Top management capabilities and performance of halal product

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Abstract

Purpose – The purpose of this study is to investigate the influence of top management capabilities inclusive of global mindset (GM), foreign knowledge (FK) and international firm performance (IP).

Design/methodology/approach – This paper opted for a descriptive study using structured questionnaires involving 118 Malaysian small medium enterprises (SMEs) that are currently marketing their products abroad with halal JAKIM certification. Multiple regression analysis was applied to test the influence of the two variables on international performance.

Findings – The findings revealed both GM and FK significantly influence IP, which is crucial to overcome SMEs' resistance to go international.

Research limitations/implications – This study only focusses on the niche market which is halal export product, thus the findings may not be generalized to other sectors. Furthermore, the firm size might also influence the significant contribution of top management.

Originality/value – This paper is a part of ongoing study of internal capabilities and international firm performance among SMEs halal product manufacturers in developing countries.

Keywords Internationalization, Top management capabilities, Performance, Halal

Paper type Research paper
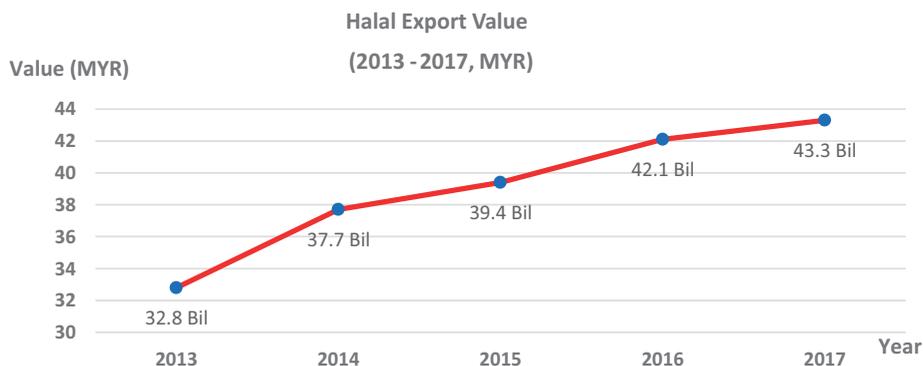
1. Introduction

The establishment of Halal Development Corporation (HDC) in 2011 has strengthened the Malaysia's export in halal sector. Moreover, the synergy created from the cooperation among government agencies like HDC, Malaysian Trade Development (MATRADE) and small–medium corporation (SME Corp) can be seen from the increment of Malaysia's halal export value year by year (Figure 1).

Halal Export Value

(2013 - 2017, MYR)

Value (MYR)

Figure 1.
Halal export value
(2013–2017)

Though the export value is dominantly contributed by mid-tier and big companies, small medium enterprises (SMEs) involvement in halal export cannot be taken for granted. This can be seen in 2017 in which 1297 SMEs that were halal certified are among the contributors of Malaysian export (HDC report 2017). Despite the government intervention in promoting halal export, the internal capabilities of SMEs specifically top management capabilities are expected to influence its export performance. Superior management is one of the major sources of super-normal profits for firms; yet, the internationalization-performance literature has largely underplayed the role of managers (Hennart, 2007). In addition, Kyvik, Saris, Bonet, and Felício (2013) made a claim that there was little focus on the role of the CEO's mindset or mental models in the internationalization literature on small firms. Thus, this study is conducted to determine the influence of TMT capabilities, namely, foreign market knowledge and global mindset (GM), towards firm export performance.

This study is done based on second-generation upper echelon theory (UET) developed by Carpenter, Geletkanycz, and Sanders (2004). In the model, Carpenter have added more theoretical construct proxied by top management team (TMT) demographic. Instead of just testing the existing TMT demographic, this study attempted to combine conventional demographic item which is foreign knowledge and the new item which is GM and see whether these two top management characteristics influence organizational outcome. Several studies done by Reuber and Fischer (1997), Carpenter and Fredrickson (2001), Carpenter et al. (2004) had assess international experience of the top management. Yet, those studies were done in Western countries or in the mix firm size. Thus, this study tried to close the gap by looking at only small medium enterprise in developing countries.

Superior management is one of the major sources of super-normal profits for firms; yet, the internationalization-performance literature has largely underplayed the role of managers (Hennart, 2007). In addition, Kyvik, Saris, Bonet, and Felício (2013) made a claim that there was little focus on the role of the CEO's mindset or mental models in the internationalization literature on small firms. Thus, this study is conducted to determine the influence of TMT capabilities, namely, foreign market knowledge and GM, towards firm export performance. Therefore, this study is looking at TMT foreign knowledge and TMT GM as the factors that may influence SMEs international firm performance.

The theoretical contribution of this study is by adding more TMT demographic in UET, which may explain organizational outcome. The inclusion of GM is also an attempt to explore direct measures of top management characteristics instead of using demographic as proxies, as suggested by Saeed and Ziaulhaq (2018). Moreover, these two additional characteristics may deem importance specifically in international

business setting which might be ignored in existing UET model. In terms of practice, this study will contribute to the selection of top management team for SME who are planning to go abroad, specifically, for Asian countries which generally have centralized decision-making and high power-distance. In addition, it will add to a handful literature on the specific halal export studies.

2. Literature review

2.1 Upper echelon theory
UET introduced by Hambrick and Mason (1984) claims that organizational outcome is a reflection of values and cognitive bases of powerful actors (defined as top management) in organization. They further investigated how the observable managerial characteristics, i.e demographics, act as a proxy of values and cognitive affecting strategic choices and performance levels of an organization. Around 20 years later, Carpenter et al. (2004) improvise the original model by expanding the antecedents, theoretical construct proxied by TMT demographic, moderators and mediators and reorganize the elements in organizational outcome and named it as second-generation UET. Though, several researchers argue about top management influences on organizational outcome (Lieberson and O'Connor, 1972; Priem, Douglas, and Gregory, 1999), based on studies, top management is account for substantial portion of variance in firm profitability that remains unexplained by contextual conditions (Hambrick, 2007).

2.2 Top-management capabilities, internationalization and firm performance
The term TMT is typically used in large firms to differentiate the level of their management teams as they have several layers of management team which serve different purposes. However, in smaller firms, where the size is limited, the managers who lead major autonomous functions may also be considered an executive group (Huovinen and Tihula, 2008).

Past studies have investigated the relationship and the influence of the top management with the international performance. Among them are Acar (2016) and Agnihotri and Bhattacharya (2015). Both studies institute that the top management influences the international firm performance.

2.3 TMT global mindset
The GM is a multi-dimensional concept. Some studies attempt to take both the attitudinal and the behavioural aspects into consideration (Nummela, Saarenketo and Puumalainen, 2004). However, this study adopts the GM from Pla-Barber and Escribá-Esteve (2006) who believe that the idea of GM comes from the organisation's strategic orientation towards competing on a worldwide basis. Thus, firms should consider developing a GM before and during their foreign operations (Galhanone, Rocha, Spers, and Rodriques, 2019).

From the individual level, the importance of SMEs' owner mindset in internationalization decision is supported by Kyvik (2011); Felício, Caldeirinha and Rodrigues (2012), Felício, Duarte, and Rodrigues (2016); Lappe and Dorrenbacher (2017), who argued that GM is even more relevant for small firms, where entrepreneur characteristics and cultural aspects matter. This is true even in Asian setting. A study on Malaysian SMEs by Ismail et al. (2016) highlights the importance of entrepreneurs' cognitive as a tool that directs the employees towards internationalization.

Several studies proved that managerial cognition and "mindset" have strong causal effect of GM and firm internationalization behaviour (Ciszewska-Mlinarič and Mlinaric, 2010; Nadkarni and Perez, 2007; Levy, Beechler, Taylor, & Boyacigiller, 2007; Kyvik, 2011). The overseas performance also will be negatively affected if top management lacks GM and international training (Keegan and Green, 2008).

In addition, Miocevic and Crnjak-Karanovic (2012) show that GM has a significant relationship with export performance (financial export performance, strategic export performance and satisfaction with export venture), as they are moderated by the international experience.

Nevertheless, Nummela, Saarenketo, and Puumalainen (2004)found that a mix result of GM-international performance of 72 small information communication technology (ICT) firms in Finland.

2.4 TMT foreign market knowledge

Eriksson Johanson, Majkgard, & Sharma (1997) identified three types of foreign market knowledge: foreign institutional knowledge, foreign business knowledge and internationalization knowledge. Institutional knowledge is concerned with knowledge of foreign culture, institutions, rules and regulations. Business knowledge is concerned with knowledge pertaining to customers, competitors and market conditions of foreign markets. Finally, internationalization knowledge is related to the firm's know-how in terms of adapting resources and capabilities to engage in the international operations.

The knowledge about foreign market that is usually accumulated through experience is said to be the most efficient approach for international expansion (Andersen, 1993). Findings by Ciszewska-Mlinarič and Mlinaric (2010) proved that managerial attitude and knowledge on internationalization have significant positive relationship with the degree of internationalization while foreign business knowledge is strongly related to internationalization knowledge (Hadley and Wilson, 2003).

Most of the researches consider the effect of foreign market knowledge as a stepping stone in internationalization; however, this study is more curious in exploring the capabilities of current exporters in boosting their international performance. Only a few studies have explored this relationship. Among them are study by Stoian, Rialp, and Dimitratos (2017) who shows that foreign market knowledge of top-management team will increase the international performance of SMEs.

Based on the majority findings in the earlier studies, this study posits the following assumptions:

H1. Ho: TMT GM does not have significant influence with international firm performance. *H1*: TMT GM has significant influence with international firm performance.

H2. Ho: TMT foreign market knowledge does not have significant influence with international firm performance. *H1*: TMT foreign market knowledge has significant influence with international firm performance.

3. Methodology

This study is conducted using quantitative approach while adapting stratified sampling. The researcher went through three process to select the accurate sampling for this study. The first stage is the database building. In Malaysia, there is no one single directory that fulfil all the three criteria required for this study that are: SME, Certified halal from JAKIM, Exporter. Owing to this reason, the researcher went through three directories, namely, SME Corp directories, HIDC directories and MATRADE directories and develop own database, listing all company that content the above three criteria. On the second stage, telephone call was made to identify the top management or manager in-charge as well as their direct line and email address. Finally, questionnaires were emailed to the respective top manager or

manager-in-charge and were followed-up with minimum of five times. At the end of the sixth month, response from 118 SMEs exporters of halal product was successfully gathered.

All the questionnaires were adapted from past research. For example, 6 items measuring TMT GM were adapted from Ismail (2011) and Zhou (2007), whereas12 items measuring the foreign market knowledge were adapted from Pla-Barber and Escribá-Esteve (2006) and Noor Azlin Ismail (2011). The international firm performance questionnaires (three items) were taken from Crick, Bradshaw, and Chaudhry (2006), which include sales volume, growth and profitability of halal product in overseas market. All the questionnaires are design using five-point Likert scale.

Two tests were used to answer the hypotheses. Firstly, Pearson correlation was used as to filter the relationship among foreign knowledge (FK), GM and international firm performance (IP). Later, the researcher conducted multiple regression test to determine whether FK or GM give more impact to IP.

4. Findings
The total of 118 respondents consists of either owner, CEO, manager of export department or halal executives/sales manager who directly involved in export operation of SMEs. The SMEs selected is form manufacturing industry which fulfil criteria from SME Corp that is either owned 5–75 employees or earned yearly sales turnover form RM300,000 to less than RM15m (small enterprise) and owned 75 to not exceeding 200 employees or earned yearly sales turnover form RM15m to not exceeding RM50m. Majority of the sample have been established more than 15 years (60.2%), 6–10 years (18.6%), 11–15 years (14.4%) and 1–5 years (6.8%). The data went through Pearson correlation test to filter the relationship between independent and dependent variable.

Table 1 shows that both p-value for FK and GM are less than 0.05 (p-value for FK = 0.000, p-value for GM = 0.000). The result illustrated that both FK and GM have a positive significant relationship with the international firm performance.

Before regression test is conducted, the researchers ran related test to fulfil the assumption of regression analysis suggested by Hair, Black, Babin, and Anderson (2010). The researcher has done three analysis, namely, normality test, multi-collinearity test and heteroscedasticity test. First, data was analysed using skewness and kurtosis to determine

Variables	Correlations Foreign knowledge	Global mind	IB performance
Foreign knowledge			
Pearson Correlation	1	0.609**	0.475**
Sig. (two-tailed)	118	0.000	0.000
N		118	118
Global mind			
Pearson Correlation	0.609**	1	0.577**
Sig. (two-tailed)	0.000	118	0.000
N	118		118
IB performance			
Pearson Correlation	0.475**	0.577**	1
Sig. (two-tailed)	0.000	0.000	118
N	118	118	

Note: **Correlation is significant at the 0.01 level (two-tailed)

Table 1.
Correlations between TMT foreign knowledge, TMT global mindset and IB performance

the normality. TMT foreign knowledge and TMT GM score for both Z-skewness and Z-kurtosis fall within −3 to 3, so it concludes that the data is normal. The multi-collinearity test was done to determine how much variability of TMT foreign knowledge is not explained by TMT GM. The VIF score for TMT foreign knowledge is 3.853 and for TMT GM is 2.612. As both VIF value is less than 10, the data indicate that there is no multi-collinearity issue occur. The only assumption that was violated is heteroscedasticity test. A diamond-shaped pattern is shown once plotting the residuals against the predicted dependent values. This is expected in the case of percentages where more variation is expected in the midrange than at the tails. Regression test was done later to further explained the association between the two variables

Table 2 shows that p-value for FK is 0.04, which is < 0.005, thus this study rejects Ho in *H1*. This concludes that FK has significant influence on IP and every unit increase in FK will lead to 0.218 unit increase in IP. The same goes for *H2* where this study rejects Ho, as p-value for GM is 0.00, which is < 0.05. Thus, GM has significant influence on IP and every unit increase in GM will lead to 0.570 unit increase in IP.

The percentage of contribution of both variables towards overall international firm performance can be seen in Table 3. The value of R-square means that 35.7% variation in international firm performance can be explained by TMT foreign knowledge and TMT GM.

5. Discussion

The result of the study fails to reject Ho in *H1* and *H2*, thus prove that both having top management who have existing foreign knowledge and have GM is crucial for SMEs to perform internationally. The findings aligned with earlier research done on the FK–IP relationship among SMEs by Kotorri and Krasniqi (2018), Tabares, Anzo, and Gabriel (2016). As for TMT GM, Saeed and Ziaulhaq (2018) suggest for exploration of managers' open-mindedness so with that, firm can efficiently accomplish in new international market conditions. The result of this study not only supported by the quantitative study done by Nummela, Saarenketo and Puumalainen (2004) and Felício, Caldeirinha and Rodrigues (2012) but also parallel to qualitative study conducted by Lappe and Dorrenbacher (2017).

Model	Coefficients	Unstandardized coefficients		Standardized coefficients		
		B	Standard error	Beta	t	Sig.
1	(Constant)	0.685	0.405	0.196	1.689	0.094
	Foreign knowledge	0.218	0.105	0.457	2.080	0.040
	Global mind	0.570	0.117	–	4.852	0.000

Note: [a]Dependent Variable: IB performance

Table 2.
Regression coefficients between TMT foreign knowledge, TMT global mindset and international business performance

Model	R	R square	Model summary Adjusted R square	Standard error of the estimate
1	0.597[a]	0.357	0.346	0.53799

Note: [a]Predictors: (constant), GLOBALMIND, FOREIGNKNOWLEDGE

Table 3.
Model summary

6. Conclusion

In conclusion, this study reflects the vital contribution of top management capabilities in terms of their knowledge and mindset in boosting their firms' export performance. TMT GM has stronger influence towards international firm performance as compared with TMT foreign knowledge. This is aligned with a study conducted by Marandu (2014) which highlighted export experience of management team as one of the factors that significantly makes low and high export performance differ. The current study extended upper echelons perspective to explain the top executives' influence on export performance of SMEs in emerging country settings. Besides that, it ventures into new special section that is halal market which promises the increasing demand worldwide.

Despite the contribution, this study draws several limitations. Firstly, this study only focussing on the niche market which is halal export product thus the findings may not be generalized to other sectors. Furthermore, the firm size might also influence the significant contribution of the top management. In terms of statistical test used, this study violate the heteroscedasticity test, hence the researcher should need to take remedies as suggested by Hair which are using weighted least squares or variance-stabilizing transformations to make it homogeneous.

Future works might want to look at other psychographic variables instead of using demographic as proxies of values hold by top management and compare the top management-international performance relationship of SMES and big firm.

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377

Further reading

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