Managerial Competence, Relationship Quality and Competitive Advantage among SME Exporters

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Abstract
One of the most important agenda for economic development of emerging markets is to develop the competitive ability of the small and medium enterprises (SMEs) to achieve a successful international business. To overcome the limitation of internal resources SMEs look for cooperative relationship with foreign partners, which in this context serves as a source of resources. In addition, the performance of small firms is strongly related to the human capital specifically the managerial competences. Based on the extant literature this study aims to investigate the role of managerial competences on the relationship quality which in turn affects the competitive advantage of small business in export markets. Data were collected among small and medium manufacturers that are currently involved in export activities. A total of 228 small and medium businesses participated in this study. This study uses structural equation modeling approach for data analysis. Findings of the study indicate that managerial competence is a function of relationship quality and competitive advantage. In addition relationship quality is significantly related to competitive advantage. Finally, relationship quality partially mediates the relationship between relationship quality and competitive advantage. At the end of this paper, the conclusion and discussion are presented and limitation and future study are discussed.

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Key words: Competitive Advantage; Export, SMEs

1. Introduction

One of the most important agenda for economic development of emerging markets is to develop the competitive ability of the small and medium enterprises (SMEs) to achieve a successful international business. Previous studies have conceptualized the central role of the development and management of strategic human capital on the performance of firms (Becker & Huselid, 2006). Furthermore, the empirical investigations have shown that human
capital specifically managerial competence is important in the export marketing domain (Leonidou, Katsikeas, & Piercy, 1998) and the internationalization of SMEs (Ruzzier, Antoncic, Hisrich, & Konecnik, 2007). Within the SMEs perspective, the limited financial availability causes the firms to be heavily dependent on the skills of human capital particularly the top management competences. In the context of international market ventures, where the business environment is complex and hostile, the eminent of managerial function is even more evident. This is supported by the empirical findings of Carpenter, Sanders and Gregersen (2001) where multinational enterprises performed better when the top managers possessed international human capital qualities.

Small businesses, due to its smallness, are constraint by the lack of tangible resources in the quest to compete in international market. This is even more so given that international business is resource demanding activities. To overcome the limitation of resources SMEs look for cooperative relationship with foreign partners (Knight & Cavusgil, 2004; Lages, Silva, & Styles, 2009). This is because a close and strong relationship serve as a conduit to information flows between partners (Ambler & Styles, 2000). Since information and knowledge is prerequisite to international business success (Johanson & Vahlne, 2006) hence building a quality relationship is SMEs top priority.

Despite the importance of human capital variable research focusing on managerial competences and relationship quality among SMEs in emerging markets is rare. In line with the research gap, this study attempts to investigate the role of top management competence (from here forth I refer human capital to managerial competence) in relationship quality which in turn affects the firm’s competitive advantage in export markets.

The objective of this study is three. First, this study intends to investigate the effect of managerial competence on relationship quality and competitive advantage. Second, this study examines the relationship between relationship quality and competitive advantage. Finally, this study also investigates the mediating effect of relationship quality on the relationship between managerial competence and competitive advantage.

After this section, I discussed the literature review and hypotheses. After that, I presented the methodology of this study. This is followed by the discussion on the findings. Finally, the conclusion and future study are discussed.

2. Conceptual Framework

Barney (1991) asserts that firm develops sustainable competitive advantage by leveraging the resources that its posses. These resources are described as unique, rare, non-substitutable and difficult to imitate by rival firms, and included all assets and capabilities (Kaleka, 2002). Nevertheless, in the context of small business specifically within the export domain previous literature has emphasized on the key role of managerial resources (Sousa, Ruzo, & Losada, 2010) and relational capability (Knight & Cavusgil, 2004).

Previous studies have empirically found that the managerial skills are strongly related to firm performance (Haber & Reichel, 2007). Hence, in defining the human capital this study follows Coleman (Coleman, 2007, p. 304) who refers human capital to “... education, employment or industry experience, and other types of experiences that help to prepare the entrepreneur for the challenges of business ownership.”

Human capital is frequently cited as an intangible resource that is closely tied to know-how and contributes to firm performance and competitive advantage. Human capital has been manifested to be central in SMEs’ internationalization and performance (Yeoh, 2004). Scholars agree that human capital is a multidimensional construct, but at the same time they differ on the dimensionality aspect. For example, Bruns, Holland, Shepherd and Wiklund
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 across multiple contexts, and it is often associated with formal education. Specific human capital, on the other hand, is developed through training or experience.

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 of the continuum 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.

The importance of relationship capabilities to firms of small size in international markets has been highlighted in literature. Specifically, building a strong and close partnership or also known as relationship quality indeed is crucial in developing the competitive ability of small businesses. Griffith and Harvey (2001, p. 94) define relationship quality as “...the strength of an inter-organizational relationship and the potential for the relationship to continue the process of development”. Johnson, Sakano, Cote and Onoz (1993) assert that relationship quality encompasses all those behavioral parameters that help to maintain a smooth, stable, and productive working relationship. Following others (e.g. De Wulf, Odekerken-Schroder, & Iacobucci, 2001; Palmatier, Dant, Grewal, & Evans, 2006), this study suggests that relationship quality is a multi-dimensional construct consisting of trust, commitment and satisfaction. 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. Trust has been conceptualized as the foundation of any business relationship. Commitment has assumed a central role in the development of buyer-seller relationship models (Skarmeas, Katsikeas, Spyropouliou, & Salehi-Sangari, 2008). It is “...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” (Morgan & Hunt, 1994, p. 23). Satisfaction of customer needs is always at the centre of the exchange relationships because customer who is not satisfied cannot be expected to have good working relationships with firms. Satisfaction is an affective or emotional state toward a relationship (Palmatier, et al., 2006).

2.1 Hypotheses

Although the literature acknowledges that a manager’s past international experience helps to develop international market knowledge and positive attitudes toward internationalization, the dynamic of today’s international market warrants an awareness of changing environments. Due to the liability of smallness that restricts SMEs to acquire 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, Edwards, & Schroder, 2006). In SMEs, managerial human capital plays an important role for export activities and internationalization success. This study postulates that managers’ know-how helps to 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 characters are essential and decisive in strategic outcomes. In addition, managers are the main factor behind the initiation, development, sustenance, 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 influence their interpretation of the situation (White, Varadarajan, & Dacin, 2003), the 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).

*H1: Managerial competence is positively related to relationship quality.*

*H2: Managerial competence is positively related to competitive advantage*

The strong and closed working relationship ultimately facilitates the exchange of knowledge between partners (Johanson & Vahlne, 2003). 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 (Zhang, Cavusgil, & Roath, 2003). Based on the above discussion, the following hypothesis is offered:

*H3: Relationship quality is positively related to competitive advantage*

Relationship quality is functioned as a conduit to information flow (Ambler & Styles, 2000). Small businesses are limited by the resource scarcity to acquire knowledge of foreign market which is important for the firms’ competitive advantage. Therefore, small businesses use the managerial competences to leverage foreign partner knowledge by means of strong and closed relationship. This in turn enables firm to develop its competitive advantage in foreign markets (Knight & Cavusgil, 2004). Hence, this study offers the following hypothesis:

*H4: Relationships between managerial competence and competitive advantage is mediated by relationship quality.*

Based on the above discussion, I develop a conceptual framework. Figure 1 shows the conceptual framework of this study consisting of all the three constructs and the direction of the relationship between them.

![Figure 1. Conceptual Framework](image)

3. **Methodology and Data**

3.1 **Sampling and Data Collection**

In this study, data were collected from Malaysia manufacturing SMEs that are currently involved in export activities. I used a single-key information approach and the respondents
were asked questions in respect of their most successful export venture. The key informant was chief executive officer/president, managing director, export manager and marketing/sales manager.

In this study, only firms with at least 20 employees qualified to be part of the sample to avoid firms with no strategic commitment to international operations (Marino, Lohrke, Hill, Weaver, & Tambunan, 2008). The maximum limit of 250 employees was made to be consistent with a large number of studies (e.g. Crick, 2007; Majocchi, Bacchiocchi, & Mayrhofer, 2005) who precisely limit the number of employees to 250. A total of 851 exporters were selected. Out of this number, 76 firms either decline to participate, could not be located, or no longer involve in exporting. Finally, I received 228 usable questionnaires, indicating 28.38 percent of response rate.

For the purpose of data collection, first I used drop-off for firms of close location, which is the most effective method in developing countries (Matanda & Freeman, 2009). For a drop-off survey, a follow up was made by a call to respondent firms. The questionnaire was personally collected by the researcher. Second, mail survey was also employed to cover distant locations. For this purpose, notification was made to respondents about the forthcoming survey prior to the mailing of the questionnaire. After that a questionnaire followed. A follow up reminder was sent one week after the first letter. A follow-up mail questionnaire took place four weeks after the first mailing. The questionnaire was personally collected by the researcher. For a drop-off survey, a follow up was made by a call to respondent firms. Third I used the local research agency to increase the respond rate.

To check for response biased I compare the responses of the different data collection methods and found no significant differences. In addition, check for the non response bias by comparing early (60%) and late (40%) responses indicates no non-response bias [Analysis of variance (ANOVA) test: respondent’s position (F = 1.42), business types (F = 0.83), employee number (F = 0.05) and confident level (F = 1.96)].

4. Survey Instrument

In measuring the items representing the theoretical constructs shown in the conceptual model I used the multi-scaling method, namely the Likert Scale (7-point), and open-ended. The constructs were designed and developed in several stages. In the first stage, the scales were designed and then adapted for the current study from the original version identified in the literature. In the second stage, I conducted in depth interviews with selected SMEs and academics to confirm the scales, and as a result items were refined. The refined questionnaires were then sent to the respondents.

Human capital measured by scale 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 eight items. 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 for RQ is drawn from a composite of three constructs: trust, commitment and satisfaction. The scales for commitment and trust consist of seven items each. The original version of the scales were developed by Leonidou, Katsikeas, and Hadjimarcou (2002) and Skarmeas, Katsikeas, Spyropoulou, and Salehi-Sangari (2008). The scale for satisfaction was revised and adapted from the works of Ha, Karande, and Singhapakdi (2004, Skarmeas et al (2008), and Lages et al (2005). The respondents were asked the extent to which the statements depicted by the items refer to firm’s relationship with major importers.
The scale for competitive advantage is drawn from Kaleka (2002) and Chryssochoidis 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. The three dimensions of competitive advantage were measured by five items each. The respondents were asked the extent to which the statements depicted by the items referred to the firm’s relationship with major importers.

I ran confirmatory factor analysis to estimate of the quality of the measures, i.e. validity and reliability. I then ran the test for hypotheses via structural equation modeling (SEM) (with maximum-likelihood estimation) in AMOS 18. The summary of the results is presented and discussed in the next section.

4.1 Validity and Reliability

The validity of the measure was tested using the correlation of item-to-total score of each dimension. Items with no statistically significant higher correlation, factor loading less than 0.50, to the dimension were removed. Table 1 shows the fit indices of the measurement models, demonstrating acceptable fit and thus confirmed the existence of convergence validity.

I use the average variance extracted (AVE) to assess discriminant validity (Fornell & Larcker, 1981). The results are shown in Table 2, indicating the scores for AVE higher than correlation between two constructs and thus satisfying the condition for the existence of discriminant validity.

For the evident of reliability of the scale I calculate the internal consistency (Fornell & Larcker, 1981) and Cronbach-Alpha (Nunnally, 1978). The coefficient of constructs (see Table 2) were ranged from 0.83 to 0.98 for internal consistency, which was well above the acceptable standard (Fornell & Larcker, 1981; Nunnally, 1978).

<table>
<thead>
<tr>
<th>Model</th>
<th>$\chi^2$</th>
<th>Df</th>
<th>RMSEA</th>
<th>GFI</th>
<th>AGFI</th>
<th>CFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC</td>
<td>18.09</td>
<td>7</td>
<td>0.08</td>
<td>0.97</td>
<td>0.92</td>
<td>0.98</td>
</tr>
<tr>
<td>RQ</td>
<td>150.51</td>
<td>84</td>
<td>0.05</td>
<td>0.92</td>
<td>0.88</td>
<td>0.93</td>
</tr>
<tr>
<td>CA</td>
<td>152.95</td>
<td>62</td>
<td>0.08</td>
<td>0.91</td>
<td>0.86</td>
<td>0.96</td>
</tr>
</tbody>
</table>

Notes: RMSEA, root mean square error of approximation; GFI, goodness of fit index; AGFI, adjusted goodness of fit index; CFI, comparative fit index; MC = Managerial Competence; RQ = Relationship Quality; CA = Competitive Advantage

Table 2. Average Variance Extracted (AVE) and correlations of constructs

<table>
<thead>
<tr>
<th>Construct</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. MC</td>
<td></td>
<td>0.73</td>
<td></td>
</tr>
<tr>
<td>2. RQ</td>
<td>0.50**</td>
<td></td>
<td>0.84</td>
</tr>
<tr>
<td>3. CA</td>
<td>0.54**</td>
<td>0.53**</td>
<td>0.82</td>
</tr>
<tr>
<td>Internal consistency</td>
<td>0.89</td>
<td>0.83</td>
<td>0.86</td>
</tr>
<tr>
<td>Mean</td>
<td>5.21</td>
<td>5.42</td>
<td>5.12</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>0.87</td>
<td>0.73</td>
<td>0.95</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.96</td>
<td>-0.41</td>
<td>-0.14</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>1.57</td>
<td>0.58</td>
<td>-0.45</td>
</tr>
</tbody>
</table>

***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).

Notes: Average Variance Extracted (AVE) value is shown in diagonal.
5. Results

I test the hypotheses using structural equation modeling. The results for structural model fit indices meet the requirement of satisfactory fitting $[X^2 = 106.80, \text{df} = 50, \text{CMIN/df} = 2.3; \text{NFI} = .93, \text{TLI} = .91, \text{CFI} = .96, \text{RMSEA} = .071]$. Hypothesis 1 predicted a positive relationship between managerial competences and relationship quality. The results indicate that managerial competence has a strong and positive impact on relationship quality ($\beta = .51, t\text{-value} = 6.45, p < 0.001$), supporting H1.

Hypothesis 2 expected a positive effect of managerial competence on competitive advantage. The results show that managerial competence is significantly related to competitive advantage ($\beta = 0.23, t\text{-value} = 3.50, p < 0.001$), in support of H2.

Furthermore, the results demonstrate a positive and significant relationship between RQ and competitive advantage ($\beta = .33, t\text{-value} = 4.76; p < 0.001$), in support of H3. Finally, I test the mediating function of relationship quality using the Sobel test. The results indicate that the mediating effect of RQ on the relationship between manager competences and competitive advantage is significant ($t\text{-value} = 3.82; p < 0.001$), suggesting partial mediation function.

6. Discussion and Conclusion

The resource based view advocates that to compete successfully and sustainably in foreign market SMEs should exploit its idiosyncratic resources (Barney, 2001). Resources include all assets and capabilities posses by the firms. This study views that SMEs look for two types of resources for international operations. Firstly is the resource that enables them to overcome the limitation of resource scarcity. Therefore, this paper proposes a strong and close relationship with foreign partner or relational capabilities as a source of knowledge resource. Secondly is the resource that helps SMEs to leverage the relationship with foreign partners, which are the managerial competences of human capital. Building on this perspective I propose a conceptual framework and test the hypotheses.

The contribution of this study is mainly lies on the empirical findings that highlighted the important human capital and relationship quality in building competitive position of SMEs in export markets. This study also helps to enrich the stock of the literature. Human capital is key to the success of small businesses (Bowman & Swart, 2007) particularly in export markets (Leonidou, et al., 1998). This is shown by the results of this study where managerial competence is significantly influence the relationship quality and competitive advantage. In addition, this study also found that relationship quality mediates, though partially, the relationship between human capital and competitive advantage.

The findings suggest that SMEs should focus on, but not limited to, two very important resources, namely managerial competences of human capital and relational capabilities. These two resources are interrelated and hence building a strong relationship with foreign partners by means of managerial competence is not an option. This strategic move helps SMEs to effectively leverage foreign partner’s competences particularly the knowledge of foreign markets.

7. Limitation and Future Study

Like others, this study has limitation. Notably, in this study data were gathered from exporters whereas a relationship is about an interaction between two or more parties. Although this method of data collection from one side of relationship is consistent with the
previous research (e.g. Brouthers, Nakos, Hadjimarcou, & Brouthers, 2009), however responses from both sides of a relationship will add rigor to the findings.

References


