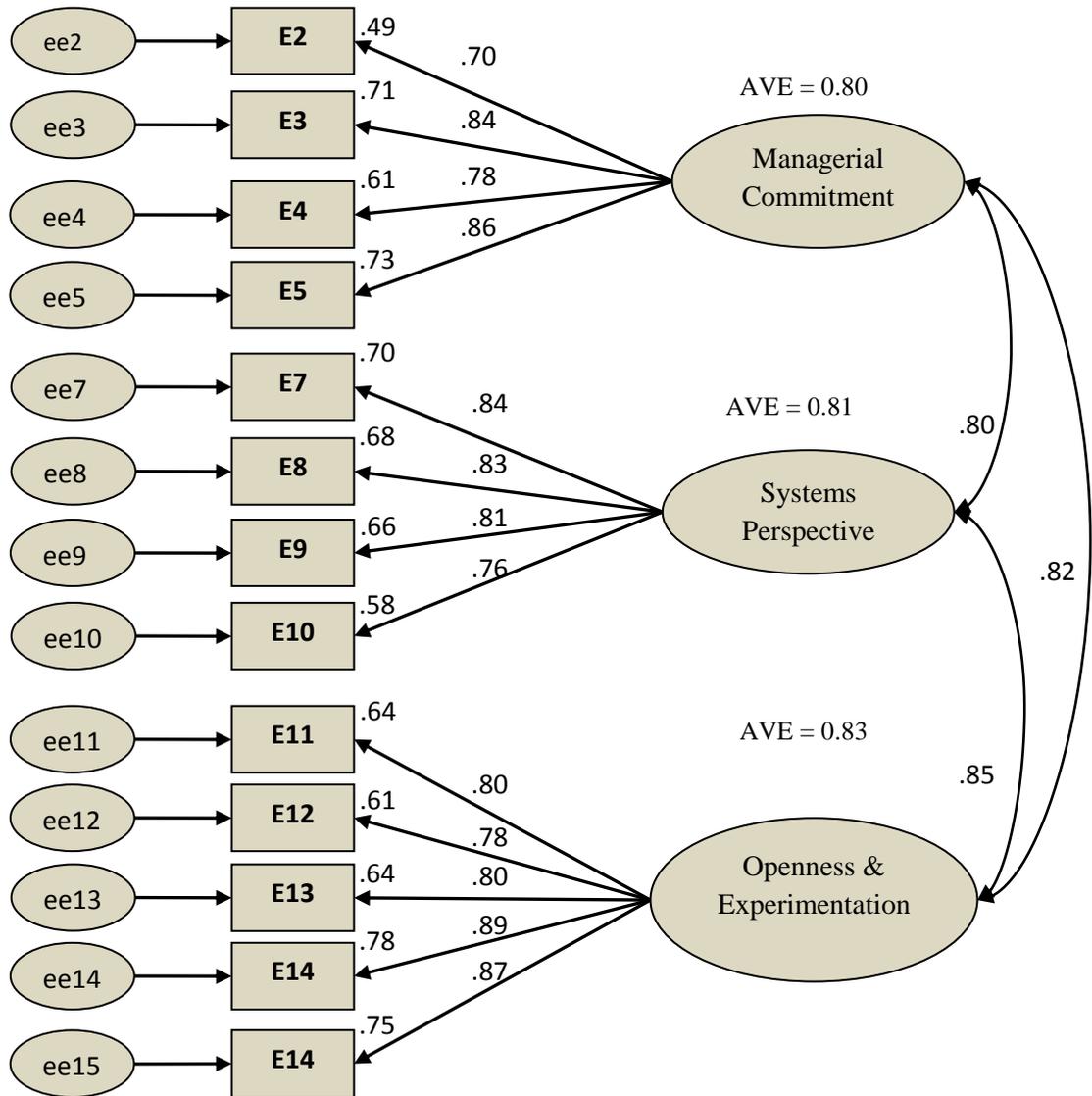
CMIN (χ^2) = 139.606, df = 51, P = 0.000, CMIN/df = 2.737

GFI = .911; AGFI = .864; NFI = .911; TLI = .924; CFI = .941; RMSEA = .087

5.5.7.4 Learning orientation

Average variance for all three dimensions of learning orientation, managerial commitment (0.80), systems perspectives (0.81), and openness and experimentation (0.83) were marginally higher than correlations. The results were adequate for an indication of discriminant validity for learning orientation. Correlation between managerial commitment and systems perspectives was 0.72, correlation between systems perspective and openness and experimentation was 0.77, and correlation between managerial commitment and openness and experimentation was 0.75.

Figure 5.7 Measurement Model for Learning Orientation



CMIN (χ^2) = 130.903, df = 62, P = 0.000, CMIN/df = 2.111

GFI = .915; AGFI = .876; NFI = .941; TLI = .960; CFI = .968; RMSEA = .070

5.5.7.5 Relationship quality

Average variance for trust (0.64) was lower than its correlation with commitment (0.70) but slightly higher than its correlations with satisfaction (0.61). These results indicate that discriminant validity does exist between trust and commitment. Average variance for commitment (0.75) is higher than correlations between commitment and trust (0.70) but equal to the correlation between commitment and satisfaction (0.75). This suggests that there is no evidence of discriminant validity between commitment and satisfaction. Lastly, average variance for satisfaction (0.84) is higher than both correlation between satisfaction and trust (0.61) and correlation between satisfaction and commitment (0.75). Unlike the

above mentioned cases, in this case satisfaction is clearly different from trust and commitment.

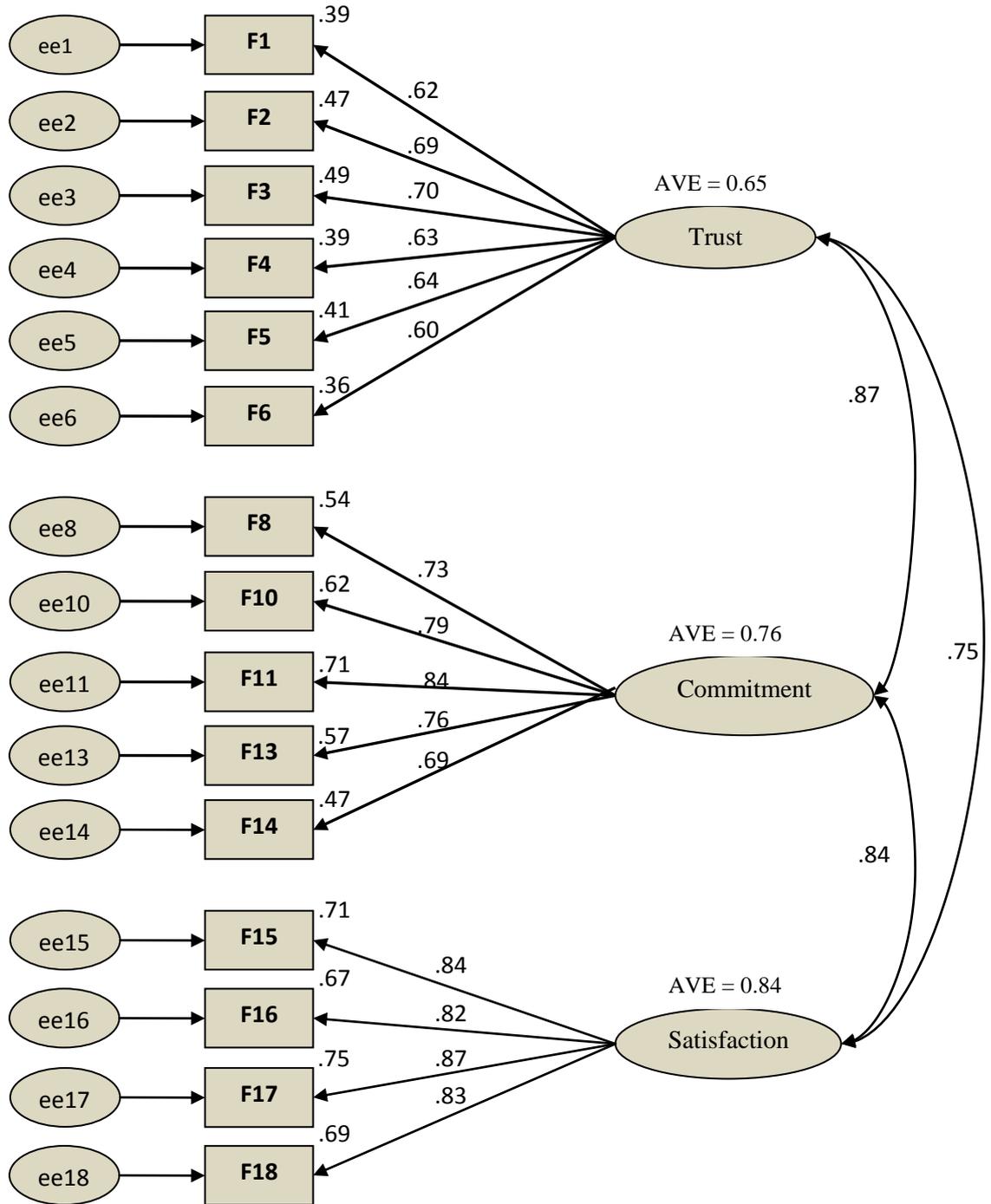
The smaller AVE values of relationship quality dimensions compared to correlations, as mentioned in the result above, suggest that they belong to one underlying construct, i.e. RQ. Further testing of chi-square difference was run, and the results (Table 5.14) demonstrate clear evidence of discriminant validity, but the high correlations suggested there may be one underlying factor (a second-order factor). Consequently, these three were considered dimensions of relationship quality.

Table 5.14 Test of Chi-square Different for Relationship Quality

Covariance	Parameter	Constrained		Unconstrained		Chi-square difference
		CMIN	df	CMIN	df	
Trust - Commitment	1	191.241	85	150.514	84	40.7***
Commitment - Satisfaction	1	191.094	85	150.514	84	40.6***
Trust - Satisfaction	1	194.285	85	150.514	84	43.8***

*significant at $p < .05$

Figure 5.8 Measurement Model for Relationship Quality



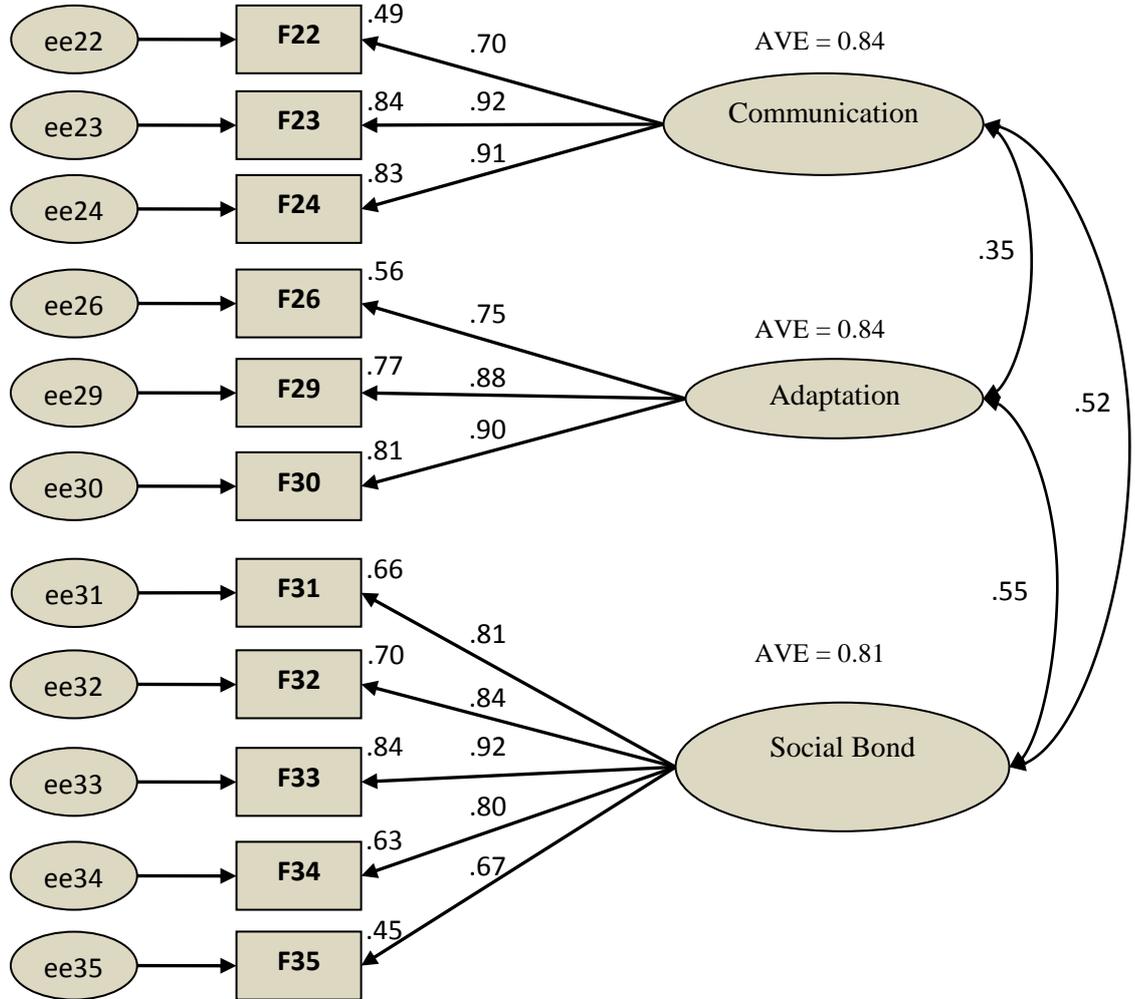
CMIN (χ^2) = 150.514, df = 84, P = 0.000, CMIN/df = 1.792
 GFI = .919; AGFI = .884; NFI = .931; TLI = .960; CFI = .968; RMSEA = .059

5.5.7.6 Moderator

Average variance for each moderator, communication (0.78), adaptation (0.78), and social bond (0.84), were significantly higher than all correlations between communication and adaptation (0.34), adaptation and social bond (0.49) as well as between communication and

social bond (0.50). The results demonstrate that the three constructs that serve as moderator in this study are distinct. This suggests that these three constructs are to be treated separately. The findings also confirm the existence of clear evidence of discriminant validity.

Figure 5.9 Measurement Model for Moderator

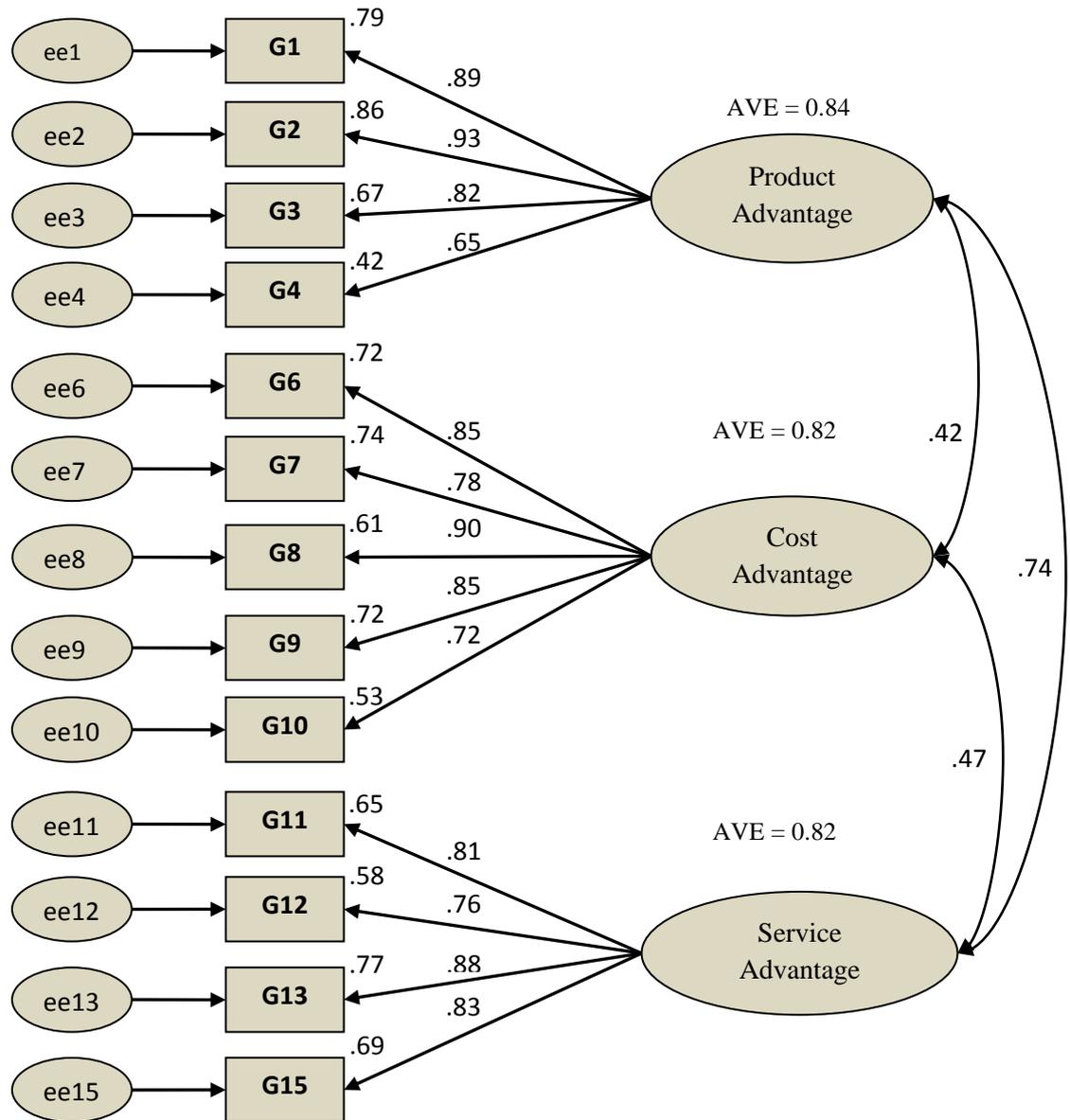


CMIN (χ^2) = 107.855, df = 41, P = 0.000, CMIN/df = 2.631
 GFI = .923; AGFI = .877; NFI = .939; TLI = .947; CFI = .961; RMSEA = .085

5.5.7.7 Competitive advantage

The final measurement model is competitive advantage. Items measuring each dimension of competitive advantage were found to converge into the respective factors as the AVE values were above 0.80. Similarly, evidence from average variance supports the existence of discriminant validity. Average variance extracted for all dimensions (0.84, 0.82 and 0.82) of competitive advantage were well above the correlations (0.41, 0.44 and 0.67).

Figure 5.10 Measurement Model for Competitive Advantage



CMIN (χ^2) = 152.957, df = 62, P = 0.000, CMIN/df = 2.467

GFI = .906; AGFI = .862; NFI = .932; TLI = .948; CFI = .958; RMSEA = .080

5.6 CRITERION VALIDITY

The study of criterion validity involves comparing the test scores with external variables, or criteria, believed to measure the attributes under study (Kerlinger & Lee, 2000). There are two forms of criterion validity, predictive validity and concurrent validity, based on time dimension (Malhotra, 2007). Predictive validity evaluates data collected at different times. So, it is irrelevant to the present study. Concurrent validity, on the other hand, is assessed by comparing data on the scale with criterion variables that are collected at the same time. To assess concurrent validity, data on criterion variables were collected and compared with data on the scales. As shown in Table 5.13, most correlations between

constructs were significant, which indicates that in this study constructs perform very well in relation to others.

5.7 COMMON METHOD VARIANCE

The final test for validity and the existence of error component in the measurement scale used in this study was common method variance (CMV). In an analysis by Cote and Buckley (1987), large error components were found to be exhibited in measurement instruments that are used in social science research. As mentioned before, this measurement error may threaten the validity of the conclusions about the relationships between measures of different constructs (Podsakoff, MacKenzie, & Podsakoff, 2003). The major source for systematic error is CMV.

To overcome the problem of CMV, Lindell and Whitney (2001) suggest the use of a marker-variable. Thus, in the present study, the researcher will seek at least one marker variable and locate it close to the dependent variables. The aim is to establish that the marker variable is different from the other variables and to control for the effect of the marker variable in assessing correlation. If a relationship becomes non-significant after taking into account the marker variable then there is evidence of CMV, otherwise this will not be seen as a problem. This method has been tested further by Malhotra. Kim and Patil (2006), who proposed the following equation originally developed by Lindell and Whitney (2001):

$$r_A = \frac{r_U - r_M}{1 - r_M}$$

Where:

r_A = adjusted correlation

r_U = uncorrected correlation

r_M = indicator of CMV

The significance of a correlation can be tested by the following:

$$r_{\frac{\alpha}{2}, N-3} = \frac{r_A}{\sqrt{\frac{(1 - r_A^2)}{(n - 3)}}}$$

In this study, the test for CMV has been performed following Lindell and Whitney. An indicator (r_M) of 0.04 on the basis of the lowest correlation (positive) value was identified in Table 5.14. Based on the total number of uncorrected significant correlation of 237 cases, the test found that slightly less than 3 per cent of adjusted correlations (r_A) became insignificant after controlling for CMV, indicating low method variance. Since inflation correlation because of CMV was only 0.0295, the potential threat of CMV on scale validity in this study was very minimal.

5.8 CHAPTER SUMMARY

This chapter addresses the operationalisation of constructs and the construct validity and reliability. Three types of validity were highlighted: content validity, construct validity, and criterion validity. Of the three, construct validity was the most important because it dealt with theory development and testing as well as the accuracy of measures used in this study. Results of the reliability analysis and of EFA and CFA indicate that the measurement scale met the requirements of validity and reliability.

Chapter 6 presents respondent profiles and tests of hypotheses. The chapter's main focus is on various approaches used in data analysis and the results of testing hypotheses.

CHAPTER 6 - DATA ANALYSIS AND DISCUSSION

6.1 INTRODUCTION

The results of this research are presented and discusses in this chapter. Primarily, this chapter addresses the two research questions:

1. How do an exporting firm's resources and capabilities and psychic distance influence the relationship quality with a foreign importer?
2. To what extent does relationship quality mediate the relationship between (1) resources, capabilities and psychic distance and business performance, and (2) resources, capabilities, psychic distance and internationalisation activities?

The procedures that were used to analyse the data specifically multiple regression and structural equation modelling (SEM) are discussed in this chapter.

The chapter starts with a discussion of the profiles of the participating firms such as the number of employees, the key informants' position, the ethnicity, and the annual turnover. The discussion then proceeds with topics related to the statistical analyses, namely multiple regression and structural equation modelling, that were used to analyse data. This is followed by a discussion on the findings based on multiple regression analysis. Finally, the results of the analysis from structural equation modelling are presented and discussed.

6.2 PROFILES OF FIRMS

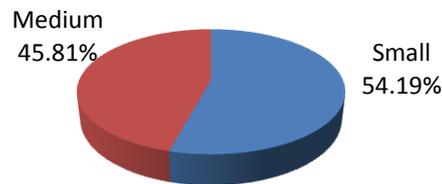
This section discusses a range of demographic profiles. The profiles include the firms' size by the number of employees, the respondents' position, the business type, the ownership by ethnicity, the turnover, and the industry type of the participating firms.

6.2.1 Firm Size by Number of Employees

The participating firms were categorised into two groups: small and medium size. The groups were defined by the number of employees. The small firms were defined as companies having the number of employees between 20 and 50. Meanwhile, the medium firms were defined as companies having the number of employees between 51 and 250.

Figure 6.1 shows that small size firms represent the majority of the participating firms, with 123 firms, or 54.19 per cent of the total sample. The medium size firms were represented by 104 firms, or 45.81 per cent of the total sample.

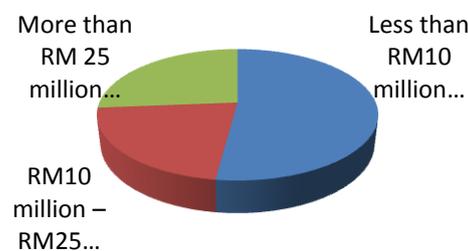
Figure 6.1 Firms by size (number of employee)



6.2.2 Firm Size by Turnover

Firm size could also be defined by the turnover. As depicted in Figure 6.2, firms with an annual turnover of less than RM10 million are the largest group of the respondents, with 52.07 per cent. On the other hand, firms with an annual turnover between RM10 million and RM25 million are the smallest group of the respondents, with 21.66 per cent. The larger firms, with an annual turnover of more than RM25 million, are represented by 26.27 per cent of the total respondents.

Figure 6.2 Firms by Annual Turnover

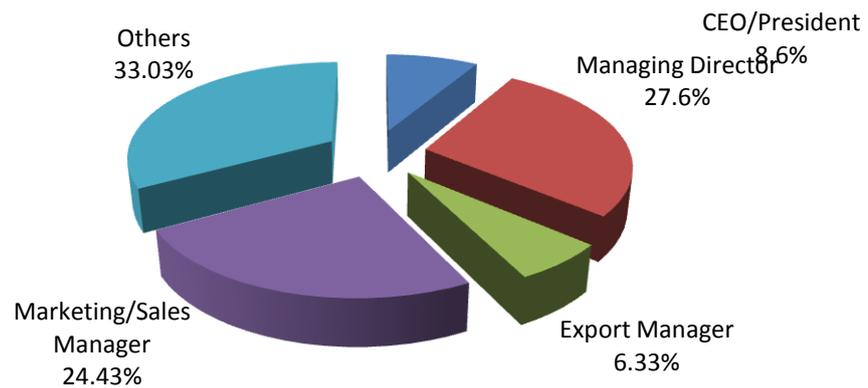


6.2.3 Key Informant by Position

The biggest number of key informants in this study holds the position of managing director in their respective firms, with 27.6 per cent or 61 of total respondents. This is followed by marketing/sales manager, with 24.43 per cent or 54 of total respondents. The CEO/president of firms represents 19 or 8.6 per cent of total respondents. These informants represent more than 50 per cent of the total number of informants. This scenario explains the nature of small businesses, where the operational aspects of the high-risk export ventures are centred on the responsibility of a single top person. This person is mainly either the managing director or the CEO. Hence, in this case, these informants were the most knowledgeable and appropriate people to answer the export related activities,

including the relationship with foreign importers, of the firm. In addition, the export sales tasks, in many cases, was also under the portfolio of the marketing/sales managers, since most of the small firms do not have a specific manager for foreign sales perhaps because of relatively small transactions. Export manager constitutes 6.33 per cent of the total respondents. Informants with other positions represent 33.03 per cent of the total respondents.

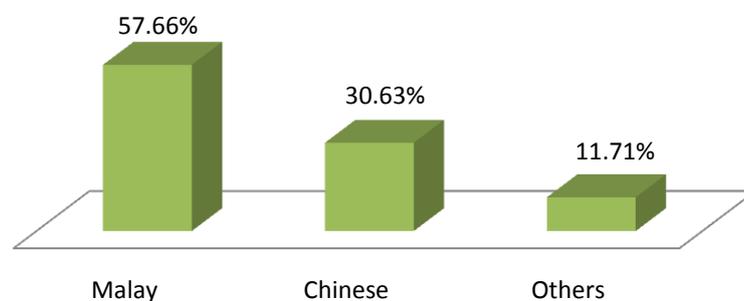
Figure 6.3 Key Informants by Position



6.2.4 Ownership by Ethnicity

Malaysia is a multiethnic country where Malay and Chinese are the two biggest races. The scenario is well explained by the ownership of firms in this study. As depicted in Figure 6.4, the ethnic Malay constitutes the biggest portion of ownership, with 57.66 per cent of total firms, or 128 respondents. The ethnic Chinese represents 30.63 per cent of the total firms, while the other races constitute the remaining 11.71 per cent of the total firms.

Figure 6.4 Firms by Ownership (Ethnicity)

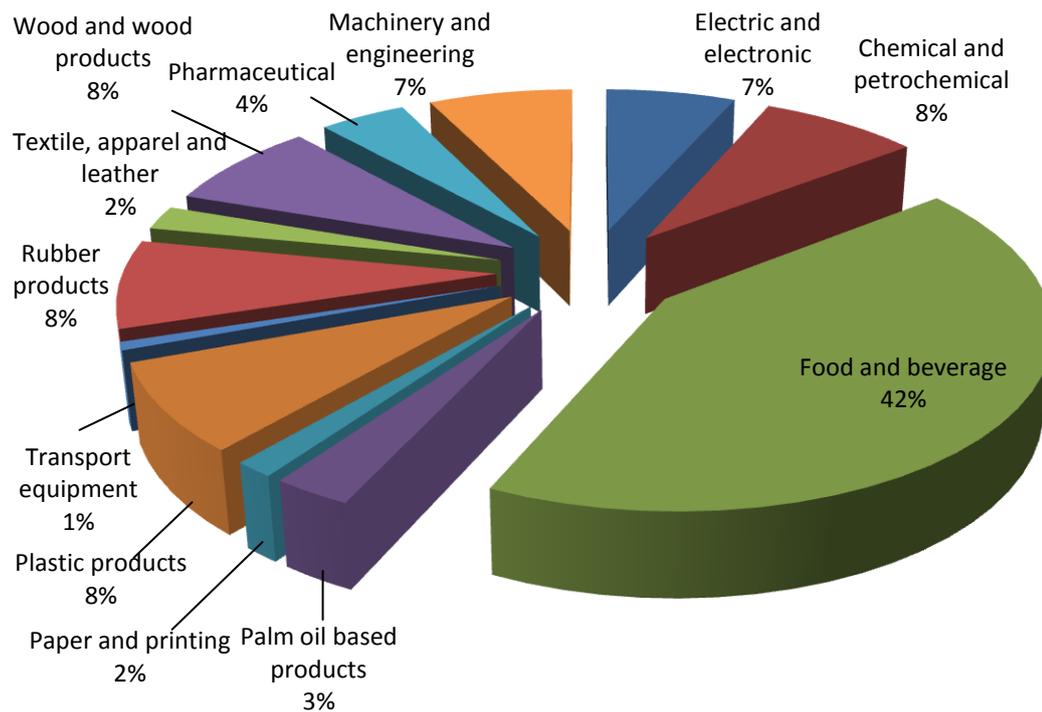


6.2.5 Industry of Firms

The sample for this study comprises firms across industries. As depicted in figure 6.5, the food and beverage industry is represented by the biggest number of firms with 42 per cent

of the total respondents. This is followed by the chemical and petrochemical, wood and wood products, rubber products, and plastic product industries, where each of these represents 8 per cent of the total respondents. The transport equipment industry, on the other hand, is represented by the smallest number of respondents, with 1 per cent. Textile, apparel and leather, and paper and printing industries are represented by 4 per cent of the total respondents.

Figure 6.5 Industry of the Respondents



6.2.6 Demographic of Firm

The data was also analysed across demographic profiles. Figure 6.6 illustrates the firm size by ethnic groups. Over three-quarters or 76.56 per cent of the Malay-owned firms were small, and 23.44 per cent were medium. In contrast, around three-quarters, or 73.53 per cent, of the Chinese-owned firms were medium, and 26.47 per cent were small. Finally, out of the 26 firms owned by other ethnic groups, only 19 per cent were small and 81 per cent were medium. In conclusion, it can be said that most Malay-owned firms are small in size, where majority of the Chinese-owned firms are medium.

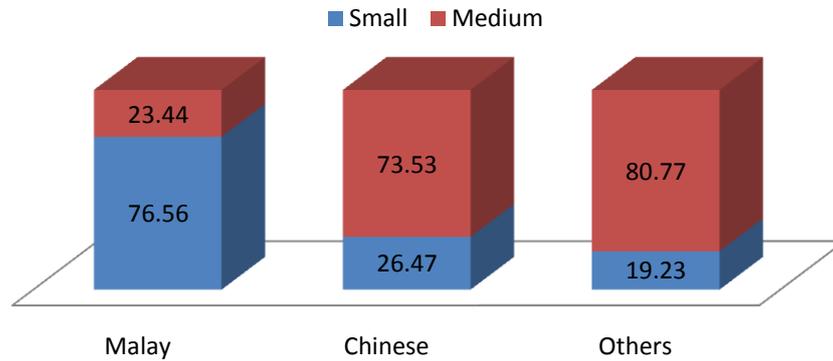
Figure 6.6 Firms by Size and Ownership

Figure 6.7 shows a bar graph depicting data about firms in relation to the size and the annual turnover. As expected, a high number of the small firms (85.84 per cent of total) reported a turnover less than RM10 million. On the other hand, the majority of the firms (83 per cent) reported a turnover between RM10 million and RM25 million were medium size. Similarly, most of the firms (78.95 per cent) with the annual turnover more than RM25 million were medium size. As expected, the majority of the small firms recorded lower annual turnover than their medium-size counterparts.

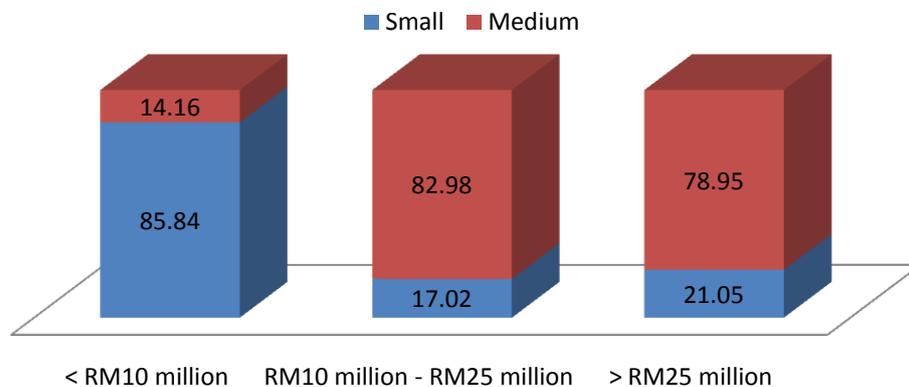
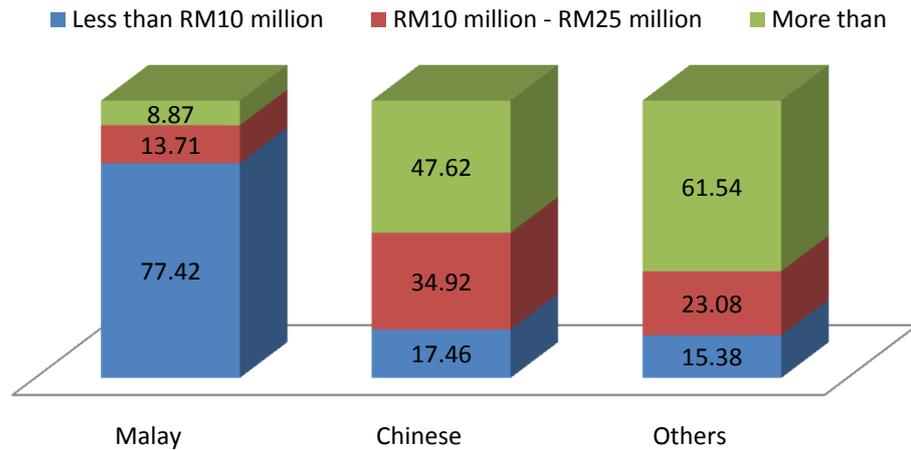
Figure 6.7 Firms by Size and Turnover

Figure 6.8 depicts data of firms with annual turnover across different ownership ethnicity. The majority of the ethnic Malay-owned firms (77.42 per cent) reported an annual turnover of less than RM10 million. On the other hand, less than 10 per cent of the firms in this group reported an annual turnover more than RM25 million. Almost half of the Chinese-owned firms (47.46 per cent) reported an annual turnover more than RM25 million and about 35 per cent of them reported an annual turnover between RM10 million and RM25 million. Finally, 17.46 per cent of the firms in this group reported an annual turnover less than RM10 million. The majority (61.54 per cent) of firms owned by other ethnics groups reported an annual turnover more than RM25 million.

Figure 6.8 Firms by Turnover and Ownership (Ethnic)

6.3 PROCEDURES FOR STATISTICAL ANALYSIS

Primarily two types of statistical techniques are applied in this study to examine the hypothesised relationships. The first technique that is used to capture the direct and moderated relationships is multiple regression analysis. The second one is structural equation modelling. Between these two techniques, a structural equations modelling is more comprehensive and it is used in this study to analyse the direct, indirect and total effects. Each approach addresses different hypotheses.

A summary of hypotheses from chapter 2 is presented for cross referencing.

Hypothesis 1: Relationship quality mediates the relationship between market orientation and internationalisation outcomes.

Hypothesis 2: Relationship quality mediates the relationship between entrepreneurship orientation and internationalisation outcomes.

Hypothesis 3: Relationship quality mediates the relationship between learning orientation and internationalisation outcomes.

Hypothesis 4: Relationship quality mediates the relationship between human capital and internationalisation outcomes.

Hypothesis 5: Relationship quality mediates the relationship between psychic distance and internationalisation outcomes.

Hypothesis 6: Relationship quality is positively related to internationalisation outcomes

6.4 MULTIPLE REGRESSIONS

Multiple regressions is a highly flexible technique that extends bivariate correlation (Wampold & Freund, 1987) and is generally employed to test the relationships of multiple variables (Evans, 1991). According to Parasuraman, Grewal, and Krishnan (2007), the multiple regression analysis is useful in relationships between more than one independent variable and a dependent variable. In addition, the authors assert that it is appropriate to find out the contribution of all independent variables in accounting for variation in the dependent variable. Consequently, in this study some of the hypotheses require the use of the multiple regression technique specifically to verify the effects of organisational resources and capabilities and psychic distance on relationship quality.

The multivariate regression analysis was used in this study because the method could provide an understanding of the outcome variables and the relative value of each of the predictors (Arnold & Feldman, 1982). Specifically, the technique allows the study of separate and collective contributions of [1] firms' resources and capabilities and psychic distance to the variance of relationship quality, [2] firms' resources and capabilities, psychic distance, and relationship quality to the variance of export performance, competitive advantage, and internationalisation, and [3] competitive advantage and internationalisation to the variance of export performance. Therefore, the multiple regression analysis was used to test hypotheses 1(a, e, f, and g), hypotheses 2 (a, e, f, and g), hypotheses 3 (a, e, f, and g), hypotheses 4 (a, e, f, and g), hypotheses 5 (a, e, f, and g), hypotheses 6 (a, b, and c), hypothesis 7, and hypothesis 8.

In the multiple regression analysis two values, R^2 and beta (β), were useful for the interpretation of the results. R^2 represents the coefficient of multiple determination and assesses the strength of the association in multiple regressions, where positive higher value indicates a better model. In other words, R^2 is the proportion of the variance in the outcome associated with the variability in the predictors (Wampold & Freund, 1987). However, Nusair and Hua (2010) suggest that the prediction accuracy of the model is commonly measured by the adjusted (Δ) R^2 and refers to the extent of R^2 increases or decreases when a variable or a set of variables is added.

A partial regression coefficient or β is the measure of relative importance of an individual predictor (Nusair & Hua, 2010). It is the average amount of increase in the dependent variable when the independent variable increases by one standard deviation. Hence, beta

allows the investigation of the relationship between one independent variable and a dependent variable, when other independent variables are held constant.

In addition, another value that is also important in the multiple regressions analysis is F-ratio. F-ratio indicates the significance of R , R^2 , ΔR^2 , and of the regression model as a whole.

In this study, SPSS version 17 is used to conduct the multiple regression analysis. The choice for the regression model in this study comes from three types of analytical models: simultaneous, hierarchical, and stepwise regressions (Coakes, Steed, & Ong, 2009). The models differ in the treatment of overlapping variability and the order of entry of the independent variables. In the simultaneous regression, all independent variables are considered at the same time. In the hierarchical regression, the researcher determines the order of entry of the variables. Finally, in the stepwise regression, the computer determines the order in which the independent variables become a part of the regression equation. Nevertheless, the simultaneous or the standard regression was considered the most appropriate in this study because the objective was to measure the predictive value of the independent variables on the dependent variable simultaneously.

Multiple regression, despite the continuous development and refinement since it was first introduced more than one hundred years ago (Nusair & Hua, 2010), has its own limitations. For example, the multiple regression technique only allows one dependent variable to be examined at one time (Hair, Anderson, Tatham, & Black, 1998), and at the same time, it cannot account for the biasing effects of the random measurement error on estimates. In addition, the technique can detect the mediating function of the predictor but has no capacity to test the true effect of the predictor on the outcome variable when there is a mediating role of any of the predictors in the model. For these reasons the applications of structural equation modelling offer an alternative for hypotheses testing.

Check for Violations of Assumption

Prior to the analysis, several assumptions underlying the multiple regression technique were tested. The rationale of the tests was to ensure that violations were controlled for because violating those assumptions may result in incorrect conclusions. The assumption can be divided into six broad categories: sample, outliers, independence of error, normality, homoscedasticity and linearity, and multicollinearity.

- **Sample size**

Adequate sample size leads to parameter estimation that will likely be accurate as well as statistically significant (Kelley & Maxwell, 2003). Researchers vary in their recommendation for the appropriate number of cases for the multiple regression analysis and consequently various rules of thumb have been suggested over the years (Maxwell, 2000). Although some experts recommended the ratio of cases to predictors be at least 10:1, others seem to agree with a smaller than 10:1 ratio, yet the choice of adequate cases is sufficiently complex (Wampold & Freund, 1987). Nevertheless, by convention, the ratio of cases to predictors is between 5 and 20. In this study there are 12 independent variables and 228 cases, so the ratio exceeds the minimum standard requirement and thus satisfied.

- **Outliers**

Outlying cases should be deleted because they can create havoc in the statistical analysis (Norusis, 2005) and distort results. Outliers can be detected because the scores for outlying cases are very different from the rest. In order to do so, as suggested by Norusis (2005) using the Scatterplot dialog box, the outlying cases are visually screened by looking at points that stick out. In this study no outlying cases were detected.

- **Independence of error**

Correlated errors violate one of the fundamental assumptions needed for multiple regressions: that scores for any particular subject must be independent of the scores of other subjects – independence of error. Such correlations can be detected through the Durbin-Watson Statistic. Every model has one measure for the Durbin-Watson statistic. The Durbin-Watson Statistic ranges in value from 0 to 4 with an ideal value of 2, indicating that errors are not correlated (although values from 1.75 to 2.25 may be considered acceptable). In this study Durbin-Watson scores for all models are within an acceptable range and most scores are close to 2. Hence, the assumption of independence of error is supported. Nevertheless, the scores for the Durbin-Watson Statistic will be shown along with the discussion of regression models.

- **Normality**

It is assumed that the differences between observed probability of the event and the predicted probability of the event are normally distributed. The assumption of normality is checked by inspecting the Normal Probability Plot of the regression

standardised residual. The assumption is met when all of the points in the residual scatterplot cluster tightly in a diagonal line from bottom left to top right. Visual inspection of the plot reaffirms the multivariate normality of the data (Hair et al., 1998). Hence, there was no moderate or extreme deviation of residual points detected.

- **Homoscedasticity and linearity**

Homoscedasticity means a situation in which the variance of the dependent variable is same for all data. Linearity suggests that the residuals have a linear relationship with the predicted dependent variable scores (Coakes et al., 2009). To test for homoscedasticity and linearity, scatterplots of standardised residuals and standardised predicted values are examined, and the assumptions are met when the scatterplots for the regressions result in a random distribution along the line drawn through the zero axis. In all cases it is found that there is no evidence of violation of assumptions in this study.

- **Multicollinearity**

Multicollinearity means a strong association among some or all of the independent variables. It can potentially produce unstable estimates of partial regression coefficients. Wampold and Freund (1987) contend that there are three problems associated with multicollinearity. The most important one is that if the independent variables are highly correlated none of them will demonstrate a unique contribution to the variance in the outcome. The other is that the estimates of population β and ΔR^2 are highly unstable and thus they decrease the probabilities to obtain statistical significant findings. Finally, when correlations among variables are extremely high, computer algorithms for making computation in the analysis may result an unknown error. In this study, to check for multicollinearity a matrix of correlations among all variables that are part of the regression analysis output is examined. The correlations are shown in table 5.13, chapter 5. It is found that correlations among variables are low which indicates that multicollinearity is not a problem in this study.

6.5 ANTECEDENTS TO RELATIONSHIP QUALITY

The first hypotheses testing undertaken in this research was multiple regression test for the effects of independent variables on relationship quality. The independent variables in this study were market orientation, entrepreneurship orientation, learning orientation, human

capital, and psychic distance. Control variables were firm size (based on number of employee), ownership type, and turnover. It is important to note that scores for the latent constructs were obtained using index of the measurement variables. In addition the measure for psychic distance is based on business distance.

To achieve the objective, this section initially reports the results in sequence in terms of scores for model fit, beta (β) and t-value. Then, the discussion about the test is in the section that specifically is designated for discussion of the results. This format is applied in the discussion for the other findings of multiple regression analysis.

Table 6.1 shows the results of multiple regression tests for the effects of independent variables on relationship quality. Durbin-Watson Statistic check for Model 1 (Durbin-Watson score = 2.033) and Model 2 (= 2.108) revealed that the assumption of independent of error was not a problem in both models because the values are within the suggested acceptable range, between 1.75 and 2.25.

Table 6.1: Multiple Regression Analysis of Effect of Independent Variables on Relationship Quality

Variables	Relationship Quality		
	Prediction	Model 1	Model 2
Control Variable			
Firm Size (No of Employee)		.00(.04)	-.04 (-.47)
Ownership		.00(-.01)	.09 (1.27)
Turnover		-.01(-.10)	-.03 (-.32)
Independent variables			
Market Orientation	+		.12 (1.56)
Entrepreneurship Orientation	+		.22 (2.28)*
Learning Orientation	+		.23 (2.47)*
Human Capital	+		.126 (1.37)
Psychic Distance	+		.01 (.09)
R ²		.000	.338
Adjusted R ²		-.014	.312
F-Ratio		.005	13.005***
ΔR^2		---	.338
Δ F-Ratio		.005	20.804***
Df		3/209	8/204

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

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

Model 1

In table 6.1, the findings indicate that the three control variables: firm size, ownership, and turnover, do not have any significant effect to the variance in relationship quality ($R^2 = 0.000$, F-ratio = 0.005, not significant).

Model 2

Five independent variables: market orientation, entrepreneurship orientation, learning orientation, human capital, and psychic distance, are added simultaneously in Model 2. Adding the independent variables in the regression increases the explained variance in relationship quality to 33.8 per cent ($R^2 = 0.338$). The ΔR^2 value (0.338) indicates that market orientation, entrepreneurship orientation, learning orientation, human capital, and psychic distance explain 33.8 per cent of the variance in relationship quality (ΔF -ratio = 20.804, $p < 0.001$).

6.5.1 Market Orientation – Relationship Quality

The results in model 2 show that market orientation is not significantly related to relationship quality. Hence this finding does not support *hypotheses 1a, which posits that market orientation is positively and significantly related to relationship quality*. This finding is similar to the existing study on Vietnamese exporters in mature relationships by Nguyen et al (2007). The explanation for such relationship focuses on the issue of resource scarcity and indicates that SMEs of small emerging country are having problems in allocating the resources for export activities because of the resource scarcity. In this case, the SMEs may feel that market orientation is not relatively important perhaps because they share some similarities, such as cultural background, with their partners. This is demonstrated in the sample, which consists of mostly firms in the foods and beverages industry. This industry is the target sector of Malaysian government's economic plan to develop the country as the global hub for Halal products. Since the focus is Halal products exporters may target the customers that share the same backgrounds. Accordingly, when exporters build relationship with foreign importers of psychically close markets they may have difficulty in establishing a clear basis for differentiation (Evans, Mavondo, & Bridson, 2008). As a result, coupled with the limited resources, SMEs do not think that investment on market orientation to build strong relationship with foreign importers is necessary. In addition, some of the participating firms are selling commodities products, where market orientation does not make much sense.

6.5.2 Entrepreneurship Orientation - Relationship Quality

The results in model 2 show that entrepreneurship orientation significantly and positively influences relationship quality, supporting hypothesis 2a ($\beta = 0.22$, t -value = 2.28, $p <$

0.05). Hence this finding supports *hypothesis 2a which posits that entrepreneurship orientation is positively and significantly related to relationship quality*. The significant relationship between entrepreneurship orientation and relationship quality indicates that for SMEs an entrepreneurial posture is important in building close and strong relationships with foreign partners. Cross border activities such as partnership between exporter and importer are complex and often associated with high risks and uncertainties. The risks and uncertainties of cross border relationships are frequently related to the lack of information, perhaps due to, among others, the low level of communication and the newness of the relationships. In this instance, firms are prompted to develop the relationship to a new level of stronger partnership. This process, in order to be effective, requires innovativeness because new entry into foreign market is seen as an innovative act (Knight & Cavusgil, 2004). Since innovativeness is the fundamental element of entrepreneurial posture, the entrepreneurship-oriented exporting firms are capable to develop quality relationships with foreign importers.

6.5.3 Learning Orientation – Relationship Quality

The results in model 2 show that learning orientation significantly and positively influences relationship quality ($\beta = 0.23$, $t\text{-value} = 2.47$, $p < 0.05$), supporting *hypothesis 3a which posits that learning orientation is positively and significantly related to relationship quality*. This result implies that firms with learning capability have the ability to build close and quality relationship with their foreign partners (importers). The explanation is that the organisational culture of learning embedded within the firms reflects a focus on managerial commitment to learn. In turn, the learning commitment inspires the firms to try to find a full understanding of their environments, including the customers (Calantone, Cavusgil, & Zhao, 2002). The efforts to understand the customers [partners] will result in the partners' beliefs that the firms are experts in performing their obligations and behave in the best interests of their partners (Nguyen et al., 2007). This ability to create value increases the partners' willingness to invest in the relationship, which helps to create smooth and quality relationships.

6.5.4 Human Capital – Relationship Quality

The results in model 2 show that human capital is not significantly related to relationship quality hence hypotheses 4a is not supported. This result comes as surprising. Managers in exporting firms are to be innovative, creative, and willing to break away from existing

norms and patterns (Leonidou, Katsikeas, & Piercy, 1998). Perhaps, these elements are not so important in helping firms to response to the customers' needs. Thus, this finding does not support the *hypothesis 4a which posits that human capital is positively and significantly related to relationship quality*.

6.5.5 Psychic Distance – Relationship Quality

The results in model 2 show that psychic distance is not significantly related to relationship quality hence *hypothesis 5a which posits that psychic distance is positively and significantly related to relationship quality* is not supported. In terms of psychic distance, the finding can be explained by the exporters' desire to be associated with the importers from the same cultural background. This is because relationships with foreign importers that share similar cultures, such as language and religion, allow the exporters to have higher level of communication and greater degree of understanding with their partners. Hence, the Malay-owned businesses may prefer to export their products to foreign importers from Indonesia or middle-eastern countries, which share similar language and religion. On the other hand, the Chinese-owned businesses may choose Chinese importers from other South East Asia countries or China as their partner. As a result, Malaysian SMEs found that the differences in business environments between home market and export markets have no impact on the quality of their relationships with foreign importers.

6.6 ANTECEDENTS TO COMPETITIVE ADVANTAGE

In this section, the discussion focuses on the relationships between firms' resources and capabilities, psychic distance, and relationship quality and competitive advantage. Table 6.2 presents the results of the multiple regression analysis for the effects of independent variables and relationship quality on competitive advantage.

Tests for independent of error were conducted and the Durbin-Watson scores [model 1 = 1.931; model 2 = 1.954; model 3 = 1.887] were within acceptable range for all models, suggesting that the violation of assumption of independent of error is not a problem.

Table 6.2: Multiple Regression Analysis of Effects of Independent Variables and Relationship Quality on Competitive advantage

Variables	Competitive Advantage			
	Prediction	Model 1	Model 2	Model 3
Control Variable				
Firm Size (No of Employee)		-.06 (-.66)	-.09 (-1.36)	-.09 (-1.30)
Ownership		-.05 (-.64)	.03 (.49)	.01 (.10)
Turnover		-.05 (-.58)	-.07 (-.96)	-.064 (-.90)
Independent variable				
Market Orientation	+	-	.14(1.93)*	.10 (1.51)
Entrepreneurship Orientation	+	-	.14 (1.47)	.07 (.80)
Learning Orientation	+	-	.19 (2.19)*	.13 (1.47)
Human Capital	+	-	.26 (3.20)***	.22 (2.90)**
Psychic Distance			.01 (.15)	.01 (.13)
Relationship Quality	+	-	-	.30 (4.70)***
R ²		.018	.396	.455
Adjusted R ²		.004	.372	.431
F-Ratio		1.301	16.724***	18.850***
ΔR^2		.018	.378	.059
ΔF -Ratio		1.301	25.520***	22.048***
Df		3/209	8/204	9/203

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

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

Model 1

Three control variables are added in model 1. The data in model 1 shows that control variables explain 1.8 per cent of variance in competitive advantage (ΔF -Ratio = 1.301, not significant).

Model 2

Five independent variables: market orientation, entrepreneurship orientation, learning orientation, human capital, and psychic distance, are added simultaneously in model 2. Adding the independent variables in the regression increases the explained variance in competitive advantage to 39.6 per cent ($R^2 = 0.396$). The ΔR^2 value (0.378) indicates that market orientation, entrepreneurship orientation, learning orientation, human capital, and psychic distance, explain an additional 37.8 per cent of the variance in competitive advantage (ΔF -ratio = 25.520***, $p < 0.001$).

6.6.1 Market Orientation – Competitive Advantage

The results in model 2 show that market orientation significantly and positively influence competitive advantage, supporting hypothesis 1e ($\beta = 0.14$, t-value = 1.93, $p < 0.05$). The

underlying factor for the interaction between market orientation and competitive advantage is market knowledge, specifically with regard to the current and future customers and competitors. Atuahene-Gima (2005) asserts that the customer and competitor dimensions of market orientation is about the process of information generating and about the dissemination and utilisation of this information within the firm. This information is translated into strategic decisions that fit with the markets. The outcomes of such strategic decisions, such as products, are customer oriented, which means that the outputs are competitive in term of price, product and service. Hence, the *hypothesis 1e which posits that market orientation is positively and significantly related to competitive advantage* is supported.

6.6.2 Entrepreneurship Orientation – Competitive Advantage

The results in model 2 show that entrepreneurship orientation is not significantly related to competitive advantage, hence *hypothesis 2e which posits that entrepreneurship orientation is positively and significantly related to competitive advantage* is not supported. This finding implies that Malaysian SMEs do not see the link between entrepreneurship orientation and competitiveness in export markets. The reason for such thinking is perhaps the firms in this study are not technology-based and that their products do not require a highly innovative element.

6.6.3 Learning Orientation – Competitive Advantage

The results in model 2 show that learning orientation significantly and positively influence competitive advantage, supporting hypothesis 3e ($\beta = 0.19$, t-value = 2.19. $p < 0.05$). The result of this study indicates that to be competitive in export markets small firms need to develop the culture that encourage learning among the employees and the units or departments. Learning orientation is routine specific activities. Companies entering new foreign markets have to unlearn the existing routine to learn a new routine. The need for this change signifies by the differences between international and domestic markets learning orientation. In this context, smallness gives advantage to small businesses to be flexible, which means they can make changes quickly and react to the requirements of the markets faster than bigger firms. The flexibility of small firms enabled them to align their operations to the dynamic of export markets and it helps to learn about new knowledge of foreign markets. Ultimately, the export market information that is acquired through learning facilitates the development of the product features that meet overseas customer

requirements better than competitors' offerings, helps the enhancement of understanding of the customers' service requirements, and eases the development of products with the characteristics perceived as valuable by overseas customers (Kaleka, 2002). Hence, the *hypothesis 3e which posits that learning orientation is positively and significantly related to competitive advantage* is supported.

6.6.4 Human capital – Competitive Advantage

The results in model 2 show that human capital significantly and positively influence competitive advantage, supporting hypothesis 4e ($\beta = 0.26$, t-value = 3.20, $p < 0.001$). This result seems to agree with the arguments that human capital is important to firm's competitive outcome (Barney & Zajac, 1994; Hitt, Bierman, Shimizu, & Kochhar, 2001). For small businesses the whole operations in foreign market depends on managers. Top manager competencies influence firm's strategic decisions with regard to competitive position. In fact managers hold the decisive choice over range of alternative decision that is best to achieve superior performance.

Firms become competitive when they are able to fulfil the requirements of the customers better than the competitors. To serve the customers, the strategic decisions in relation to cost, product and service in export markets must depend on the local information. At the same time, manager's interpretation of such information is influenced by his/her human capital posture. Human capital includes the attributes of education, prior business experience, age and maturity, the presence of partners who can provide additional expertise, and a family history of firm ownership. These skills increase the ability of the managers to recognise the value of (knowledge) resources, that others do not have, and to secure these resources (Alvarez & Busenitz, 2001). With this knowledge managers are able to make strategic decisions that may lead the firms to serve the customers better than the rivals. Hence the *hypothesis 4e which posits that human capital is positively and significantly related to competitive advantage* is supported

6.6.5 Psychic Distance – Competitive Advantage

The results in model 2 show that psychic distance is not significantly related to competitive advantage hence hypothesis 5e is not supported. This finding implies that Malaysian SMEs do not feel that business difference between home market and export markets significantly influences their competitive position in export markets. The only explanation that seems to

agree with this finding is that the motive for Malaysian SMEs involvement in export venture is to meet the overseas demand for their products, especially in a situation when demand exceeds supply such as the case of Halal markets. In this instance, the SMEs do not feel the need to be more competitive in export markets. Hence, the *hypothesis 5e which posits that psychic distance is positively and significantly related to export performance* is not supported.

Model 3

Relationship quality is added in model 3. Adding the relationship quality in the regression increases the explained variance in competitive advantage to 45.5 per cent ($R^2 = 0.455$). The ΔR^2 value (0.059) indicates that relationship quality explains an additional 5.9 per cent of the variance in competitive advantage (ΔF -ratio = 22.048***, $p < 0.001$).

6.6.6 Relationship Quality – Competitive Advantage

The results in model 3 show that relationship quality significantly and positively influences competitive advantage, supporting hypothesis 6a ($\beta = 0.30$, t -value = 4.70, $p < 0.001$). The explanation focuses on the fact that competitive advantage is created in the interface between firms and their customers (Porter, 1990). Thus, relationship with customer is a source of firms' competitiveness in terms of product, cost and services. Chryssochoidis and Theoharakis (2004) define product as anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or a need. In international market various aspects of the product such as its features, design, packaging, labelling, and branding are viewed as critical for export-offering related success (Chryssochoidis & Theoharakis, 2004). Exporters are able to meet the product requirements only when they have such information, which can be acquired through strong partnerships. Hence, the *hypothesis 6a which posits that relationship quality is positively and significantly related to competitive advantage* is supported.

6.7 ANTECEDENTS TO INTERNATIONALISATION

Multiple regression tests were conducted for the effect of organisational resources and capabilities, psychic distance, and relationship quality on internationalisation. Table 6.3 presents the results of the multiple regression analysis for the effects of market orientation,

entrepreneurship orientation, learning orientation, human capital, psychic distance, and relationship quality on internationalisation.

Durbin-Watson test for the independent of error indicated that the violation of error is not a problem because the scores were within the acceptable range [model 1 = 2.084; model 2 = 2.079; model 3 = 2.008].

Table 6.3: Multiple Regression Analysis of Effects of Independent Variables and Relationship Quality on Internationalisation

Variables	Prediction	Internationalisation		
		Model 1	Model 2	Model 3
Control Variable				
Firm Size (No of Employee)		.29(3.47)***	.27(3.27)***	.28(3.42)***
Ownership Turnover		.23(2.96)**	.19(2.49)**	.17(2.27)*
		-.15 (-1.68)*	-.14(-1.32)	-11(-1.28)
Independent variable				
Market Orientation	+	-	-.29(-3.52)***	-.31(-3.87)***
Entrepreneurship Orientation	+	-	.20(1.90)*	.16(1.46)
Learning Orientation	+	-	-.07(-.67)	-.12(-1.16)
Human Capital	+	-	.13(1.38)	.10(1.13)
Psychic Distance	+	-	-.01(-.06)	-.01(-.08)
Relationship Quality	+	-	-	.22(2.87)**
R ²		.127	.188	.220
Adjusted R ²		.114	.157	.186
F-Ratio		10.102***	5.920***	6.366***
ΔR ²		.127	.062	.032
ΔF-Ratio		10.102***	3.105**	8.250**
Df		3/209	8/204	9/203

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

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

Model 1

Results for multiple regression analysis are presented in Table 6.3. Model 1 shows that control variables explain 12.7 per cent of the variance in internationalisation [ΔF-ratio = 10.102; p < 0.001].

6.7.1 Firm size – Internationalisation

The results in model 1 show that firm size significantly and positively influences internationalisation ($\beta = 0.29$, t-value = 3.47 p < 0.001). This finding is consistent with previous study (O'Cass & Weerawardena, 2009). This result implies that firms with larger number of employees report greater percentage of sales and profits generated in foreign markets. These firms have more resource in term of human capital and thus have greater capacity to develop and maintain their sales in foreign markets.

6.7.2 Ownership – Internationalisation

The results in model 1 show that ownership significantly and positively influences internationalisation ($\beta = 0.23$, t-value = 2.96 $p < 0.01$). The explanation focuses on the fact that Chinese-owned businesses are known as established before other ethnic businesses, particularly Malay-owned businesses, and thus have acquired greater knowledge experience. As a results, the Chinese businesses posses greater capabilities that enabled them to be more competitive, and hence achieved greater sales in export markets.

6.7.3 Turnover - Internationalisation

The results in model 1 show that firm size significantly influences internationalisation but in negative direction ($\beta = -0.15$, t-value = -1.68 $p < 0.05$). The possible explanation that seems to agree with the finding is that firms with higher annual turnover have established their competitive position in domestic markets and hence generate greater percentage of sales and profit in this market as compare to the firms with lower annual turnover. They may perceive that producing more products for overseas market will divert their focus from the domestic market, where they have made large investments, and thus potentially losing the domestic customers.

Model 2

Five independent variables: market orientation, entrepreneurship orientation, learning orientation, human capital, and psychic distance, are added simultaneously in model 2. Adding the independent variables in the regression increases the explained variance in internationalisation to 18.8 per cent ($R^2 = 0.188$). The ΔR^2 value (0.062) indicates that market orientation, entrepreneurship orientation, learning orientation, human capital, and psychic distance, explain an additional 6.2 per cent of the variance in internationalisation (ΔF -ratio = 3.105**, $p < 0.01$).

6.7.4 Market Orientation – Internationalisation

The results in model 2 show that market orientation significantly influences internationalisation with a negative direction ($\beta = -0.29$, t-value = -3.52, $p < 0.001$). This finding is contrary to *Hypothesis 1f* which predicts that market orientation is positively and

significantly related to internationalisation. The negative direction of the effects is surprising, and further discussion into the insight of the relationship is warranted.

Market oriented firms are able to satisfy the need of its customer and at the same time outperform its rivals, suggesting potential increase in overseas demand and sales, and firms' internationalisation. However, the negative direction of the impact of market orientation on internationalisation found in this study can be explained by the influence of external factor. This explains that the affect may be outweighed by the impact of global economic situation. The survey was undertaken in 2009 where the effect of 2008 global economic slump was still enormous and felt by businesses. Hence, increase in market orientation activities occurred during the decrease of global consumer demand. Another explanation that seems to accord with the findings is the cost associated with market orientation. Market-oriented firms are consistently delivering high quality products and services, and requires ongoing tracking and responsiveness to the marketplace (Jaworski & Kohli, 1993), which is costly. This means that the exporters may perceive that increase of internationalisation will increase cost, in relation to market orientation.

6.7.5 Entrepreneurship Orientation – Internationalisation

The results in model 3 show that entrepreneurship orientation significantly and positively influences internationalisation, supporting hypothesis 2f ($\beta = 0.20$, t-value = 1.90, $p < 0.05$). Such relationship between the two constructs among SMEs is expected. This result seems to agree with O'cass and Weerawardeena (2009) who suggest that entrepreneurship is the key drivers of SME's internationalisation. That means entrepreneurship orientation is the principal value of small business organisational culture. Thus, the operational function of this organisation is directed by the behavioural posture of pro-active, risks taking, and innovation. These characters are helpful in international business environment that is complex and hostile. By the virtue of being pro-active and, at the same time, risks taking SMEs are capable to increase their penetration into the foreign markets. Innovativeness is translated by the notion that the whole process of increasing degree of internationalisation is the act of innovation. This means that increase sales and growth in foreign market is achieved by creating new and higher demand, which pressure the firms to innovatively find the new way to produce the products more efficiently or to produce the products with new features. Hence, this finding supports the *hypothesis 2f which posits that entrepreneurship orientation is positively and significantly related to internationalisation.*

6.7.6 Learning Orientation – Internationalisation

The results in model 2 show that learning orientation is not significantly related to internationalisation hence hypothesis 3f is not supported. This result is contrary to the notion that learning is an important factor to internationalisation (Johanson & Vahlne, 2006). This finding means that Malaysian SMEs do not feel that learning significantly influences their presence in international markets. The only explanation that seems to agree with this finding is that the main export of Malaysian SMEs is commodity products which do not require the SMEs to learn more about their export markets in order to increase sale. Hence, the *hypothesis 3f which posits that learning orientation is positively and significantly related to internationalisation* is not supported.

6.7.7 Human capital – Internationalisation

The results in model 2 show that human capital is not significantly related to internationalisation hence hypotheses 4f is not supported. This result implies that, for SMEs, human capital does not influence the firms' greater involvement in international market. Hence, the *hypothesis 4f which posits that human capital is positively and significantly related to internationalisation* is not supported.

6.7.8 Psychic Distance – Internationalisation

The results in model 2 show that psychic distance is not significantly related to internationalisation hence hypothesis 5f is not supported. This finding implies that perhaps it is best to incorporate the cultural differences because the cultural context may influence the relationship between business differences and internationalisation. Hence, the *hypothesis 5f which posits that psychic distance is positively and significantly related to internationalisation* is not supported.

Model 3

Relationship quality is added in model 2. Adding the relationship quality in the regression increases the explained variance in internationalisation to 22 per cent ($R^2 = 0.220$). The ΔR^2 value (0.032) indicates that market orientation, entrepreneurship orientation, learning orientation, human capital, and psychic distance, explain an additional 3.2 per cent of the variance in internationalisation (ΔF -ratio = 8.250**, $p < 0.01$).

6.7.9 Relationship Quality - Internationalisation

The results in model 3 show that relationship quality significantly and positively influences internationalisation, supporting hypothesis 6b ($\beta = 0.22$, t -value = 2.87, $p < 0.01$). This finding is as expected because of the important role of cross border partnership in SMEs' international venture. Internationalisation activities are associated with the knowledge of foreign market. Resource scarce firms such as SMEs use their relationship building capabilities to develop strong connection with foreign partners. Strong and close partnership increases the flow of knowledge exchange between partners. Hence, relationship quality enables SMEs to acquire foreign market knowledge such as consumer preferences, which increase the capability to identify opportunities and to act accordingly to the customers' needs and demands. Hence this result supports *hypothesis 6b which posits that relationship quality is significantly and positively related to internationalisation.*

6.8 ANTECEDENTS TO EXPORT PERFORMANCE

This section discusses the relationships between organisational resources and capabilities, psychic distance, relationship quality, competitive advantage, and internationalisation, and export performance. In the analysis, the three variables: relationship quality, competitive advantage, and internationalisation, were added subsequently using hierarchical method to identify the direct effect of the variables on export performance. Table 6.4 presents the results of multiple regression tests for the effect of firm's resources and capabilities, psychic distance, relationship quality, competitive advantage and internationalisation on export performance. To check for independent of error, Durbin-Watson Statistic was run and the scores for all regression models (model 1 = 1.861; model 2 = 1.902; model 3 = 1.832; model 4 = 1.938; model 5 = 1.811) were within the acceptable range, suggesting that the violation of assumption of independent of error was not a problem.

Table 6.4: Multiple Regression Analysis of Effects of Independent Variables, Relationship Quality, Competitive advantage, and Internationalisation on Export Performance

Variables	Export Performance					
	Prediction	Model 1	Model 2	Model 3	Model 4	Model 5
Control Variable						
Firm Size (No of Employee)		-.13 (-1.48)	-.18 (-2.25)*	-.17 (-2.20)*	-.14 (-1.87)	-.27(-3.58)***
Ownership		.12 (1.46)	.13(1.76)	.11 (1.62)	.11 (1.57)	.05(.74)
Turnover		.13 (1.39)	.14(1.68)	.15(1.78)	.17 (2.20)*	.19(2.39)*
Independent variables						
Market Orientation	+	-	-.09 (-1.14)	-.12 (-1.50)	-.16 (-2.10)*	-.01(-.10)
Entrepreneurship Orientation	+	-	.26 (2.52)**	.21 (2.05)*	.19 (1.89)*	.16(1.62)
Learning Orientation	+	-	.02 (.15)	-.04 (-.38)	-.09 (-.91)	.01(-1.03)
Human Capital	+	-	.30 (3.28)***	.27 (3.04)**	.19 (1.89)*	.24(2.80)**
Psychic Distance	+	-	-.07(-.95)	-.07(1.00)	-.07(-1.09)	-.07(-1.03)
Relationship Quality	+	-	-	.23 (3.12)**	.12 (1.57)	.15(2.18)
International outcomes						
Competitive advantage	+	-	-	-	.38 (4.98)***	-
Internationalisation	+	-	-	-	-	.35(5.53)***
R ²		.029	.231	.266	.346	.362
Adjusted R ²		.015	.200	.233	.314	.331
F-Ratio		2.068	7.639***	8.158***	10.685***	11.47***
ΔR ²		.029	.202	.035	.080	.097
ΔF-Ratio		2.068	10.694***	9.704**	24.812***	30.569***
Df		3/209	8/204	9/203	10/202	10/202

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

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

Model 1

Results in model 1 (ΔF -ratio = 2.068, not significant) shows that control factors contribute 2.9 per cent ($\Delta R^2 = 0.029$) to the variance in export performance. The results indicate that the control variables are not significantly related to export performance (ΔF -ratio = 2.068; not significant).

Model 2

Five independent variables: market orientation, entrepreneurship orientation, learning orientation, human capital, and psychic distance, are added simultaneously in model 2. Adding the independent variables in the regression increases the explained variance in export performance to 23.1 per cent ($R^2 = 0.231$). The ΔR^2 value (0.202) indicates that market orientation, entrepreneurship orientation, learning orientation, human capital, and psychic distance, explain an additional 20.2 per cent of the variance in export performance (ΔF -ratio = 10.694***, $p < 0.001$).

6.8.1 Market Orientation – Export Performance

The results in model 2 show that market orientation is not significantly related to export performance. This finding is contrary to the existing studies (Armario, Ruiz, & Armario, 2008) and deserves several explanations. First, investment in market orientation is very costly and thus small businesses do not find any benefit from market orientation in terms of export performance. Second, small businesses do not see that increase in market orientation, in relation to export operations, is very unique, cannot be readily substituted by alternative resources, and cannot be easily applied in other organisation and thus feel that market orientation does not contribute to increase in export performance. Hence, the *hypothesis 1g which posits that market orientation is positively related to export performance is not supported.*

6.8.2 Entrepreneurship Orientation – Export Performance

The results in model 2 show that entrepreneurship orientation significantly and positively affects export performance, supporting hypothesis 2g ($\beta = 0.26$, t -value = 2.52, $p < 0.01$). This result is expected due to the fundamental role of entrepreneurship in small business particularly in the context of international business operations. This finding shows that an

entrepreneurial posture does matter for SMEs in cross border operations. This is because successful cross border business venture is a function of an opportunities seeking behaviour, which is the principal feature of entrepreneurship culture regardless of the firms' current resource conditions (Stevenson & Jarillo, 1990). However, for the resource-scarce SMEs entrepreneurship value is particularly important because they must depend heavily on this resource due to the lack of support from other resources such as financial and human capital. Based on the result of this study, it seems that entrepreneurial orientation is a prerequisite for becoming a successful international player. This result also indicates that companies intending to succeed in international markets need to develop their entrepreneurial characteristics. Hence this finding supports *hypothesis 2g, which posits that entrepreneurship orientation is positively and significantly related to export performance.*

6.8.3 Learning Orientation – Export Performance

The results in model 2 show that learning orientation is not significantly related to export performance, hence hypotheses 3g is not supported. This finding is contrary to many existing studies (Jiang and Li, 2008; Jimenez and Navarro, 2007) that found learning orientation as an important factor to performance. The explanation that seems to accord with this finding is that Malaysian SMEs view the need for exporting when demand exceeds supply, a typical characteristic of developing country (Mavondo, 1999), and at the same time when they are encouraged to export by the government, given the incentives provided for export companies. In this context, learning orientation is seen as a slack resource. Hence this finding does not support *hypothesis 3g, which posits that learning orientation is positively and significantly related to export performance.*

6.8.4 Human Capital – Export Performance

The results in model 2 show that human capital significantly and positively influence export performance, supporting hypothesis 4g ($\beta = 0.30$, t -value = 3.28, $p < 0.001$). The finding of this study supports the notion that human capital is the most significant predictor of export performance (Sousa, Ruzo, & Losada, 2010). The finding implies that top management competence is central to small business operations and a core factor to export performance. The importance of the manager is acknowledged in the export literature, where researchers have consistently found management as the prime force behind the initiation, development, sustenance, and success of a firm's export endeavour (Sousa et al.,

2010). Indeed, managers play a significant role through their task of interpreting the environment change and making crucial selections regarding which customers to serve, which competitors to challenge, and which products and services to offer (Day, 1984). There is general consensus among managers and researchers that improving marketing decision making requires a better understanding of factors that influence how managers interpret and respond to information that pertains to a market situation (White, Varadarajan, & Dacin, 2003). Thus the competence of managers in handling foreign operations is strongly related to human capital. Human capital is associated with the skills and knowledge, and therefore entrepreneurs with more human capital demonstrate an ability to generate greater exports. In the context of entrepreneurship, these outputs also link to the identification, pursuit and exploitation of opportunities (Ucbasaran, Westhead, & Wright, 2008).

Managers use their human capital competencies such as experience, professional skills, and language skills to acquire resources and recognise opportunities (Bhagavatula, Elfring, van Tilburg, & van de Bunt, 2010), which is deemed to be crucial for cross border ventures. Managers' competencies overcome the lack of resources particularly foreign market knowledge, upon which firms use to understand and handle the risks and uncertainties as well as to identify opportunities. Knowledge acquired through experience is invaluable and inimitable and is acknowledged as fundamental to international venture success (Johanson & Vahlne, 1977). Hence, these results support *hypothesis 4g which posits that human capital is positively and significantly related to export performance.*

6.8.5 Psychic Distance – Export Performance

The results in model 2 show that psychic distance is not significantly related to export performance, hence hypotheses 5g is not supported. This finding actually is consistent with the existing studies (Evans & Mavondo, 2002; Sim & Ali, 1998). The finding implies that the extent to which firms feel their domestic market is different to the export markets has no significant impact on their performance in export markets. This could be explained by the fact that Malaysian SMEs prefer to work with firms that share similar cultural background. This helps the SMEs in having a good working relationship with foreign importers and hence causing the effects of psychic distance insignificant. Hence this finding does not support *hypothesis 5g, which posits that psychic distance is positively and significantly related to export performance.*

Model 3

Relationship quality is added in model 3. Adding relationship quality in the regression increases the explained variance in export performance to 26.6 per cent ($R^2 = 0.266$). The ΔR^2 value (0.035) indicates that the relationship quality explains an additional 3.5 per cent of the variance in export performance (ΔF -ratio = 9.704**, $p < 0.01$).

6.8.6 Relationship Quality – Export Performance

The results in model 3 show that relationship quality significantly and positively effects export performance, supporting hypothesis 6c ($\beta = 0.23$, t -value = 3.12, $p < 0.01$). This finding is consistent with the existing study (Nguyen et al., 2007). This result implies that, for SMEs, a strong and close business-to-business relationship is an important factor to the success of global markets venture. In addition, the result also suggests that small businesses should concentrate on building and maintaining close and strong partnerships with foreign importers to achieve superior export performance. For small businesses, building quality relationship with foreign partners is no longer an option, particularly when competing in an increasingly complex and hostile environment of international markets. In order to succeed, and possibly overcome their limitation of resource scarcity, in such environments small businesses must establish quality relationships with a foreign partner (Friman, Garling, Millett, Mattsson, & Johnston, 2002).

From a managerial perspective, managers of small businesses might explore and enhance low-cost capabilities, such as relationship capabilities, to survive and to grow in the export markets. This is because when the firms build on the establishment of solid relationships with their foreign importers, they are more likely to realise their products' full market potential (Lages, Silva, Styles, & Pereira, 2009). In this case, when a new product is introduced in a market through higher-quality relationships that product has the potential to gain greater customers acceptance (Jap, Manolis, & Weitz, 1999). Thus, this result supports *hypothesis 6c, which posits that relationship quality is positively and significantly related to export performance.*

Model 4

Competitive advantage is added in model 4. Adding competitive advantage in the regression increases the explained variance in export performance to 34.6 per cent ($R^2 =$

0.346). The ΔR^2 value (0.080) indicates that competitive advantage explains an additional 8 per cent of the variance in export performance (ΔF -ratio = 24.812***, $p < 0.001$).

6.8.7 Competitive Advantage – Export Performance

The results in model 4 show that competitive advantage significantly and positively influences export performance, supporting hypothesis 7 ($\beta = 0.38$, t -value = 4.98, $p < 0.001$). This finding is consistent with the existing studies (e.g. Morgan, Kaleka, & Katsikeas, 2004; Navarro, Losada, Ruzo, & Diez, 2010). This result entails that SMEs should focus on building the competitive positions in export markets if they want to achieve greater export performance. This can be explained by the notion that relative superiority of a venture's value offering, in other words firms' competitiveness, determines target customers' buying behaviour (Morgan et al., 2004) and the outcomes of this behaviour for the export performance (Navarro et al., 2010). In addition, competitive advantage provides a firm with the means to outperform its rivals in export markets. Thus, this result supports *hypothesis 7 which posits that competitive advantage is positively and significantly related to export performance.*

Model 5

Internationalisation is added in model 5. Adding internationalisation in the regression increases the explained variance in export performance to 36.2 per cent ($R^2 = 0.362$). The ΔR^2 value (0.097) indicates that internationalisation explains an additional 9.7 per cent of the variance in export performance (ΔF -ratio = 30.569***, $p < 0.001$).

6.8.8 Internationalisation – Export Performance

The results in model 5 show that internationalisation significantly and positively influence export performance, supporting hypothesis 8 ($\beta = 0.35$, t -value = 5.53, $p < 0.001$). This finding is in line with many other studies that found similar relationship (Bausch & Krist, 2007).

This finding implies that firms can achieve greater performance when they increase their involvement in international markets. Although SMEs face resource constraints that may limit the ability to compete internationally, SMEs choose to internationalise because the advantages seem to outweigh the costs (Pangarkar, 2008). This is because cross border

activities mean SMEs are able to achieve economic of scale, by producing more outputs using the same amount of fix inputs, due to bigger overseas demand. This point is strongly supported when domestic market is small and mature, where the domestic market is crowded, limiting opportunities for growth and profits. This is the case for emerging small markets like Malaysia. By going into the foreign markets particularly high growth developing economies such as China, India, Indonesia and the Middle Eastern countries SMEs can discover new opportunities and under-served consumer needs. The logic is explained by the number of participating firms in this study, where more than 40 per cent of these firms are producers and exporters of foods and beverages. The government of Malaysia has made long term strategic planning to develop Malaysia as the hub for Halal foods and beverages. Since this segment of the market is still in the development stage firms in this industry have experienced enormous growth in foreign sales as well as profit, suggesting greater degree of internationalisation. Thus, SMEs in Malaysia found that increase in their involvement in international markets contributes to the increase of their export performance. Hence, the *hypothesis 8 which posits that internationalisation is positively and significantly related to export performance is supported.*

6.9 MODERATED MULTIPLE REGRESSION TEST

In this study three variables: communication, adaptation and social bonding, were tested for moderating function. To test the moderation effects this study employed multiple regression technique incorporating an interaction between the independent variables and the moderator (Baron & Kenny, 1986) or also known as moderated multiple regression. To get data for the interaction scores of focal variable and moderator were initially mean centred by subtracting the original scores with mean values. Final scores were created by the interaction of mean centred focal variable and moderator. The results show that only communication has significant moderating effects on the relationship between independent variables and relationship quality. Consequently, in this section the results of moderated multiple regressions test for the effect of communication on the relationship between independent variables and relationship quality are discussed.

Model 1

Table 6.5 illustrates the results of the moderated multiple regression. Control variables in Model 1 do not have any contribution to the variance in relationship quality. Adding the independent variables in the model 2 increases the explained variance in relationship quality to 33.8 per cent ($R^2 = 0.338$).

Table 6.5 Multiple Regression Analysis of Effect of Independent Variables, Communication, and Interaction on Relationship Quality

Variables	Relationship Quality		
	Model 1	Model 2	Model 3
Control Variable			
Firm Size (No of Employee)	-.04 (-.47)	.03(.50)	.02 (.36)
Ownership	.09 (1.27)	.07(1.25)	.07 (1.25)
Turnover	-.03 (-.32)	-.03(-.45)	-.02 (.30)
Independent variable			
Market Orientation	.12 (1.56)	.08(1.29)	-.27 (-.48)
Entrepreneurship Orientation	.22 (2.28)*	.10(1.32)	.60 (.74)
Learning Orientation	.23 (2.47)*	.10(1.37)	-1.08 (-1.77)
Human Capital	.13 (1.37)	.03(.46)	.80 (1.33)
Psychic Distance	.01 (.09)	.06(1.09)	-.18 (-.34)
Moderator			
Communication	-	.57(10.57)***	.08 (.20)
Interaction			
MO x Communication	-	-	.56 (.63)
EO x Communication	-	-	-.83 (-.62)
LO x Communication	-	-	1.95 (1.97)*
HC x Communication	-	-	-1.24 (-1.30)
BD x Communication	-	-	.36 (.52)
R ²	.338	.573	.586
Adjusted R ²	.312	.554	.556
F-Ratio	13.005***	30.243***	19.990***
ΔR^2	---	.235	.013
ΔF -Ratio	---	111.692***	1.228
Df	8/204	9/203	14/198

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

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

Model 2

Communication is added in model 2. Adding communication in the regression increases the explained variance in relationship quality to 57.3 per cent ($R^2 = 0.573$). The ΔR^2 value (0.235) indicates that communication explains an additional 23.5 per cent of the variance in competitive advantage (ΔF -ratio = 111.692**, $p < 0.001$).

The results in model 2 show that communication significantly and positively influences internationalisation ($\beta = 0.57$, t-value = 10.57, $p < 0.001$).

In this study, communication is significantly and positively related to internationalisation. This result implies that communication is an important factor to SMEs internationalisation which is about increase sales and profits in foreign markets. Firms can achieve greater growth in foreign sales when they are able to meet customers' needs and preferences, a function of effective communication between firms and customers. Hence communication is positively related to internationalisation.

Model 3

Interaction terms: market orientation*communication, entrepreneurship orientation*communication, learning orientation*communication, human capital*communication, and psychic distance*communication, are added simultaneously in model 3. Adding interaction terms in Model 3 increases R^2 by .013 ($\Delta R^2 = 0.013$), indicating that the interaction terms contribute an additional 1.3 percent to the variance in relationship quality (ΔF -ratio = 1.228, not significant). Out of five interaction terms that were tested only one interaction, learning orientation*communication, demonstrates significant moderating function.

6.9.1 Moderating Function of Communication

In this study, communication moderates the relationship between learning orientation and relationship quality. The results show that the interaction between learning orientation and communication is positive and that the interaction is significantly related to relationship quality ($\beta = 1.95$, T -value = 1.97, $p < 0.05$).

To gain further insights into this relationship, following Aiken and West (1991), further analysis was conducted to discover the nature of the moderated relationship through the use of technique for probing the interaction term (Bauer & Curran, 2005). In so doing, this study adopted two approaches. The first approach was originally developed by Johnson and Neyman (1936, in Bauer & Curran, 2005) and is known today as *Johnson-Neyman (J-N) technique*. According to Bauer and Curran (2005) the J-N technique involves plotting and testing the conditional effect of the focal predictor at designated levels of the moderating variable (e.g., high, medium, and low), where these conditional effect estimates are commonly referred to as “simple slopes”. To plot the interaction, this study used the second approach describes as *pick-a-point technique* (Hayes & Matthes, 2009). In this approach a researcher is required to pick a point on the moderator variable. After that, the investigation proceeds with hypothesis testing to find out whether the effect of focal predictor is different from zero at that point. For the purpose of computation this study used a macro in SPSS developed by Hayes and Matthes (2009).

Table 6.6a Regression Summary

R²	F	df1	df2	P	N
.5560	93.4994	3.0000	.224	<.0001	228

Table 6.6b OLS Regression Estimation of Relationship Quality on Learning Orientation, Communication and Interaction between Learning Orientation and Communication

	b	se	t	p
LO	.2186	.0427	5.1176	<.0001
Communication	.5033	.0429	11.7362	<.0001
Interaction	.1415	.0400	3.5353	.0005

Note: OLS Ordinary Least Square

Table 6.6c MODPROBE Macro Output - Estimating the Conditional Effect of Learning Orientation at Values of the Communication

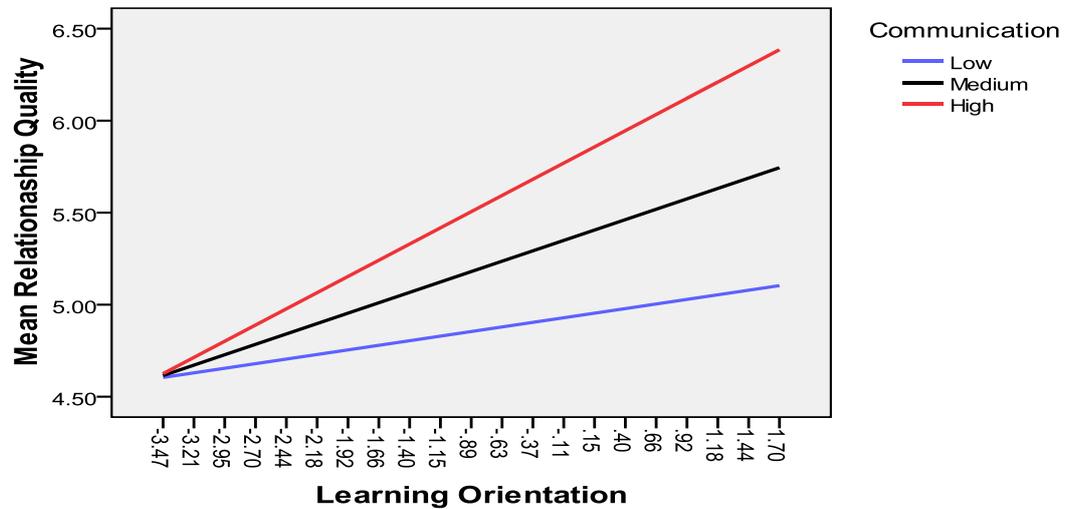
COMM	b	se	t	p
-.8622	.0966	.0472	2.0462	.0419
.0000	.2186	.0427	5.1176	<.0001
.8622	.3407	.0617	5.5219	<.0001

Notes: Alpha level used for confidence intervals is .05; Moderator values are the sample mean and plus/minus one SD from mean.

In order to explain conditional regression splitting communication into three levels: high (one standard deviation above mean), medium (mean), and low (one standard deviation below mean). The test results for the slope analysis are shown in Figure 6.1 and the accompanying Table 6.6a, Table 6.6b and Table 6.6c. Table 6.6c shows the MODPROBE macro output for the estimation of the conditional effect of learning orientation at three values [low, moderate and high] of communication. Figure 6.9 illustrates plotting of the interaction at values of communication. As shown in Table 6.6c, at all levels of communication the coefficients for learning orientation were positive and statistically different from zero.

The results indicate that the positive relationship between learning orientation and relationship quality is stronger when communication is high ($b = 0.340$, t -value = 5.521, $p < 0.001$) than when it is low ($b = 0.096$, t -value = 2.046, $p < 0.05$). Therefore, small businesses will be able to experience greater quality relationship by focusing more on learning culture when communication is high. In other words, the results suggest that more competent small firms in learning were able to build closer and superior relationships with foreign importer/distributor by committing to high level of communication in the working relationship. However, since communication is also positively related to relationship quality, the results suggest that communication is a quasi moderator.

Figure 6.9 Interaction between Communication and Learning Orientation on Relationship Quality



Communication has been found to contribute effectively toward relationship building (Palmatier, Dant, Grewal, & Evans, 2006). In the context of communication quality, communication occurs not only when there is exchange of information but also the ability [of exporter] to decipher importer's code (Lages, Lages, & Lages, 2005). Hence greater and faster learning process of obtaining information about importers, which in turn helps to equip the exporters with the ability to serve the needs of importers in a better way, take place in a condition of effective and efficient communication. As such, firms are able to build stronger relationships with their customers through uncomplicated and accurate communication (Agnihotri, Rapp, & Trainor, 2009). Therefore, efficient and effective communication assists organizational learning and consequently enhances the relationship with trading partners.

The results in model 3 show that the interaction between market orientation and communication is not significantly related to relationship quality. Similarly, the interaction between entrepreneurship orientation and communication is not significantly related to relationship quality. In addition, for human capital, the interaction between human capital and communication is negative. However, this interaction is not significantly related to relationship quality, suggesting that communication does not moderate the relationship between human capital and relationship quality. Finally, the interaction between psychic distance and communication is not significantly related to relationship quality.

6.10 STRUCTURAL EQUATION MODELLING

Due to the limitation of multiple regression analysis a more comprehensive technique is required to investigate the issue holistically hence the choice of structural equation modelling (SEM). SEM is a powerful statistical technique that has been successfully applied in social and psychological and behavioural science research (Reisinger & Mavondo, 2006). Byrne (2010) defines SEM as a statistical methodology that takes a confirmatory approach to the analysis of a structural theory bearing on some phenomenon. According to Reisinger and Mavondo (2006, p. 42), SEM is a method that “...simultaneously estimates and tests a series of hypothesized inter-related dependency relationships between a set of latent (unobserved) constructs, each measured by one or more manifest (observed) variables.” The technique carries out the conventional linear regression and confirmatory factor analysis, estimates variances and covariances, and evaluates the adequacy of fit of a theoretical model to data. The major advantage of SEM over multiple regression is the ability to accommodate multiple interrelated dependence relationships in a single model, incorporate latent variables into the analysis and estimate measurement errors during the process (Hair et al., 1998). Nusair and Hua (2010, p. 316) advocate that “SEM is most appropriate when a study deals with multiple latent constructs, with each one of the constructs represented by several observed and measurable variables.” Above all, SEM not only investigates the magnitude of the hypothesised relationships but also simultaneously assesses the direct and indirect effects of these variables (Schumacker & Lomax, 1996).

In SEM it is important to note that sample size is critical for achieving acceptable fit measure, as more complex models require larger sample size (Reisinger & Mavondo, 2006) to achieve adequate power and to obtain stable parameter estimates and standard errors (Schumacker & Lomax, 2004). Tabachnik and Fidell (1996) caution against small sample size, as this may create instability problems because the covariances are sensitive to samples. Accordingly, in order to attain reliable parameter estimates, the minimum sample size must be at least greater than the number of covariance or correlations in the input data matrix (Hair et al., 1998). For this purpose Hair et al (1998) suggest a minimum ratio of five cases for every distinct variable that is used to measure a construct. In this study, the total number of cases is 228, suggesting that the model should not have more than 46 distinct parameters to be estimated.

Stages of Structural Equation Modelling Analysis

Schumacker and Lomax (2004) suggest that the application of SEM consists of five steps: model specification, model identification, model estimation, fit testing, and model re-specification. In this section, each of the steps is discussed in detail.

- **Model specification**

Model specification is the first step in SEM application, where statistical software such as AMOS is used to build a structural model. In this study, the structural model is developed after a review of the literature and development of the hypotheses in chapter 2. According to Schumacker and Lomax (2004) lack of theoretical support may result in a misspecified theoretical model, which in turn may cause biased parameter estimates or specification errors.

- **Model identification**

Model identification should be performed a priori, even before any data collection or analysis. This means the model cannot be estimated unless it is identified. It involves specification of a specific model that should be confirmed with variance-covariance data based on available information (Schumacker & Lomax, 2004). In other words, model identification focuses on whether or not there is a unique set of parameters consistent with the data (Byrne, 2010). To establish model identification, the model's degree of freedom must be greater than zero (Hair et al., 1998). There are three types of identification: under-identified, just-identified and over-identified. An under-identified model implies that one or more parameters may not be uniquely determined because the number of parameters to be estimated exceeds the number of variance-covariance due to lack of information. In this case, there are a lot of possible solutions and the results of analysis lack robustness. A just-identified model is one in which all the parameters are uniquely determined because there is just enough information. However, the model is not scientifically interesting because it has no degrees of freedom and thus can never be rejected. Finally, an over-identified model means that there is more than one way of estimating a parameter due to have more than enough information. With positive degrees of freedom that allow for rejection of the model, the aim of all structural equation models is to meet the criteria of an over-identified model (Byrne, 2010).

- **Model estimation**

Reisinger and Mavondo (2006) refer to model estimation as whether the parameter estimates are consistent with covariance/correlation matrix of the observed variables. It involves choosing the estimation technique for the specified model. There are several different methods that can be used to estimate the parameters in structural equation modelling. Nevertheless, the estimation procedure in this study is maximum likelihood (MLE). The MLE technique, a default estimator in AMOS 17, is chosen not only because it is the most commonly used method but also it is acceptable for samples between 100 to 400 and more appropriate as the samples become larger (Reisinger & Mavondo, 2006). The MLE procedure is carried out when the assumption of multivariate normality distribution of observed variables has been met. In addition, bootstrapping is also used for further estimation processing. According to Hair et al (1998), the main advantage of bootstrapping is that the final parameter estimates and the confidence intervals are derived directly from multiple model estimation across separate samples. Furthermore it also does not rely on assumptions as to the statistical distribution of the parameters.
- **Testing goodness-of-fit**

The measurement and structural model are tested for significance (model fit) by examining the degree to which the hypothesised model fits the actual sample data. Although the analysis can be done by examining a variety of fit indexes, there is little agreement as to the choice of indexes and the criteria of model evaluation (Reisinger & Mavondo, 2006). For an indication of model fit, it is common to use chi-square statistic (χ^2). However, one has to rely on other indices as well as to make judgements because chi-square is sensitive to sample size. Other fit indices used in this study as measures of model fit include the goodness-of-fit (GFI), adjusted goodness-of-fit (AGFI) and root-mean-square error of approximation (RMSEA). Assessment for model comparison uses the Tucker-Lewis index (TLI), the normed-fit index (NFI) and the comparative-fit index (CFI). A detailed discussion of fit indexes was presented in section 5.5.5.2, in chapter 5.
- **Model re-specification**

Model re-specification takes place when the initial theoretical model does not fit as well as the researcher would like. The purpose is to alter the original model in the search for a model that is better fitting in some sense and yields parameters having practical significance and substantive meaning (Schumacker & Lomax, 2004). This

process involves adding or deleting estimated parameters. In doing so, although several methods are available, this study opts for modification indices reported for all non-free parameters. The modification index indicates that if a particular parameter is allowed to become free, then the chi-square statistic can predictably decrease by at least the value of the index. Nevertheless, model changes should not be based solely on the indices, but also have theoretical foundations to avoid the possibility of the data driven model. Therefore, modification indices should be used with caution.

6.10.1 Item Parcelling

The use of item parcelling in structural equation modelling has become more common recently. Item parcelling involves summing or averaging item scores from two or more items and using these parcel scores in place of the item scores in a SEM analysis (Bandalos, 2002). In organizational research, item parcelling has been suggested as it can reduce the numbers of parameters estimated, resulting in more optimal variable to sample size ratio and more stable parameter estimates (Bagozzi & Heatherton, 1994). In addition, item parcelling has been found to enhance the reliability of indicators (Coffman & MacCallum, 2005).

Item parcelling was used in this study because the model is complex relative to the sample size. In constructing the parcels, in the first step, all items are subject to factor analysis in which a single-factor solution is specified. In the second step, item with the highest factor loading was paired with item that score the lowest factor loading to form the first composite. The next composite was formed by pairing the items with the remaining highest and lowest loadings. This method is reported to be the most frequently used in research (Landis, Beal, & Tesluk, 2000).

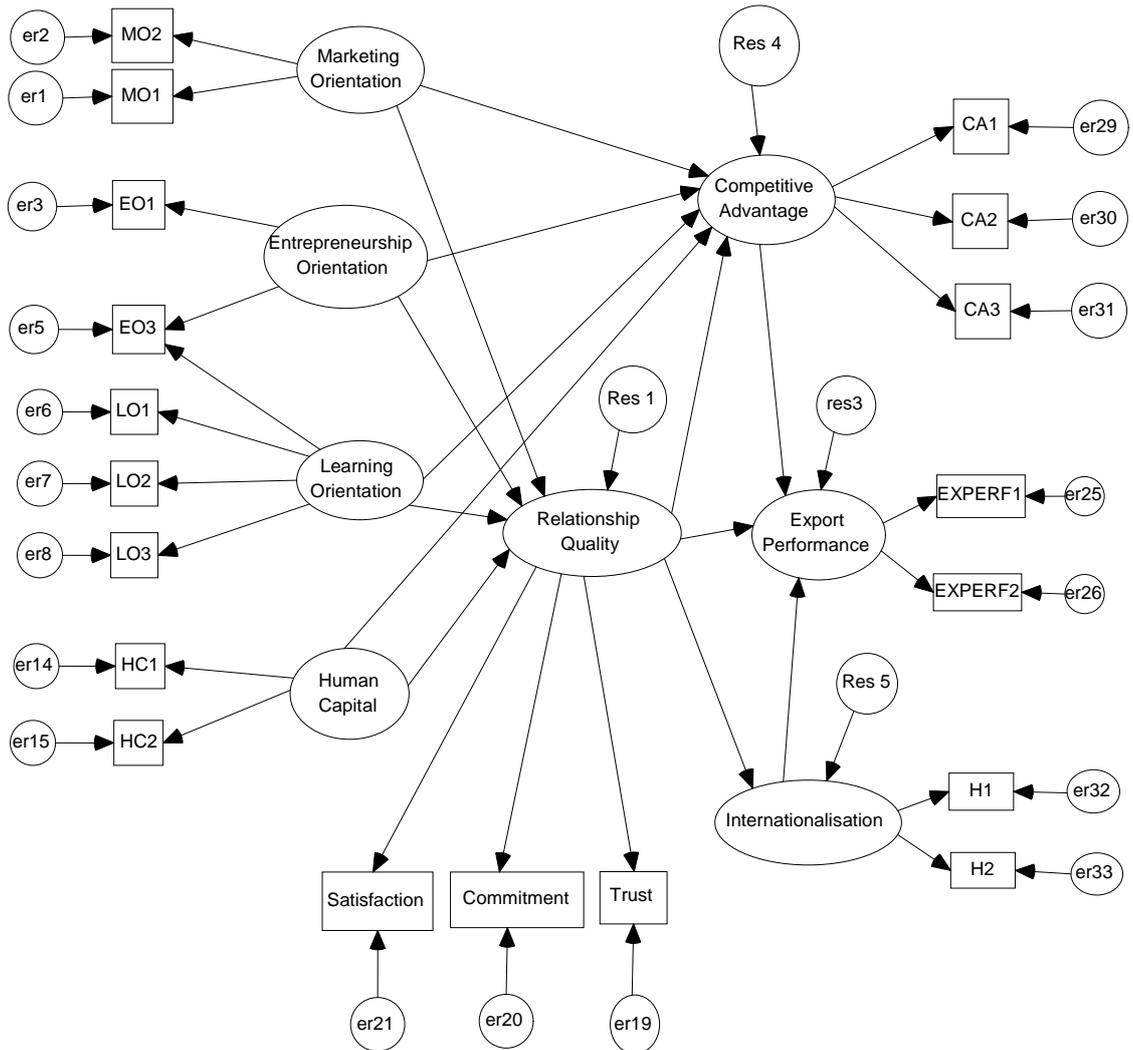
6.11 INTEGRATED MODEL

The direct, indirect and total effects of variables of this study were tested and results are discussed to confirm the hypothesised relationships. The final model with acceptable fit measures was arrived with some guidance from modification indices.

Figure 6.10 depicts the integrated structural model that has been re-specified from the original model. It is important to note that the correlations among the independents variables are excluded from the model. In addition, psychic distance is not in the re-

specified model because hypotheses arising from it are not significant in previous regression analysis. Detailed results for the testing of goodness-of-fit are shown by the accompanying fitness indexes. In the next sections, the results for testing of the hypothesised relationships are discussed in particular the focus will be on the direct, indirect, and total effects.

Figure 6.10: The Integrated Structural Model



χ^2 (chi-square) = 349.940; df = 134; p = .001; CMIN/df = 2.611

NFI = .893; TLI = .911; CFI = .930; RMSEA = .084

Table 6.7: Direct, Indirect and Total effects

Variables	Expected Direction	Direct Effects		Indirect Effects		Total Effects		Results
		SRC	T-value	SRC	T-value	SRC	T-value	
Organizational Resources and Capabilities								
Market Orientation (MO)								
<i>H1a: MO → Relationship Quality</i>	+	0.162 (0.079)	2.045*	-	-	0.197 (0.110)	1.790*	Supported
<i>H1b: MO → Competitive Advantage</i>	+	-	-	0.074 (0.050)	1.480			Not Supported
<i>H1c: MO → Internationalisation</i>	+	-	-	0.025 (0.019)	1.315	0.027 (0.019)	1.421	Not Supported
<i>H1d: MO → Export Performance</i>	+	-	-	0.073 (0.044)	1.659*	0.048 (0.064)	0.750	Supported
<i>H1e: MO → Competitive Advantage</i>	+	-0.004 (0.074)	-0.052			0.069 (0.128)	0.539	Not Supported
Entrepreneurship Orientation (EO)								
<i>H2a: EO → Relationship Quality</i>	+	0.592 (0.214)	2.767**	-	-	0.284 (0.143)	1.986*	Supported
<i>H2b: EO → Competitive Advantage</i>	+	-	-	0.123 (0.070)	1.757*			Supported
<i>H2c: EO → Internationalisation</i>	+	-	-	0.042 (0.032)	1.312	0.039 (0.033)	1.181	Not Supported
<i>H2d: EO → Export Performance</i>	+	-	-	0.119 (0.060)	1.983*	0.081 (0.063)	1.285	Supported
<i>H2e: EO → Competitive Advantage</i>	+	0.034 (0.162)	0.208			0.124 (0.119)	1.042	Not Supported
Learning Orientation (LO)								
<i>H3a: LO → Relationship Quality</i>	+	0.171 (0.059)	2.914**	-	-	0.280 (0.120)	2.333*	Supported
<i>H3b: LO → Competitive Advantage</i>	+	-	-	0.117 (0.059)	1.983*			Supported
<i>H3c: LO → Internationalisation</i>	+			0.039 (0.022)	1.772*	0.039 (0.026)	1.500	Supported
<i>H3d: LO → Export Performance</i>	+	-	-	0.113 (0.053)	2.132*	0.189 (0.063)	3.000***	Supported
<i>H3e: LO → Competitive Advantage</i>	+	0.144 (0.056)	2.581**	-	-	0.363 (0.114)	3.184***	Supported
Human Capital (HC)								
<i>H4a: HC → Relationship Quality</i>	+	0.114 (0.058)	1.966*	-	-	0.184 (0.122)	1.508	Supported
<i>H4b: HC → Competitive Advantage</i>	+	-	-	0.085 (0.055)	1.545			Not Supported
<i>H4c: HC → Internationalisation</i>	+	-	-	0.028 (0.025)	1.120	0.025 (0.023)	1.086	Not Supported
<i>H4d: HC → Export Performance</i>	+	-	-	0.082 (0.057)	1.438	0.166 (0.068)	2.441**	Supported
<i>H4e: HC → Competitive Advantage</i>	+	0.149 (0.057)	2.614**			0.331 (0.113)	2.929***	Supported
Relationship Quality (RQ)								
<i>H6a: RQ → Competitive Advantage</i>	+	0.346 (0.087)	3.985***	-	-	0.376 (0.078)	4.820***	Supported
<i>H6b: RQ → Internationalisation</i>	+	6.708 (3.113)	2.155*	-	-	0.137 (0.070)	1.957*	Supported
<i>H6c: RQ → Export Performance</i>	+	0.084 (0.174)	0.480	-	-	0.258 (0.071)	3.633***	Supported
<i>H6d: RQ → CA → EXP</i>	+			0.155 (0.057)	2.719**	-	-	Supported
<i>H6e: RQ → INT → EXP</i>	+	-	-	0.046(0.023)	2.000*	-	-	Supported
Competitive Advantage (CA)								
<i>H7: CA → Export Performance</i>	+	1.103 (.214)	5.143***	-	-	0.453 (0.093)	4.870***	Supported
Internationalization (INT)								
<i>H8 : INT → Export Performance</i>	+	0.017 (0.003)	5.592***	-	-	0.366 (0.054)	6.667***	Supported

Notes: SRC = Standardized Regression Coefficient; Value for standard error is shown in parentheses; ***p<.001; **p<.01, *p<.05

6.11.1 Direct Effects, Indirect Effects and Total Effects

Results for the direct, indirect and total effects analyses are shown in Table 6.7. Discussions of the results of hypotheses testing are subject to the figures displayed in the table. The discussion focuses on the hypothesised relationships that were developed in chapter 2. Specifically the discussion is about the direct effect of organisational resources and capabilities: market orientation, entrepreneurship orientation, learning orientation and human capital, on relationship quality and competitive advantage, the direct effect of relationship quality on competitive advantage, internationalisation, and export performance, and the direct effect of competitive advantage and internationalisation on export performance. In addition, the discussion also focuses on the mediating role of relationship quality on the relationships between organisational resources and capabilities and the international outcomes: competitive advantage, internationalisation, and export performance. Furthermore, the mediating role of competitive advantage and internationalisation on the relationship between relationship quality and export performance is also discussed.

6.11.1.1 Market orientation

The direct effect of market orientation on relationship quality and competitive advantage as well as the indirect effect of market orientation on competitive advantage, internationalisation, and export performance are presented in Table 6.7. The relationships between market orientation, and relationship quality and competitive advantage were hypothesised to be positive and significant. Furthermore, it was also hypothesised that relationships between market orientation and internationalisation outcomes are mediated by relationship quality.

Direct effect

In terms of the direct effect, the results in Table 6.7 indicate that market orientation is significantly and positively related to relationship quality ($\beta = 0.162$, t -value = 2.045, $p < 0.05$). This finding indicates that Malaysian SMEs see market orientation as an important factor to the relationship quality building. In terms of competitive advantage, the results show that market orientation does not significantly affect the competitive advantage. This finding implies that market orientation is not directly related to export market competitiveness.

Indirect effect

For the indirect effect, the results show that relationship quality does not mediate the relationship between market orientation and competitive advantage. This finding indicates that *hypothesis 1b which posits that relationship between market orientation and competitive advantage is mediated by relationship quality* is not supported. With regard to the relationship between market orientation and internationalisation, relationship quality does not mediate the relationship. This is shown by the results in Table 6.7. Hence, *hypothesis 1c: Relationship between market orientation and internationalisation is mediated by relationship quality*, is not supported. These findings indicate that the mediating effect of relationship quality does not seem to be associated with competitive advantage and internationalisation outcomes of market orientation. The explanation that seems to accord with these results is related to the information about foreign markets. It seems that information benefits of relationship quality may not have to do with competitive advantage and internationalisation of Malaysian SMEs.

For the mediating effect of relationship quality on the relationship between market orientation and export performance, the results show that the effect is significant ($\beta = 0.073$, $t\text{-value} = 1.659$, $p < 0.05$). This finding indicates that relationship quality mediates the relationship between market orientation and export performance. Hence *hypothesis 1d: Relationship between market orientation and export performance is mediated by relationship quality*, is supported. This result seems to agree with the notion that small businesses use market orientation to build and maintain strong relationship with partners to overcome resource scarcity and attain superior performance in export markets. The explanation is that market orientation provides the exporter with the customer-linking capabilities (Kirca, Jayachandran, & Bearden, 2005) which encourages greater cooperation with importers. The strong relationship with importers enables the exporters to gain access to the markets and to exploit the opportunities (Harris & Wheeler, 2005). In turn, these help the exporters to gain superior export performance.

6.11.1.2 Entrepreneurship orientation

Entrepreneurship orientation was measured as the respondents' perception of the extent that firms carry out the entrepreneurial practices in decision making activities. The relationships between entrepreneurship orientation, and relationship quality and competitive advantage were hypothesised to be positive and significant. Furthermore, it was also hypothesised that relationships between entrepreneurship orientation and

international outcomes are mediated by relationship quality. The direct effect of entrepreneurship orientation on relationship quality and competitive advantage as well as the indirect effect of entrepreneurship orientation on competitive advantage, internationalisation, and export performance are presented in Table 6.7.

Direct effect

The results indicate that entrepreneurship orientation is positively and significantly associated with relationship quality ($\beta = 0.592$; $t\text{-value} = 2.767$; $p < 0.01$). For competitive advantage, it is found that entrepreneurship orientation has no significant effect on competitive advantage. This finding implies that SMEs do not see the link between entrepreneurship orientation and competitiveness in export markets.

Indirect effect

In terms of indirect effect, the mediating effect of relationship quality on the relationship between entrepreneurship and competitive advantage is significant ($\beta = 0.123$, $t\text{-value} = 1.757$, $p < 0.05$). This means that hypothesis 2b: *Relationship between entrepreneurship orientation and competitive advantage is mediated by relationship quality*, is supported. The explanation that seems to accord with this result is at the heart of entrepreneurship orientation is the opportunity-seeking behaviour (Ireland, Hitt, & Sirmon, 2003). The opportunities in foreign markets are developed by the creation of foreign market knowledge through relationships with other firms (Johanson & Vahlne, 2006). This knowledge assists the exporters to develop and implement the strategies that may lead them to competitive position.

The results show that the relationship between entrepreneurship orientation and internationalisation is not mediated by relationship quality, hence hypothesis 2c: *Relationship between entrepreneurship orientation and internationalisation is mediated by relationship quality*, is not supported. This result indicates that small businesses with the entrepreneurial culture do not think that they need strong relationships with foreign importers to increase their involvement in export markets.

The results show that the mediating effect of relationship quality on the relationship between entrepreneurship orientation and export performance is significant ($\beta = 0.119$, $t\text{-value} = 1.983$, $p < 0.05$). This finding supports hypothesis 2d: *Relationship between entrepreneurship orientation and export performance is mediated by relationship quality*. This result is consistent with the notion that an entrepreneurial firms response to the

constraint of internationalisation process by developing strategies through relationship with other firms (Freeman, Edwards, & Schroder, 2006). These strategies enable the firms to overcome the problems of resource scarcity and to compete in international markets successfully.

6.11.1.3 Learning orientation

Learning orientation was measured to reflect the firm's perceived propensity to learn and adapt. It is represented by three first order factors; managerial commitment, system perspective, and openness and experimentation. The direct relationships between learning orientation and relationship quality and competitive advantage were expected to be positive and significant. The indirect relationships between learning orientation and competitive advantage, internationalisation, and export performance were expected to be mediated by relationship quality.

Direct effect

The results demonstrate that learning orientation is found to have significant and positive direct effects on relationship quality ($\beta = 0.171$; $t\text{-value} = 2.914$; $p < 0.01$). These results show that the ability to learn from partnerships, and adapt accordingly, helps small firms to develop close and strong relationship with foreign partners. It indicates that learning orientation is a capability that related to specific routine which enable exporters to become competent in understanding and responding to their partner's needs (Nguyen et al., 2007) through the ability to create, acquire, transfer, and integrate knowledge and to modify behaviour to reflect the new cognitive situation (Jerez-Gomez, Cespedes-Lorente, & Valle-Cabrera, 2005). These characters are reflected in small businesses by the elements of smallness and flexibility. In this case new information about customer/partner quickly transmitted throughout the organisation. In addition, the flexibility of the operations enables exporters to meet the customer expectations.

Indirect effect

In terms of the indirect effects, as expected relationship quality significantly mediates the effect of learning orientation on competitive advantage ($\beta = 0.117$, $t\text{-value} = 1.983$, $p < 0.05$). This finding supports hypothesis 3b: *Relationship between learning orientation and competitive advantage is mediated by relationship quality*. This result suggests that the culture of learning is essential for small businesses operating in cross border markets. This is because through learning capacity firms are able to gain knowledge that lead to the

stronger relationships, which in turn enhances knowledge transfer (Perez-Nordtvedt, Babakus, & Kedia, 2010). Through knowledge, firms can improve their new product development technological distinctiveness, expand the sustainability of product performance, and enhance their competitive position across boundaries (Perez-Nordtvedt et al., 2010).

The results indicate that relationship quality mediates the relationship between learning orientation and internationalisation ($\beta = 0.039$, t -value = 1.772, $p < 0.05$). This means that hypothesis 3c: *Relationship between learning orientation and internationalisation is mediated by relationship quality*, is supported. It has been well documented that foreign market knowledge is prerequisite to internationalisation. In addition, it has also been verified that partners exchange resources such as knowledge through quality relationships. Building quality relationship is depend on the learning capability which means that what the partner has learned from past relationships and how the partner acts accordingly to the norms may affect the quality of the relationship. This is consistent with the notion that learning orientation facilitates a firm to gain the ability to learn faster (Nasution & Mavondo, 2008). Hence, the culture of learning helps the exporting firms to build quality relationship with foreign importers, which in turn enables the exporters to gain foreign market knowledge. Market knowledge resource allows the exporters to improve their products offering and thus gain greater market acceptance.

Relationship quality has significant mediating effect on the relationship between learning orientation and export performance ($\beta = 0.113$, t -value = 2.132, $p < 0.05$). Hence, hypothesis 3d: *Relationship between learning orientation and export performance is mediated by relationship quality*, is supported. Johanson and Vahlne (2003) emphasise learning from experience in business relationships with partners as a platform to enter new foreign markets. Learning orientation increases firms' ability to deal with unexpected environmental changes and lessens the effect of environmental shocks. Since the changes in environment are greater in international markets learning capability helps exporters to effectively fulfil the customers' needs and preference. By adding values to customers (importers), relationships with the customers become stronger and hence firms are able to achieve superior export performance.

6.11.1.4 Human capital

The effects of human capital on relationship quality and competitive advantage were expected to be positive and significant. Furthermore, it was also expected that the effects of human capital on international outcomes are mediated by relationship quality. The direct effect of human capital on relationship quality and competitive advantage as well as the indirect effect of human capital on competitive advantage, internationalisation, and export performance are presented in table 6.6.

Direct effect

The results indicate that human capital is significantly and positively related to relationship quality ($\beta = 0.114$, t -value = 1.966, $p < 0.05$). The results also show that human capital is significantly positively related to competitive advantage ($\beta = 0.149$, t -value = 2.614, $p < 0.01$). These results are as expected because managers are central to the operations of small businesses.

Indirect effect

In terms of the indirect effect, relationship quality does not mediate the relationship between human capital and competitive advantage. This finding indicates that hypothesis 4b: *Relationship between human capital and competitive advantage is mediated by relationship quality*, is not supported. Similarly, the mediating effect of relationship quality on the relationship between human capital and internationalisation is not significant. Thus, hypothesis 4c: *Relationship between human capital and internationalisation is mediated by relationship quality*, is not supported. These results imply that perhaps, in relationship to competitive advantage and internationalisation, managers of all exporters are competence making variation very small, hence not significant.

The results show that the mediating effect of relationship quality on the relationship between human capital and export performance is not significant. This finding does not support the hypothesis 4d: *Relationship between human capital and export performance is mediated by relationship quality*. However, the total indirect effect of human capital on export performance is significant ($\beta = 0.166$, t -value = 2.441, $p < 0.01$), suggesting further investigation.

6.11.1.5 Relationship quality

Relationship quality was expected to be positively related to competitive advantage and export performance. Competitive advantage and internationalisation were hypothesised to mediate the relationship between relationship quality and export performance.

Direct effect

As shown in table 6.6, the relationship between relationship quality and competitive advantage is strong and positive, as shown by the result of total effect ($\beta = 0.346$; $t\text{-value} = 3.985$, $p < 0.001$). In international markets that inhibited by the environmental hostility and complexity, building a relationship with foreign partner is not an option and the ability to build a strong and closed cross border partnerships with foreign entity is invaluable asset, which by itself is an advantage over competitors. Thus relationship quality ultimately helps small firms to become more competitive.

Similarly, the relationship between relationship quality and export performance is strong and positive ($\beta = 0.258$; $t\text{-value} = 3.633$, $p < 0.01$). Relationship quality also positively and significantly influences internationalisation ($\beta = 6.708$; $t\text{-value} = 2.155$, $p < 0.05$). These results serve as a testimony that strong and closed relationship with foreign counterpart is imperative for foreign market venture. In addition, the stronger the relational bond between partners the greater the flows of information between partners. Based on the information and knowledge of local partner the exporter is able to sell products that are at the very least meeting the expectation of customers and possibly exceed that of the rivals offering. This is consistent with relationships benefit SMEs in overseas operations by recruiting new customers (Bradley, Meyer, & Gao, 2006) and achieving better performance (Babakus, Yavas, & Haahti, 2006). At the same time, exporter can get access to greater market demand and consequently increase sales in export markets. Thus relationship quality ultimately helps small firms to become more internationalise.

Indirect effect

In terms of indirect effect of relationship quality on export performance, the results show that competitive advantage mediates the relationship between relationship quality and export performance ($\beta = 0.155$, $t\text{-value} = 2.719$, $p < 0.01$). This finding supports hypothesis 6d: *Relationship between relationship quality and export performance is mediated by competitive advantage*. This finding seems to agree with the belief that establishing relationships with other firms enables SME exporters to overcome their inherent

constraints (Freeman et al., 2006) and helps them to identify and exploit market opportunities and facilitate the development of knowledge-intensive products (Mort & Weerawardena, 2006). This increases firms competitiveness which affects the performance of export ventures (e.g. Morgan et al., 2004).

The effect of relationship quality on export performance is also mediated by internationalisation ($\beta = 0.046$, $t\text{-value} = 2.000$, $p < 0.05$). Hence hypothesis 6e: *Relationship between relationship quality and export performance is mediated by internationalisation*, is supported. Knowledge about export market customers and competitors, acquired through cross border partnership, enables the exporters to meet the needs of local customers, which translate into greater market demand. Increase in export sales means increase in firms involvement in international markets, so that firms become more internationalise. At the same time, higher demand in export markets will cause SMEs to increase their production which enables them to achieve economic of scales and attain greater sales performance in export markets.

6.11.1.6 Competitive advantage

It was hypothesised that competitive advantage positively effects export performance. As expected the results show that the direct effect of competitive advantage on export performance is strong and positive ($\beta = 1.103$; $t\text{-value} = 5.143$; $p < 0.001$). This finding is consistent with the existing studies (e.g. Morgan et al., 2004). The finding implies that greater export performance is related to the ability of SMEs to compete in highly competitive foreign markets.

6.11.1.7 Internationalisation

Internationalisation was conceptualised by degree of internationalisation and measured by percentage of export to total sales volume (in quantity) and percentage of foreign profit to total profit. It was hypothesised that internationalisation positively and significantly affects export performance. In addition, internationalisation was hypothesised to mediate the relationship between relationship quality and export performance.

The results indicate that internationalisation is strongly related to export performance ($\beta = 0.017$; $t\text{-value} = 5.592$; $p < 0.001$). This result demonstrates that greater foreign involvement yields more overall sales and revenue for SMEs. One of disadvantage of

small businesses over their larger counterparts lies on the inability of SMEs to achieve economic of scale due to the lack of resources. Relationship quality is low cost method of foreign market venture as it provides SMEs access to the markets by means of foreign partners. In this context, SMEs can channel the resources to increase the efficiency of it production.

6.12 DISCUSSION OF OVERALL RESULTS

Overall, several conclusions can be assumed from the results of the hypotheses testing using multiple regression analysis and structural equation modelling. The focus of this discussion is aligned to the research questions that have been pointed out in chapter 1. To recall, the following are the research questions of this study:

1. How do exporting firm's resources and psychic distance influence the relationship quality with foreign importer?
2. To what extent does relationship quality mediate the relationship between (1) resources, capabilities, and psychic distance and business performance, and (2) resources, capabilities, psychic distance and internationalisation activities?

With regard to the above question, this study concludes:

- First, it was found that relationship building capability is important for the SMEs' operations in export market. The results indicate that the small business exporters should focus on several organisational resources and capabilities to build quality relationships with foreign importers, which in turn help firms to be more competitive, perform better, and increase their presence in export markets. In particular, SMEs should focus on entrepreneurial value, the core principal of SMEs operations. Entrepreneurial culture needs to be built and maintained within the organisations at high level to ensure the ability of SMEs to compete successfully in international markets. Entrepreneurship orientation signifies that a posture of pro-activeness, risks-taking and innovativeness helps SMEs to develop a quality relationship with foreign partners. In addition, SMEs should also invest more on learning capabilities. It seems that small business exporters with embedded culture of learning are more likely to have better working relationship with foreign importers.

- Second, the results of SEM analysis support partly the proposed mediating role of relationship quality on the relationships between firm resources and capabilities and competitive advantage, internationalisation, and export performance. Specifically, the findings show clear evidence that relationship quality mediates the effects of resources and capabilities of all firms on export performance. In addition, the findings indicate that relationship quality mediates the effect of entrepreneurship orientation and learning orientation on competitive advantage. Finally, the effect of learning orientation on internationalisation is found to be mediated by relationship quality.
- Third, this study also found the direct influence of firm resources and capabilities on performance, competitiveness and internationalisation. Specifically, this study found that entrepreneurship orientation and top manager competencies positively and significantly influence the export performance of small businesses. In addition, firm competitive advantage in export market has been found to positively and significantly affect by market orientation and learning orientation. These results strongly promote the small firms to focus on the cultural context of entrepreneurship, organisational learning and market orientation to compete and achieve superior performance in export markets. On top of these, managers of small firms must play a central role to develop the organisational capabilities in international market venture. In this context, the managers are required to possess the managerial competencies that enable them to lead the organisation successfully in international markets.
- Finally, it is worth mentioning that this study also found that the moderating role of communication on the relationship between learning orientation and relationship quality. Accordingly, greater impact of organisational learning on a strong relationship warrants effective communication between partners. This is particularly important in cross border communication that involves multiple factors such as differences in culture which may undermine the effectiveness of the communication.

6.13 SUMMARY

This chapter discusses about the respondents demographic profiles as well as the results of data analysis in relation to the hypotheses that have been developed a priori. The data was analysed using multiple regression and structural equation modelling. The results indicate that some of the hypothesised relations were supported and others were not supported. Overall, entrepreneurship orientation and learning orientation were found to have strong

effects on relationship quality and competitive advantage. Relationship quality and competitive advantage in turn were positively and significantly related to export performance. However, the results did not indicate any significant evidence about the mediating function of relationship quality and competitive advantage.

The following chapter is the final chapter for this thesis. It highlights the implications of the study to academics and practitioners. The chapter also discusses the limitations of this study. The chapter also serves as a summary of the study.

CHAPTER 7 - SUMMARY, CONCLUSION, LIMITATIONS AND IMPLICATIONS OF THE STUDY

7.1 INTRODUCTION

The main purpose of this study was to investigate the mediating role of relationship quality on the association between organisational resources, organisational capabilities, and psychic distance and competitive advantage. Furthermore, the research also aimed to investigate the mediating role of relationship quality on the association between organisational resources, organisational capabilities, and psychic distance and internationalisation, as well as the association between organisational resources, organisational capabilities, and psychic distance and export performance. In addition, this study investigated the direct effect of organisational resources and capabilities and of psychic distance, on competitive advantage, on internationalisation, and on export performance. Last but not least, the study also investigated the direct effect of relationship quality on export performance, competitive advantage, and internationalisation. The research objectives were examined through multiple regression and structural equation modelling and the results were presented and discussed in chapter 6.

This concluding chapter discusses the summary of the research which briefly talks about the findings. The discussion then highlights the theoretical contributions and the practical implications. This is followed by the conclusions. Finally, this chapter draws attention to the limitations of this study and provides suggestions for future research.

7.2 SUMMARY OF THE STUDY

In the summary of this study, the discussion includes a brief overview of the findings.

7.2.1 Findings

Data was analysed using multiple regression and structural equation modelling (SEM). The results were discussed in chapter 6. Both analyses were applied in this study to test all hypotheses.

7.2.1.1. Results of multiple regression

The results of the multiple regressions confirmed several hypotheses. The summary of the findings is presented in table 7.1. It was found that the effect of entrepreneurship orientation on relationship quality was positive and significant. The effect of learning orientation on relationship quality was also found as positive and significant. However, no significant effect was found for market orientation, human capital, and psychic distance.

Table 7.1 Summary of Findings of Multiple Regression Analysis

Hypothesis	Relationship Quality	Competitive Advantage	Internationalisation	Export Performance
Resources and Capabilities				
H1: Market Orientation		✓		
H2: Entrepreneurship Orientation	✓		✓	✓
H3: Learning orientation	✓	✓		
H4: Human Capital		✓		✓
H5: Psychic Distance				
H6: Relationship Quality		✓	✓	✓
International Outcomes				
H7: Competitive Advantage				✓
H8: Internationalisation				✓

Note: '✓' indicates that the hypothesis is supported by the results

The results revealed several predictors for competitive advantage. For example, market orientation was positively and significantly related to competitive advantage. In addition, the effect of learning orientation on competitive advantage was also found to be positive and significant. Furthermore, human capital showed a strong positive effect on competitive advantage. Finally, the effect of relationship quality on competitive advantage was positive.

In terms of internationalisation, the results indicated that entrepreneurship orientation and relationship quality were positively and significantly related to internationalisation.

The results confirmed the positive and significant effect of entrepreneurship on export performance. The results also confirmed that human capital and relationship quality were antecedents to export performance. Finally, competitive advantage was found to have a direct effect on export performance.

The results show that psychic distance was the only independent variable that was not found to have any significant effect on all of the three dependent variables; competitive

advantage, internationalisation, and export performance. This explained why it was not subsequently incorporated it in the structural equation models.

Moderated regression analysis showed that communication moderated the relationship between learning orientation and relationship quality. The finding suggested that the effect of the organisational learning on relationship quality was stronger when the communication level was high rather than when it was low.

Table 7.2 Summary of Mediating Effect of Relationship Quality on Competitive Advantage, and Internationalisation

Hypothesis	Competitive Advantage	Internationalisation	Export Performance
Relationship Quality mediates the relationships between:			
H1: Market Orientation			✓
H2: Entrepreneurship Orientation	✓		✓
H3: Learning orientation	✓	✓	✓
H4: Human Capital			✓
Competitive Advantage mediates the relationships between:			
H6d: Relationship Quality			✓
Internationalisation mediates the relationship between:			
H6e : Relationship Quality			✓

Note: ‘✓’ indicates that the hypothesis is supported by the results

7.2.1.2. Results of structural equation modelling

The hypothesised relationships were tested using SEM. Specifically, the SEM was conducted to test the mediating role of relationship quality in the relationship between organisational resources and capabilities and competitive advantage, between organisational resources and capabilities and internationalisation, and between organisational resources and capabilities and export performance. The summary of the findings is presented in table 7.2.

In terms of competitive advantage, the relationship between entrepreneurship orientation and competitive advantage, and the relationship between learning orientation and competitive advantage were mediated by relationship quality.

For internationalisation, the results showed that relationship quality mediated the relationship between learning orientation and internationalisation.

For export performance, the results indicated that relationship quality mediated all relationships between organisational resources and capabilities and export performance. Specifically, the results showed that relationship quality mediated the relationship between market orientation and export performance. In addition, the results also showed that relationship quality mediated the relationship between entrepreneurship orientation and export performance. Furthermore, the effect of learning orientation on export performance was mediated by relationship quality.

Finally, relationship quality was found to mediate the relationship between human capital and export performance. However, this result was based on total effects, suggesting further investigation.

With regard to the relationship between relationship quality and export performance, this study found that the relationship was mediated by two mediators: competitive advantage and internationalisation.

Overall, the findings of this study suggested that relationship quality was an important predictor of the internationalisation process of SMEs. Relationship quality helps SMEs to overcome the problems of resource scarcity and to compete in international markets successfully. SME exporters may use their resources and capabilities - market orientation, entrepreneurship orientation, learning orientation, and human capital - to build close and strong partnerships with foreign importers, which in turn helped them to be more competitive, achieve export goals, and internationalise successfully.

7.3 CONTRIBUTIONS

This study contributes to the internationalisation of small and medium enterprises in emerging small countries in two ways, namely academic and practitioner.

7.3.1 Academic Contributions

First, with regard to the study of small business behaviour in foreign market ventures, this study extended the theory by addressing the notions of relationship building capability and foreign market knowledge acquisition. This study investigated and established the importance of relationship quality as a mediator in the relationship between resources and capabilities and competitive advantage, between resources and capabilities and

internationalisation, and between resources and capabilities and export performance among SMEs. More specifically, the findings deepened these understandings by suggesting that SMEs can use their internal resources and capabilities to leverage an inter-organisational exchange relationship and consequently helped them to succeed in cross border venture.

Second, the rigorous investigations of the literature and the progression to a unique model have led to an original contribution to the understanding of how SME may internationalise successfully. Unlike bigger companies, small businesses must rely on intangible resources to develop their competencies in foreign market ventures.

Third, with regard to relationship quality, this study contributes significantly to the knowledge of the nature, determinants, and dimensions of relationship quality, particularly in relation to the internationalisation of small business exporters. This study supported the contention that cross-border relationships were precursors to small business competitiveness, internationalisation, and export performance.

7.3.2 Implications For Practitioners

The results of this study have several implications for small and medium manufacturers in their quest to succeed in international business ventures. It provided insights to the role of relationship quality in international business ventures. It also provided insights to the role of organisational resources and capabilities and the role of psychic distance in relationship quality, in competitive advantage, in internationalisation, and in export performance.

Relationship building capabilities

The results demonstrated that relationship quality mediated the relationship between (1) organisational resources and capabilities and competitive advantage, (2) organisational resources and capabilities and internationalisation, and (3) organisational resources and capabilities and export performance, suggesting to managers that relationships were central to success and were worthy of investing in.

With regard to cross-border relationships, this study suggested that the managers of small businesses should focus on the development of several resources in order to build strong relationship with foreign partners. These resources can help managers to structure a firm's operational strategy to compete effectively in foreign markets and at the same time

overcome the problem of resource scarcity. Specifically, the key resources were market orientation, entrepreneurship orientation, learning orientation, and human capital.

Shifting attention to relationships introduced totally new management aspects. It is no longer a question of managing one's own resources but more of a matter of exploiting and adapting them to the counterparts and of co-operating in using and developing resources in appropriate and efficient ways (Holmlund, 2007). This is what the top managers of the SMEs need to focus on. They should be able to take advantage of their smallness and thus maintain the flexibility to structure the particular organisational operations that are able to create a favourable environment through quality relationships.

7.4 CONCLUSION

Internationalisation is no longer an option for most small businesses in emerging markets. Increasing competition and diminishing trade barriers have led businesses to venture into foreign markets to meet corporate objectives. The ability of small and medium businesses to compete successfully in the international arena despite the limitation of resource scarcity is of great interest to researchers. Literature on the drivers of firms' propensity to enter foreign markets has acknowledged the importance of internal factors. In addition, past studies have positioned cross-border inter-organisational cooperation as a firm's capability to complement firm's existing resources. However, there is a shortage of empirical evidence on how SMEs leverage their relationships with foreign importers to be internationally competent. This study has sought to address the existing gap in the literature.

Specifically, this study focused on several firm's resources and capabilities such as market orientation, entrepreneurship orientation, learning orientation, and human capital because previous studies have found evidence of the influence of these resources and capabilities on the competitive advantage, organisational performance, and internationalisation of SMEs.

The findings showed significant consequential effect of cross-border relationship on small business internationalisation. The results showed that relationship quality mediated the effect of several firm's internal resources and capabilities on competitive advantage, performance, and internationalisation. In particular the findings suggested that relationship quality had an important mediating effect on the positive association between firm's

resources and capabilities (market orientation, entrepreneurship orientation, learning orientation and human capital) and export performance. Firm's resources and capabilities were likely to lead to stronger relationship which helped firm to achieve superior performance. Additionally, entrepreneurship orientation and human capital also directly influenced the performance. This study also found significant indirect effect of learning orientation on competitive advantage and internationalisation. This suggests that a firm's learning culture was consistent with close cooperation with foreign partner and the internationalisation process. Finally, the principal finding of this research was that relationship quality mediated the relationship between (1) entrepreneurship orientation and competitive advantage, and (2) entrepreneurship orientation and export performance.

By exploring how a firm's relationship quality with foreign partner mediated various relationships, this study contributed to the understanding of the contemporary internationalisation of SMEs. The study established that a firm's resources and capabilities, namely market orientation, entrepreneurship orientation, learning orientation, and human capital were transmitted into performance outcomes through the quality of the relationship that the SME was able to develop with foreign importer.

7.5 LIMITATIONS OF THE STUDY

This research represented an attempt to understand the behaviour of SMEs in international market ventures. There were several limitations that might potentially temper the findings. Hence, in interpreting the findings, these limitations should be kept in mind.

7.5.1 Research Setting

The first limitation in the research setting was related to the respondents. In this study, the response was obtained from the exporters; whereas a dyad relationship was about interactions between partners: exporters and importers. Hence, responses from both parties would provide a holistic and true state of the relationships. This sample was biased by design in accordance with other studies on relationship quality (for review, see Athanasopoulou, 2009). Such a study design was adopted due to the difficulties of including both exporters and importers in the same study. Such hurdles might include problems in gathering partners' information such as contact persons, contact numbers, and addresses. In addition, the process of obtaining responses from foreign importers was constrained by any associated costs, time, and confidentiality issues.

The second limitation in the research setting which is concerned the context of the study is the manufacturing sector. The nature of the operations of business organisations in the manufacturing industries is different from those of the service industries. Hence, the findings of this study could not be generalised to apply to the service industries.

The third limitation in the research setting was related to the respondents' ethnic backgrounds. In the context of Malaysia, the biggest participant in the domestic economy is the Chinese ethnic group. Hence the majority of small and medium manufacturing exporters were owned by this ethnic group. However, in this study more than half (58 per cent) of the respondents were Malay and the Chinese ethnic comprised only 31 per cent of the total respondents thus the sample was biased towards the Malay businesses.

7.6 FUTURE RESEARCH

In relation to the limitations of this study, several suggestions should be addressed for further research.

7.6.1 Research Setting

This study suggests that future research should include longitudinal survey [although time consuming and logistically difficult] to capture the dynamic relationships of export performance effects. The longitudinal study produces data that shows a dynamic view of how the variables and the relationships among variables change over time. This type of study enables researchers to make more rigorous inferences about causal relationships implied by the model. Hence, future research might consider a longitudinal study.

7.6.2 Key Informants

Although the test for common method variance suggests that single key informants are not a problem in this study, the researchers could adopt different approaches to obtain responses in the future. One approach could be the use of multiple respondents to minimise the problem of single key informants.

7.6.3 Moderating Effects

In terms of the moderating effect, further studies could also investigate the significance and relative importance of environmental factors that is not considered in this study. The potential effects of environmental factors, such as perceived environmental hostilities and uncertainties, could be examined for their impact on the relationship between the quality of firm's competitiveness and its performance in the export market.

7.6.4 Relationship Quality

With regard to relationship quality, although the construct has received increasing attention in the literature, research on the dyad relationships between exporter and importer is still lacking particularly in terms of a dyadic view of the relationship. Further study should focus on the perceived relationship quality from both the exporters and the importers, at the same time.

7.6.5 Firm Resources

This study focused on developing and testing a general concept of the theoretical model and hence examined variables through higher order constructs. The dimensions of each construct were derived from the literature and were indicated in the structural model. Since the focus is on general theory, and due to the sample size of this study, an investigation of the effects of specific dimensions was not possible. However, future research could examine the effect of the dimensions of resources and capabilities on relationship quality and internationalisation outcomes. Such a fine grained approach could provide deeper insights for managers who need to take specific decisions to improve export performance.

7.6.6 Export Performance

This study extensively discussed measures of export performance and proposes numerous scales. Based on the literature, this study adopted subjective measures. Future studies might look at financial measures, though it is difficult particularly in small business research, to ensure the measure variability and the rigour of the findings.

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MONASH University

Business and Economics



GROUP OF EIGHT

Department of Marketing PhD research project

Internationalization of Small and Medium Enterprises:

Mediating role of exporter-importer
relationship quality



Internationalization of Small and Medium Enterprises: Mediating Role of Exporter-Importer Relationship Quality

A Doctoral Research Project conducted by Department of Marketing, Faculty of Business and Economics, Monash University

ALL INFORMATION WILL BE STRICTLY CONFIDENTIAL

This survey will take approximately 20-30 minutes to complete.

Please return the completed questionnaires in the reply paid envelop provided to the following address:

Attn: Md Daud Ismail
School of Business,
Monash University Sunway Campus,
Jalan Lagoon Selatan,
46150 Bandar Sunway,
Selangor Darul Ehsan

Or

Attn: Md Daud Ismail
Facsimile number: 03 5514 6194
E-mail: mdism1@student.monash.edu.au

INSTRUCTIONS

The instructions below will help you in completing the questionnaire:

- Please be assured that your information is **STRICTLY CONFIDENTIAL**.
- It is important that you **PLEASE ANSWER ALL QUESTIONS**, even if some may appear to be similar.
- Please respond to question in a way that reflects your firm's practice or position, **NOT** as you wish to be or plan them to be in the future.
- Please select your firm's **ONE SUCCESSFUL EXPORT VENTURE** that was profitable and met the objectives set by the firm and respond to question in a way that replicates this export venture.
- If you wish to comment on any of the questions, please use the space provided at the end of the questionnaire.
- If you have any question about the questionnaire, please do not hesitate to contact Md Daud Ismail on email (mdism1@student.monash.edu) or telephone ([REDACTED]).
- If you have any concerns about the manner in which this research is conducted, please do not hesitate to contact The Standing Committee on Ethics in Research on Humans at the following address:

The Secretary
The Standing Committee on Ethics in Research on Humans
P. O. Box 3A, Monash University,
Victoria 3800
Australia
Telephone: 603-9905 2052
Facsimile: 603-9905 1420
Email: SCERH@adm.monash.edu

SECTION1: CAPABILITIES AND RESOURCES

Export Market Orientation

A: To what extent does your firm take on the following practices? In the following section, the scales are to be interpreted as:

- [1]: not at all [2]: to a minimal extent [3]: to a slight extent [4]: to some extent
 [5]: to a moderate extent [6]: to a large extent [7]: to a great extent

		Not at all				To a great extent		
		1	2	3	4	5	6	7
A-1	Our firm's strategy for competitive advantage is based on thorough understanding of customer needs	1	2	3	4	5	6	7
A-2	Our managers understand how they can contribute to creating customer value	1	2	3	4	5	6	7
A-3	We response quickly to negative customer satisfaction information	1	2	3	4	5	6	7
A-4	Our market strategies are driven by the need to create value for customers	1	2	3	4	5	6	7
A-5	Information on customers, marketing success, and marketing failures is communicated across functions in the firm	1	2	3	4	5	6	7
A-6	All our functions are responsive to, and integrated in, serving target markets	1	2	3	4	5	6	7
A-7	Our managers frequently discuss competitive strengths and weaknesses	1	2	3	4	5	6	7
A-8	We quickly take advantage of competitors' weaknesses	1	2	3	4	5	6	7
A-9	We response immediately toward competitor's campaigns targeted at our customers	1	2	3	4	5	6	7

Business Distance

E: Please indicate the extent to which the country of your major importer is different on each of the following statements items:

- [1]: not at all [2]: to a minimal extent [3]: to a slight extent [4]: to some extent
 [5]: to a moderate extent [6]: to a large extent [7]: to a great extent

		Not at all				To a great extent		
		1	2	3	4	5	6	7
B-1	Stability of political structure	1	2	3	4	5	6	7
B-2	Consumer protection legislation	1	2	3	4	5	6	7
B-3	Licensing legislation	1	2	3	4	5	6	7
B-4	Competitive practices legislation	1	2	3	4	5	6	7
B-5	Physical distribution systems	1	2	3	4	5	6	7
B-6	Number of direct competitors	1	2	3	4	5	6	7
B-7	Strength of competitors	1	2	3	4	5	6	7
B-8	Gross domestic product [GDP] per capita	1	2	3	4	5	6	7
B-9	Country's exposure to economic risks	1	2	3	4	5	6	7
B-10	Stability of demand for goods and services	1	2	3	4	5	6	7
B-11	Setting operating procedures	1	2	3	4	5	6	7
B-12	Credit and financial arrangements with banking institutions	1	2	3	4	5	6	7
B-13	Language used to communicate in business transactions	1	2	3	4	5	6	7
B-14	Language used to communicate in social settings	1	2	3	4	5	6	7

Entrepreneurship Orientation

D: To what extent does your firm perform each of the following entrepreneurship practices?

[1]: not at all

[2]: to a minimal extent

[3]: to a slight extent

[4]: to some extent

[5]: to a moderate extent

[6]: to a large extent

[7]: to a great extent

		Not at all							To a great extent						
		1 2 3 4 5 6 7													
Pro-activeness															
C-1	We actively seek contact with clients in international markets	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-2	We regularly monitor the trend of export markets	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-3	We actively explore business opportunities abroad	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-4	We constantly seek opportunities to improve our business performance	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-5	We are always ahead of our competitors in responding to market challenges	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-6	We actively adopt the best practices in our sector	1	2	3	4	5	6	7	1	2	3	4	5	6	7
Risk-taking															
C-7	In this organisation uncertainty is treated as a challenge	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-8	Employees are encouraged to venture into unexplored territories	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-9	Management accept that certain suggestions may fail when implemented	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-10	Our firm emphasises opportunity for success rather than chances for failure	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-11	In this organisation new venture failure is viewed as a learning experience	1	2	3	4	5	6	7	1	2	3	4	5	6	7
Innovativeness															
C-12	We are open to innovative ways of exploiting international market opportunities	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-13	We continuously search for new export markets.	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-14	We actively adopt "new ways of doing things" by main competitors	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-15	We are willing to invest in new ways of doing business	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-16	We encourage our people to think and behave in novel ways.	1	2	3	4	5	6	7	1	2	3	4	5	6	7
C-17	We value creative new solutions	1	2	3	4	5	6	7	1	2	3	4	5	6	7

Top Manager Competence

B: To what extent do your top managers have the following?

[1]: not at all

[2]: to a minimal extent

[3]: to a slight extent

[4]: to some extent

[5]: to a moderate extent

[6]: to a large extent

[7]: to a great extent

		Not at All							To a great extent						
		1 2 3 4 5 6 7													
D-1	The capacity to take appropriate risks to accomplish objectives	1	2	3	4	5	6	7	1	2	3	4	5	6	7
D-2	Ability to effectively manage organizational change	1	2	3	4	5	6	7	1	2	3	4	5	6	7
D-3	Broad knowledge of many export activities	1	2	3	4	5	6	7	1	2	3	4	5	6	7
D-4	Significant international experience	1	2	3	4	5	6	7	1	2	3	4	5	6	7
D-5	Significant international customer contact	1	2	3	4	5	6	7	1	2	3	4	5	6	7
D-6	The ability to communicate in foreign languages	1	2	3	4	5	6	7	1	2	3	4	5	6	7
D-7	The capacity to absorb information from international sources	1	2	3	4	5	6	7	1	2	3	4	5	6	7
D-8	Broad experience in related industries	1	2	3	4	5	6	7	1	2	3	4	5	6	7

Learning Orientation

C: The following statements are about your firm's practices. Please indicate to what extent does your firm undertakes the following practices:

- [1]: not at all [2]: to a minimal extent [3]: to a slight extent [4]: to some extent
 [5]: to a moderate extent [6]: to a large extent [7]: to a great extent

Managerial Commitment		Not at all						To a great extent
E-1	Managers involve their staff in important decision making processes	1	2	3	4	5	6	7
E-2	Management seeks to keep ahead of new environmental situations	1	2	3	4	5	6	7
E-3	Employee learning is considered a key factor in this firm's success	1	2	3	4	5	6	7
E-4	In this firm, innovative ideas are rewarded	1	2	3	4	5	6	7
E-5	Managers agree that our ability to learn is the key to our competitive advantage	1	2	3	4	5	6	7
Systems Perspective								
E-6	All employees have knowledge regarding this firm's objectives	1	2	3	4	5	6	7
E-7	Every department, sections, work team, and individual in this firm is aware of how they contribute to achieving the overall objectives	1	2	3	4	5	6	7
E-8	All our departments work in a coordinated fashion	1	2	3	4	5	6	7
E-9	Every person in this firm is aware of long term vision of the firms	1	2	3	4	5	6	7
E-10	There is an agreement in our business unit's vision	1	2	3	4	5	6	7
Openness & Experimentation								
E-11	We promote experimentation as a way of improving the work processes	1	2	3	4	5	6	7
E-12	We adopt the practices and techniques of other firms believed to be useful	1	2	3	4	5	6	7
E-13	We consider experiences and ideas provided by external sources [advisors, customers, training firms etc.] useful for learning	1	2	3	4	5	6	7
E-14	Our employees can express their opinions and make suggestions regarding the procedures and methods in place for carrying out tasks	1	2	3	4	5	6	7
E-15	We value employees' ideas that may increase firm 's success	1	2	3	4	5	6	7

Section 2: Relationship Quality

F: The following statements refer to your firm's relationship with major importer. Please indicate to what extent you agree or disagree with the following statements:

[1]: strongly disagree
[5]: somewhat agree

[2]: disagree
[6]: agree

[3]: somewhat disagree
[7]: strongly agree

[4]: neither disagree nor agree

		Strongly disagree						Strongly agree							
		1	2	3	4	5	6	7	1	2	3	4	5	6	7
Trust															
F-1	This importer has been frank in dealing with our firm	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-2	Promises made by this importer are reliable	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-3	This importer is knowledgeable about the product	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-4	This importer has made sacrifices for us in the past	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-5	This importer cares for my firm's welfare	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-6	This importer is like a friend	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-7	This importer does not make false claim	1	2	3	4	5	6	7	1	2	3	4	5	6	7
Commitment															
F-8	We like being associated with our importer	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-9	We enjoy our relationship with our importer	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-10	Our positive feeling towards the importer are the major reason we continue working together	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-11	We have a strong sense of loyalty to this importer	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-12	We defend this importer when others criticize them	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-13	We are willing to make long-term investments in this importer	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-14	We dedicate sufficient resources to maintain the relationship	1	2	3	4	5	6	7	1	2	3	4	5	6	7
Satisfaction															
F-15	We are proud of having this working relationship	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-16	We are very satisfied with importer's performance	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-17	We are delighted with the overall experience of this relationship	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-18	In general we enjoyed our dealing with this importer	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-19	This importer is a good company to do business with	1	2	3	4	5	6	7	1	2	3	4	5	6	7
Communication															
F-20	We keep this importer well informed about what is going on in this distributorship	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-21	This importer seeks our advice and counsel about its marketing efforts	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-22	We provide this importer with frequent feedback on its performance	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-23	This importer and we make it a point to keep each other well informed	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-24	This importer and we exchange accurate and precise information	1	2	3	4	5	6	7	1	2	3	4	5	6	7
Adaptation															
F-25	We modified our standard product to suit the requirement of the customer	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-26	We modified our operation process to suit the requirement of the customer	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-27	We changed our inventory management practices to meet customer's requirement	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-29	We changed our capital equipment and tools to meet customer's requirement	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-30	We adjusted our personnel to suit the requirement of the customer	1	2	3	4	5	6	7	1	2	3	4	5	6	7
Social bond															
F-31	I often interact with my partner on a social basis outside of work.	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-32	My partner and I are able to talk openly as friends.	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-33	I consider my partner as being almost as close to me as family.	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-34	If I were to change business partners, I would lose a good friend in my current partner.	1	2	3	4	5	6	7	1	2	3	4	5	6	7
F-35	I would consider whether my partner's feelings would be hurt before I made an important decision.	1	2	3	4	5	6	7	1	2	3	4	5	6	7

SECTION 3: RELATIONSHIP OUTCOMES

Competitive Advantage

G: Please indicate to what extent your firm's offering position in export venture is better or worst compare to main competitor along the following items:

[1]: much worst [2]: worst [3]: somewhat worst [4]: neither worst nor better
 [5]: somewhat better [6]: better [7]: much better

		Much worst						Much better
Cost Advantage								
G-1	Cost of production	1	2	3	4	5	6	7
G-2	Cost of goods sold	1	2	3	4	5	6	7
G-3	Selling price to overseas customers	1	2	3	4	5	6	7
G-4	Transport cost to overseas markets	1	2	3	4	5	6	7
G-5	Credit facilities to overseas importers	1	2	3	4	5	6	7
Product Advantage								
G-6	Product quality	1	2	3	4	5	6	7
G-7	Packaging	1	2	3	4	5	6	7
G-8	Design and style	1	2	3	4	5	6	7
G-9	Provision of warranty	1	2	3	4	5	6	7
G-10	Range of product offered	1	2	3	4	5	6	7
Service Advantage								
G-11	Ease of ordering the product	1	2	3	4	5	6	7
G-12	After-sales service	1	2	3	4	5	6	7
G-13	Reliable product delivery	1	2	3	4	5	6	7
G-14	Highly experience staff	1	2	3	4	5	6	7
G-15	Staff capable of handling unusual order	1	2	3	4	5	6	7

Export Performance

I: Please indicate to what extent you are satisfied with the following about your firm's export performance:

[1]: strongly dissatisfied [2]: dissatisfied [3]: somewhat dissatisfied [4]: neither dissatisfied nor satisfied
 [5]: somewhat satisfied [6]: satisfied [7]: strongly satisfied

		Strongly dissatisfy						Strongly satisfy
Performance Satisfaction								
I-1	Percentage of export volume to total sales volume (quantity)	1	2	3	4	5	6	7
I-2	Percentage of export revenue to total sales revenue	1	2	3	4	5	6	7
I-3	Contribution of export profit to total profits	1	2	3	4	5	6	7
I-4	Growth rate of export sales	1	2	3	4	5	6	7
I-5	Overall export performance	1	2	3	4	5	6	7

Internationalization

H: Please respond to the following questions:

H-1	What is the percentage of export sale to total sale of your firm?	_____ %
H-2	What is the percentage of foreign profit to total profit of your firm?	_____ %
H-3	In what year did you firm start exporting?	_____
H-4	In what year was your firm established?	_____
H-5	How many country to which you export?	_____

SECTION 4: RESPONDENT INFORMATION

J: The following questions are for classification purposes only and will remain confidential.

J-1: Total number of employee in your firm: _____

Please ✓ only one appropriate response for each question

J-2: Your position in this firm CEO/President Managing Director Export manager
 Marketing/Sales Manager Others: Please specify _____

J-3: Type of business Private [Sdn. Bhd.] Public [Bhd.]

J-4: Ownership: Malay Chinese Indian Others

J-5: Sales turnover for the last 12 months: Less than RM10 million RM10 million to RM25 million
 More than RM25 million

J-6: Please ✓ main industry of your firm activity:

- | | |
|---|--|
| <input type="checkbox"/> Electric and electronic | <input type="checkbox"/> Rubber products |
| <input type="checkbox"/> Chemical and petrochemical | <input type="checkbox"/> Textile, apparel and leather |
| <input type="checkbox"/> Food and beverage | <input type="checkbox"/> Wood and wood products |
| <input type="checkbox"/> Palm oil based products | <input type="checkbox"/> Pharmaceutical |
| <input type="checkbox"/> Paper and printing | <input type="checkbox"/> Machinery and engineering |
| <input type="checkbox"/> Plastic products | <input type="checkbox"/> Metal products |
| <input type="checkbox"/> Transport equipment | <input type="checkbox"/> Non-metallic mineral products |
| <input type="checkbox"/> Others, please specify _____ | |

J-7: How confident you are about the answer you have given?

- Moderately confident Confident Very confident

If you have any comments that you would like to contribute regarding this questionnaire or the topic please do so below:

THANK YOU VERY MUCH FOR YOUR ASSISTANCE
YOUR CONTRIBUTION TO THIS RESEARCH IS SINCERELY APPRECIATED

Please seal the completed questionnaire in the postage-paid envelope provided and send by post as soon as possible



Human Ethics Certificate of Approval

Date: 15 May 2009

Project Number: CF09/0954 - 2009000443

Project Title: Internationalization of small and medium enterprises; moderating role of exporter-importer relationship quality

Chief Investigator: Professor Felix Mavondo

Approved: From: 15 May 2009 To: 15 May 2014

Terms of approval

1. The Chief investigator is responsible for ensuring that permission letters are obtained, if relevant, and a copy forwarded to SCERH before any data collection can occur at the specified organisation. **Failure to provide permission letters to SCERH before data collection commences is in breach of the National Statement on Ethical Conduct in Human Research and the Australian Code for the Responsible Conduct of Research.**
2. Approval is only valid whilst you hold a position at Monash University.
3. It is the responsibility of the Chief Investigator to ensure that all investigators are aware of the terms of approval and to ensure the project is conducted as approved by SCERH.
4. You should notify SCERH immediately of any serious or unexpected adverse effects on participants or unforeseen events affecting the ethical acceptability of the project.
5. The Explanatory Statement must be on Monash University letterhead and the Monash University complaints clause must contain your project number.
6. **Amendments to the approved project (including changes in personnel):** Requires the submission of a Request for Amendment form to SCERH and must not begin without written approval from SCERH. Substantial variations may require a new application.
7. **Future correspondence:** Please quote the project number and project title above in any further correspondence.
8. **Annual reports:** Continued approval of this project is dependent on the submission of an Annual Report. This is determined by the date of your letter of approval.
9. **Final report:** A Final Report should be provided at the conclusion of the project. SCERH should be notified if the project is discontinued before the expected date of completion.
10. **Monitoring:** Projects may be subject to an audit or any other form of monitoring by SCERH at any time.
11. **Retention and storage of data:** The Chief Investigator is responsible for the storage and retention of original data pertaining to a project for a minimum period of five years.



Professor Ben Canny
Chair, SCERH

cc: Mr Md Daud Ismail



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Economic Planning Unit
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Ruj. Tuan:
Your Ref.: UPE: 40/200/19/2434

Ruj. Kami:
Our Ref.: 14 April 2009

Tarikh:
Date:

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APPLICATION TO CONDUCT RESEARCH IN MALAYSIA

With reference to your application, I am pleased to inform you that your application to conduct research in Malaysia has been *approved* by the **Research Promotion and Co-Ordination Committee, Economic Planning Unit, Prime Minister's Department**. The details of the approval are as follows:

Researcher's name : **MD DAUD ISMAIL**

Passport No. / I. C No: **700607-05-5217**

Nationality : **MALAYSIAN**

Title of Research : **"INTERNATIONALIZATION OF SMALL AND MEDIUM ENTERPRISES: MEDIATING ROLE OF EXPORTER-IMPORTER RELATIONSHIP QUALITY"**

Period of Research Approved: **THREE YEARS**

2. Please collect your Research Pass in person from the Economic Planning Unit, Prime Minister's Department, Parcel B, Level 4 Block B5, Federal Government Administrative Centre, 62502 Putrajaya and bring along two (2) passport size photographs. You are also required to comply with the rules and regulations stipulated from time to time by the agencies with which you have dealings in the conduct of your research.

3. I would like to draw your attention to the undertaking signed by you that you will submit without cost to the Economic Planning Unit the following documents:

- a) A brief summary of your research findings on completion of your research and before you leave Malaysia; and
- b) Three (3) copies of your final dissertation/publication.

4. Lastly, please submit a copy of your preliminary and final report directly to the State Government where you carried out your research. Thank you.

Yours sincerely,


(MUNIRAH ABD. MANAN)
For Director General,
Macro Economic Section,
Economic Planning Unit.
E-mail: munirah@epu.gov.my
Tel: 88882809/2818
Fax: 88883798

ATTENTION

This letter is only to inform you the status of your application and **cannot be used as a research pass.**