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# Entrepreneurial Orientation and Export Performance of Emerging Market SMEs: The Moderating Role of Dynamic Capabilities in South Africa\*

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## Abstract

**Purpose:** Due to an ever more interconnected global commercial environment, the role of SMEs from emerging markets has attracted considerable attention in business literature of late. Reinforced by strategic management theory, this study builds on aspects such as entrepreneurial orientation and dynamic capabilities to construct and test a framework that focuses on exploring their associations with export performance. **Research design, data and methodology:** To contribute further towards a deeper understanding of these markets, the current study empirically tests a model using data collected from 225 exporting firms located throughout South Africa. **Results:** The results from the data analysis show that entrepreneurial orientation contributes significantly towards improving the performance of South African SMEs. Additionally, this study integrates three dynamic capabilities in the strategy-performance relationship to test their interacting effects on the correlation between entrepreneurial orientation and export performance. Further findings advocate support for relationship-based capabilities playing a moderating role between entrepreneurial orientation and the exporting performance of small and medium firms emanating from emerging markets. **Conclusions:** Findings provide substance to the argument that entrepreneurship, as a strategy-making process, leads to export performance in emerging nations. Especially, this study provides several suggestions as to how small and medium-sized organizations can develop their exporting performance based on the research findings.

**Keywords :** Entrepreneurial Orientation, Dynamic Capabilities, Export Performance, South Africa

**JEL Classification Code :** L25, L26, M16, M31, M38

## 1. Introduction

Despite a rather discontent actuality that a less-than globalized world exists, which has been compounded by the

recent resurrection of protectionist policies in certain countries, significant trade liberalization initiated around the globe has presented an opportunistic future for many firms. This progression towards a more liberalized world market is especially predominant in emerging markets, which have assisted in a growing number of firms participating in cross-border business activities. Within these international activities the importance of emerging markets according to the International Monetary Fund (IMF) cannot be understated. As data from the organization shows, these markets total gross domestic product (GDP) based on purchasing power made up 59.65% of the global GDP as of October 2019. A significant factor playing a role in the improved economic conditions of these nations is reflected by a willingness of these countries to indulge in global commerce. However, for many smaller, or medium sized firms (hereafter SMEs) from emerging markets, the process of internationalization presents a challenging endeavor due

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to certain resource constraints. Consequently, among the various global entry modes utilized in international expansion, exporting is considered the most widely used and accessible approach (Chen et al., 2016), as more domestic economies become dependent on external markets to achieve market growth, and become more efficiently or innovatively driven (Kim & Kim, 2019; Sousa et al., 2014). Coupled with this push for greater efficiency in exporting activities, recent interest in entrepreneurial orientation (EO) has meant that this topic has received considerable academic attention due to its practical implementation for SMEs (Lee, 2019; Sanyal et al., 2020). The significance of EO in many countries, especially with regards to the persistence, development, and overall profitability of business enterprises, as well as its contribution towards the overall economic prosperity of nations and people, adds further prominence to the construct (Fatoki, 2014).

However, despite the significance of the construct, much of the focus of past research has primarily been concentrated in advanced economies or major BRIC countries such as China and India (Chen et al., 2016). Additionally, research on EO as a topic has remained insufficiently scarce in Africa, and particularly in South Africa, meaning that the potential costs or benefits of the performance outcomes of exporting are relegated largely to developed nations (Boso et al., 2013). For SMEs from emerging nations, EO remains a massively important and worthwhile endeavor (Boso et al., 2013; Dodo et al., 2017). However, the lack of knowledge regarding the nature of EO and its outcomes with firm export performance in the context of emerging nations needs to be considered further (Chen et al., 2016). While a number of studies (Wiklund & Shepherd, 2005; Zahra & Covin, 1995), have reported positive connotations in the relationship between EO and the performance of firms in more developed economies, the proclivity towards taking risks as a byproduct of EO have resulted in several exceptions to these findings existing, consequently contradicting the expectant relationship between EO and performance in less developed countries (Morgan & Strong, 2003). Chen et al. (2016) make mention of the fact that export performance in emerging markets are dependent on key determinants different to those from more developed nations. The process of innovativeness as an example, often requires larger commitments of firm resources, requiring a firm to leverage already scarce firm resources, while proactiveness, as a dimension of EO is often reliant on the institutional environment found in the emerging country (Boso et al., 2013). Therefore, EO may not always be a viable approach to export success in certain emerging markets due to the commitment of more resources to projects where the cost of failure may be high. Because of this, the current research takes into consideration the industrial context of the South African business market and

deliberates on the determinants which may hold important benefits to firm export success in mitigating any negative effects that certain EO dimensions could present to smaller businesses in South Africa.

Thus, in an effort to understand the topic better, this paper aims to investigate the relationship among entrepreneurial orientation, and export performance indicators in the South African context, while assessing the moderation of organizational capabilities to enhance this relationship further. For South African SMEs, exporting provides an important alternative to domestic commercial operations. Various regional trade agreements on the African continent, as well as institutional support and financing for exporting practices makes exporting performance an essential measurement of performance for South African SMEs. Further, the current weaker domestic currency in South Africa has provided an added advantage for SMEs to compete in foreign markets. As an additional benefit, South Africa is endowed with the infrastructure necessary to export efficiently, including access to roads and railways into Africa, and land or sea ports to move products and services throughout the globe. As a result, this study is partly motivated by the scarcity of empirical research surrounding EO and dynamic capability objectives in an African exporting context. Therefore, to address this issue and fill the existing gap in the literature, consideration of this research area regarding its application in the South African market environment was undertaken.

Firstly, as an efficiency-driven emerging economy, interest in South Africa has attracted considerable attention in more recent years (Eresia-Eke et al., 2019). Additionally, as a transition economy, commercial transactions in South Africa may provide global organizations with a rough blueprint with which they are able to develop strategic approaches for other African or transition economies, thus securing their own firm competitiveness. Understanding how SMEs from transition or emerging economies compete in the global environment may provide implications for other emerging, advanced, or even less developed nations.

Secondly, a further contribution of this study is its focus on the moderating role of dynamic capabilities in the relationship between EO and exporting performance. These capabilities have the potential in certain circumstances to enhance the relationship between EO and the export performance of SMEs (Koe, 2013). The inadequacy of current empirical evidence surrounding the topic suggests that although relationship-based capabilities may facilitate, and provide sustenance to the operations of entrepreneurial firms, not all relational connections complete this role in a corresponding fashion (Ahuja, 2000; Peng & Luo, 2000). Thus, for the entrepreneur, eloquence lies in the identification of the most fortuitous types of relationships, and a precise valuation of the surroundings under which

specific relationships boost, or pressure entrepreneurial behavior and performance (Lee et al., 2001).

Finally, the current study attends to the proposed gap in literature by attempting to understand the performance outcomes of dynamic capabilities in South Africa. Furthermore, an understanding of the implementation of these strategies by entrepreneurs from South Africa, may possibly assist practitioners and scholars in conceptualizing the thought process of firms from other African or emerging markets. Hence, this study proposes a substantial contribution to both researchers and industrial entities.

## 2. Literature Review and Hypotheses

According to the resource-based view (RBV), the success and sustainable competitive advantage of a firm is determined by the deployment of its unique resources and capabilities (Barney, 1991). The assumption of the RBV is that firms are conceptualized as a cluster of various productive resources and capabilities, whereupon a competitive advantage is determined by strategic positioning, and a clear industry strategy (Eisenhardt & Martin, 2000). Peng (2003) notes that all firms, regardless of their size possess resources and capabilities, which are separated into tangible and intangible categories. Despite its importance, a drawback of the RBV is its failure to factor in the dynamic nature of international markets (Luo, 2000). Building on the RBV, the dynamic capabilities view (DCV) represents a deviation from the traditional perspective that resource attainment, or possession is enough to contribute towards sustainable competitive advantage in the current business landscape. To facilitate this limitation, the DCV provides a means of addressing rapid changes in the global market (Teece et al., 1997). The DCV assumes that firm performance is a byproduct of the organizations ability to reconfigure, build upon, or integrate internal and external resources and competencies (Teece, 2007; Teece et al., 1997). For SMEs, the ability to enhance the impact of their resources presents an opportunity for success in foreign markets. This is due to the fact that many SMEs lack sufficient resources to compete against larger firms internationally (Martin & Javalgi, 2016; Nurhilalia et al., 2019). To better comprehend a firm's exploitation and application of its tangible and intangible resources during the strategy-making process, an entrepreneurial approach has been encouraged (Miller, 1983; Wiklund & Shepherd, 2005). Covin and Slevin (1991) posit that an attitude towards entrepreneurial behavior can be measured along a continuum based on a firm's conservative or more innovative approach to strategic behavior. This approach is particularly beneficial for smaller, or emerging market firms who lack the resources and capabilities necessary to

compete in the competitive global market (Covin & Wales, 2012). For SMEs, the efficient management of resources and capabilities during the internationalization process will help to reduce the liability of foreignness (Peng, Wang, & Jiang, 2009) and liability of smallness (Kim, 2020) while conducting commerce in new markets. Therefore, the DCV assigns a noticeable stance directed towards various entrepreneurial decision-makers in the organization, as these individuals articulate and enact competitive strategies in their commercial environment (Weerawardena et al., 2007).

With regards to the development of firm strategy, research into the orientation of organizations towards entrepreneurial behavior demands attention (Radulovich et al., 2018; Wiklund & Shepherd, 2005). The concept of EO refers to a strategy-making processes which provides SMEs with a basis for entrepreneurial decisions and actions (Lumpkin & Dess, 1996; Yi et al., 2018). As firms try to tackle the difficulties of foreign expansion, they are forced to develop strategies that would potentially mitigate any negative outcomes resulting from organizational resource inefficiencies. Therefore, strategy development, or the behaviors and processes associated with strategic decision-making form the basis of EO. In the context of the current study, as South African firms circumnavigated new and unfamiliar markets a consideration of the DCV provides an overarching holistic conclusion to the development of the model used in the study. This theory provided a means of explaining the interplay between various environmental conditions as the firm conducts business, providing a strategic routine by which an organization may achieve new resource configurations.

The DCV suggests that firms develop various combinations of competencies as a way of leveraging resources to capitalize on market opportunities (Luo, 2000). In South Africa, research has suggested that firms utilize various institutional relationship capabilities to develop firm success (Fatoki, 2014). So, as a result, the current study implements elements from both the resource-based view of resource acquisition, and dynamic capability theory, to evaluate the interaction between South African firm entrepreneurial orientation and export performance. SMEs, especially those emanating from emerging markets need to understand the procedures that assist organizations to achieve superior performance in relation to exporting. Although export performance as a reliant variable has been considered in an immense number of studies, it remains one of the few variables least understood in exporting literature and continues to present itself as an antagonistic area of research within international business (Katsikeas et al., 2000). Thereupon, an understanding of resource processing, and their effects on the development of commercial capabilities remains a relevant field of study, providing

implications for leaders, researchers, and other institutional mediators aiming to commit towards a firm's competitiveness and overall export performance outcomes. From these perspectives, this study suggests a research model, as shown in Figure 1.

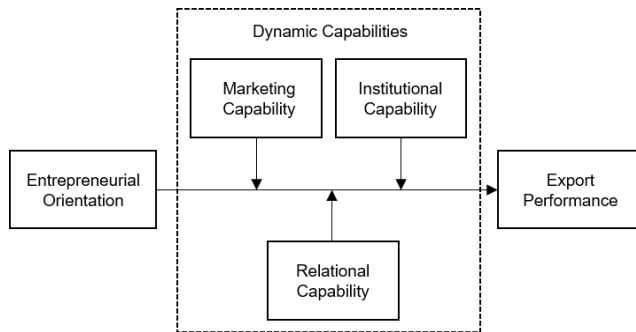


Figure 1: A Research Model

## 2.1. Entrepreneurial Orientation and Export Performance

The dynamic nature of the contemporary global business environment requires organizations to utilize their resources and capabilities as efficiently as possible (Wiklund & Shepherd, 2005). Characterized by its ambiguous nature, cross-border business requires firms to align their abilities with the global environment. Among these abilities, an orientation towards entrepreneurial behavior is encouraged. This alignment towards a firm's entrepreneurial abilities is reflected as a strategy-making procedure, illustrating an organization's willingness to focus on entrepreneurship (Shan et al., 2016). Receiving increasing scholarly attention owing to its impact on organizational innovativeness, risk-taking, and proactiveness as a strategic process, entrepreneurial orientation (EO) is habitually considered as a valuable prognosticator of business success (Kraus et al., 2012). Additionally, EO has been found to possess high explanatory power with consideration to the value creation process of SMEs when they undertake internationalization (Weerawardena et al., 2007). At its core, exporting is an act of entrepreneurial behavior as it entails exploiting opportunities that requires the acceptance of risk, while simultaneously being able to display innovative and proactive behaviors to achieve succeed (Langroudi et al., 2019; Wiklund & Shepherd, 2005). Several studies have shown EO's positive effect on a firm's performance when tasked with internationalization (Rosenbusch et al., 2013). These studies found that firms with higher EO are generally more likely to introduce unique product offerings in unknown foreign markets (Lumpkin & Dess, 1996; Shan et al., 2016).

In South Africa, a tendency towards entrepreneurial behavior may contribute further to the EO-export performance relationship. For example, according to the GEM (2019), physical, commercial, and legal infrastructure, in addition to entrepreneurial financing and R&D transfer have created an environment in South Africa that has encouraged EO behavior. In this context it is assumed that firms with stronger EO achieve greater success in export performance when internationalizing their enterprise (Radulovich et al., 2018; Thanos et al., 2016). For South African SMEs, EO provides an important capability to build their competitive advantage when exporting, as it facilitates new business opportunity identification and contributes to SME permanency and overall success (Thanos et al., 2016; Wiklund & Shepherd, 2005). A general progression towards accepting EO practices may thus have an impact on firm performance, providing further support for EO as being reflective of the firms' legitimate strategic selections (Rosenbusch et al., 2013). It would therefore appear that EO subscribes itself towards the improvement of export performance in South Africa. Therefore, using the EO framework as a means of providing a strong and logical explanation of the variance in export performance across various South African SMEs seems a logical progression (Lumpkin & Dess, 1996; Rauch et al., 2009). We therefore assume the following.

**H1:** Entrepreneurial orientation will positively influence export performance of South African SMEs

## 2.2. Dynamic Capabilities

For the vast majority of firms, an ability to address the vigorous global business environment and improve firm performance presents an anomaly. Therefore, firms need to develop various measures in which they are able to utilize their resources and competencies to manage environmental changes (Teece et al., 1997). According to Monteiro et al. (2017), dynamic capabilities form the basis of establishing the relationship between the resources of a firm, and the performance an organization is able to achieve. For many emerging market SMEs, the essential nature of these capabilities' importance lies in their relevance during the internationalization process of firms. The basic idea revolves around the extraction of economic benefits from current resources and the develop new capabilities. Thus, it takes organizational resources beyond their simple roles as stagnant sources of a competitive advantage, and instead, supports them to be utilized as important aspects of a sustainable, evolving advantage (Luo, 2000). For SMEs from emerging economies, gaining access to various capabilities would improve firm performance as these organizations internationalize due to the active and

fluctuating nature of the global marketplace. Dynamic capabilities could potentially provide firms with an aptitude to develop and implement organizational competencies (internal and external) when responding to changes in the commercial environment (Teece et al., 1997; Vu, 2020; Won, 2018). Hence, dynamic capabilities are credited with providing firms with sustainable advantages that may in theory lead to superior export performance over an extended period of time.

The South African market environment lends itself to the encouragement of SMEs utilizing dynamic capabilities. As an example, 'The South African National Consumer Protection Act (CPA)' has encouraged greater transparency between suppliers (both domestic and global) and consumers, promoting fairness, openness and good business practices. SMEs are able to leverage these benefits to build stronger relationships with consumers to enhance their marketing customer responsive capabilities. Likewise, institutions such as 'Broad-Based Black Economic Empowerment (B-BBEE)', which was a policy implemented by government in 2003/2004 encourages diversity in organizations. This policy has advanced social and business networking ties in the country, requiring SMEs to develop their relational-based capabilities as a means of obtaining state funding, access to public contracts, and procurement of market intelligence. Thus, the inclination of SMEs in South Africa to build upon market and relational-based capabilities affords these firms huge opportunities to compete globally as they are able to seize prospects through both formal and informal institutional capabilities. Support from well-established government agencies such as 'The Department of Trade and Industry (DTI)' allows SMEs to reconfiguring their business assets to maintain competitiveness during the internationalization process. Thus, three key dynamic capabilities are identified and discussed further based on their importance in the context of South Africa.

### 2.2.1. Marketing Capability

To differentiate themselves from their competitors, organizations aim to utilize their scarce resources in an effort to generate firm value and sustainable competitive advantages. To streamline the effective positioning regarding scarce marketing-based resources, much attention has been placed on the utilization of marketing capabilities (Hooley et al., 2005). Marketing capabilities can generally be defined as a multifaceted process that involves the assortment of market knowledge with various organizational resources to engender added value for the firm in the recreation of organizational goals and objectives (Vorhies & Morgan, 2005). These capabilities perform an essential role for the survival of firms. Typically, they fulfill the different types of market-related needs for an

organization. This assistance allows firms to focus on providing more value and to focus their energies on familiarizing themselves with changing market conditions (Vorhies, 1998).

Due to the difficulty in conceptualizing marketing capability owing to its rather broad scope, this study took an approach of utilizing current definitions of market capabilities to develop a contextually relevant definition. The importance of the customer-firm relationship for South African SMEs was considered. Therefore, the study defines marketing capability as the "responsiveness and efficiency of all cross-functional business processes in the creation and delivery of customer value in response to the export market challenges".

In emerging markets, marketing capabilities are a crucial element for leveraging SMEs positional strategic advantages, and for bringing about desired expectations for export performance (Zou et al., 1998). Thus, firms can improve their performance by focusing on various fundamentals of marketing capabilities such as customer responsiveness to support customer relationships in new markets (Martin & Javalgi, 2016; Weerawardena et al., 2007). As customer needs evolve, firms should monitor and respond effectively and quickly to changes in customer needs to achieve sustainable competitive advantages (Day, 1994). When an organization establishes relationships to align themselves with their customer's needs, a loyal and sustainable customer base may progress (Krasnikov & Jayachandran, 2008). South African SMEs are required by law to follow the guidelines set forth by the CPA. As a result of this, SMEs from the country follow a strict process of maintaining high quality and customer responsiveness to build trust with consumers abroad. As such, it was considered that marketing capabilities played a role in the relationship between EO and export performance. Thus, the following hypothesis was suggested.

**H2:** Marketing capabilities positively moderates the relationship between entrepreneurial orientation and export performance

### 2.2.2. Relational Capability

Relationships and networks remain the subject of analysis in internationalization literature, with special attention placed on SMEs, given the significance of these firms in having to overcome shortage of resources. Therefore, SMEs are required to exploit their resources as proficiently as possible in an effort to create benefits needed for survival (Weerawardena et al., 2007). In many emerging, or less developed nations, the ability of the firm to establish network ties constitutes an effective means with which SMEs can benefit in the market environment. Social capital theory provides a framework in which to better

understand this assumption. According to the theory of social capital; networking and social ties are seen as dynamic capabilities that provide smaller firms access to market information/intelligence, fewer administrative interruptions, and protection from environmental threats, thus allowing SMEs to leverage their available resources to achieve greater market success (Boso et al., 2013; Luo, 2000). Additionally, in emerging markets such as South Africa, institutional and other social network ties provide access to public funding and local resource allocations, as public officials in these markets are responsible for, and administer tighter control over state funding (Fatoki, 2014). The ideology of closer relationship ties in sub-Saharan Africa is echoed in the ‘Lewis Model’, made famous by Richard D. Lewis. In the model it is argued that populations from this region are considered to be ‘multi-active’ in nature, referring to these individuals as ‘particularists’, where people attach more importance to feelings, emotions and intuitions, and relationships and connections, over formal regulations.

In South Africa, export incentive schemes, although originally established by government agencies, act as networking opportunities for members involved. An example of this is the ‘Capital Project Feasibility Programme (CPFP)’ which acts as a cost-sharing platform for local exporters where eligibility is awarded through close networking ties with local South African companies. Likewise, the ‘Sector Specific Assistance Scheme (SSAS)’ acts as a financial support project where admissibility relies on the association to export councils, joint action groups and industry associations. In research conducted on the topic it was found that EO had a greater effect on enterprises able to develop relational associations, thus leading to general performance for the firms (Zhang & Zhang, 2012). As a result of these findings, this study looks deeper into the EO-performance relationship by trying to understand the individual moderating influences of relational capabilities on EO. We therefore propose the following.

**H3:** Relational capabilities positively moderates the relationship between entrepreneurial orientation and export performance

### 2.2.3. Institutional Capability

Unremittingly described as ‘the rules of the game’, institutions constitute a key protagonist in the global business environment (North, 1990; Peng, 2003). Additionally, they provide incentives and restrictions to economic players in the market. Researchers have therefore used institutional theory to explain firm behavior (Peng, 2003) as they provide the rules, norms, and routines that enable, and structure markets, and facilitate market-based exchanges (North, 1990). Institutions perform a critical role

in a market economy by supporting and facilitating the effective functioning of the market mechanism, such that SMEs can participate in market transactions without sustaining unwarranted costs or threats due to opportunistic behavior (Peng, 2003). Institutions enable collective human relations and greatly reduce the costs connected with market hesitations. They provide rules, thereby promoting smooth social relations and the effective exchange, and production of organizational services and/or products (Kumssa & Mbeche, 2004; Nantharath & Kang, 2019). Huang et al. (2017) concluded that the ability of organizations to adopt institutional relationships provides firms with a guideline for successful market practices, as well as offering new market organizations additional intangible resources to compete in the market.

In South Africa, institutions play a major role in the ability of SMEs to export. As with many emerging nations, resource scarcity requires firms to partner with, or receive assistance from government organizations. In South Africa the DTI acts as the primary institutional player for SMEs hoping to improve their export performance. The DTI has established a scheme known as the ‘Export Marketing and Investment Assistance (EMIA)’. This organization compensates exporters for various costs involved in developing export markets for South African products and services. The EMIA offers financial assistance, market research, trade missions, and international exhibition showcasing as incentives to exporters, helping them to leverage these capabilities. These institutions, to a large extent, therefore dictate the ability of organizations to display innovative, proactive, or risk-taking behavior, which is influenced by the nature of the institutional environment in which SMEs operate. Consequently, when the institutional environment is observed to be business-friendly, transparent and supportive, firms are more likely to be efficient, innovative and competitive in nature (Roxas & Chadee, 2013). Strong institutions support exchanges, thus sustaining effective market mechanisms, while weak institutions undermine market effectiveness. Institutional capabilities affect value creation as well as the profitability of firms (Luo, 2000). With regards to global business opportunities, the role of formal and informal cross-border relationships may potentially develop relationship-specific assets. These key institutional relationships in South Africa provide the impetus for many SMEs to utilize their capabilities when aiming to create above average returns or improving export performance. Thus we draw the following conclusion based on the South African institutional environment.

**H4:** Institutional capabilities positively moderates the relationship between entrepreneurial orientation and export performance

### 3. Methodology

#### 3.1. Data Collection and Sampling

We examine the hypothesized framework with a sample of South African SME's identified as meeting the requirements set forth in the study. Questionnaires were sent out primarily using two techniques. These methods included offline mailing and online email requests. In an effort to improve the response rate of the sample, three interviewers were trained and sent out to administer the questionnaires directly through face-to-face interviews. In addition to understanding the background references, the interviewers had been briefed on the objectives of this study and trained in interviewing techniques. The questionnaire was based on previous studies on firms' capabilities and entrepreneurial orientation (EO), and then modified according to the authentic conditions of South African. To reduce the chances of sampling errors stratified sampling was applied to classify the South African SMEs based on their region and sector in order to cover a wider range of participants (Hair et al., 2010).

The sample frame was accessed from a list of 1,050 South African exporting firms, selected from two business

directories; The Kompas Database and the Export-South Africa database). These firms included SMEs selling durable (20.4%), non-durable (28.5%), industrial (42.7%), and service (8.4%) products. Firms meeting the initial requirements of the study were contacted, via telephone and informed about the nature of the study, and asked to participate. Following the telephone conversations, a group of roughly 600 firms were approached using the techniques described earlier. These firms were located mostly in the Western and Eastern Cape, and Gauteng regions of the country. Individuals in each of these firms were identified who had firsthand knowledge related to the SMEs exporting procedures and entrepreneurial actions. As expected, these individuals comprised mostly of SME owners or senior managers. Initially, 280 questionnaires were obtained from the 600 companies contacted in the beginning of the study. After eliminating questionnaires due to missing data, unengaged responses, and outliers on continuous variables, data from 225 SMEs that responded to the request to take part in our study were obtained. The characteristics of SMEs involved in the study were summary and a detailed overview is given in Table 1.

**Table 1:** Sample Characteristics

Firm Size (number of employees)	Frequency (%)	Export Intensity (%)	Frequency (%)	Firm Age (years)	Frequency (%)
Below 10	9.7	Below 20	7.2	0-5	9.8
11-50	52.9	20-49	41.3	6-10	22.2
51-150	23.1	50-80	41.3	11-15	20.4
151-250	14.3	81-100	10.2	Above 15	47.6

#### 3.2. Measures of Constructs

The questionnaire adopted for this study was divided into two sections. Section one was used to collect data regarding firm information. This includes firm size, firm age, and industry based on product type. The second part of the questionnaire collected firm information regarding entrepreneurial orientation, relational capability, institutional capability, marketing capability, and export performance. The study used variables in the analysis drawn from previously validated instruments and modified to make them relevant to the business context in South Africa, measuring these variables on a five-point Likert-type scale, ranging from 1 (strongly disagree) to 5 (strongly agree). A pretest assessed the suitability scales and the extent to which measures represented all facets of the constructs.

Export performance is an important area of research and its measurement has been discussed and debated in

previous studies (Katsikeas et al., 2000). Consistent with the literature (Lages et al., 2008), export performance includes economic, strategic, and competitive export performance features. The items used to operationalize export performance were developed on the basis of existing literature and adapted to better match the study context. The concept of the current study adapted eight-items which captured features such as, growth, profitability, customer satisfaction, and the strategic dimensions of export performance, measured through the export manager's (or top-level managers with knowledge related to the study outcomes) degree of satisfaction (scored from 1 = very unsatisfied to 5 = very satisfied) in the previous three years (Sousa et al., 2010; Zou et al., 1998).

The EO measure was a modified version of the widely accepted scale developed by Miller (1983). The scale measures three component including, innovativeness, proactiveness and risk-taking (Covin & Slevin, 1991; Gupta & Batra, 2016; Rauch et al., 2009). The twelve items

related to the three dimensions of EO were measured on a five-point Likert scale where respondents were asked to provide answers referring to their previous three years of commercial operations. Relational capabilities encompass elements of partnership relational capabilities while institutional capability included items focused on regulatory institutional-based relational capabilities. Relational capability comprised of five items and was used to capture the social dimension of a firm's relationships with their export partners (Kale et al., 2000). Institutional capability

measured the quality of relationships between the firm and various government agencies, financial institutions and other business firms when undertaking activities related to exporting, using five items to measure the construct (Roxas & Chadee, 2013). Marketing capability captured the perspective of customer responsiveness using five items based on various measures of customer responsiveness in the extensive market capability literature (Hooley et al., 2005; Jayachandran et al., 2004). More detailed items appear in Table 2.

**Table 2:** Measurement model results

Scale and items	Loadings	t-value	Scale and items	Loadings	t-value
Export Performance ( $\alpha = .900$ ; CR= .900; AVE= .531)			Marketing capability ( $\alpha = .948$ ; CR= .948; AVE= .788)		
Profitability	.743	12.611	Customer satisfaction to build relationships	.766	21.905
Volume of sales	.691	11.680	New methods to meet customer needs	.767	19.947
Growth in export market	.714	10.293	Well-defined strategy to increase value	.761	18.553
Return on investment	.748	11.637	Respond to changes in customer needs	.791	20.453
Strategic positioning	.807	11.542	New technology to meet customer needs	.769	*
Global market share	.726	11.345	Relational capability ( $\alpha = .948$ ; CR= .948; AVE= .785)		
Global competitiveness	.707	13.229	Interaction between a firm and partners	.770	19.074
Export activity satisfaction/expectation	.741	*	Partner relationship by mutual respect	.815	19.591
Entrepreneurial orientation ( $\alpha = .908$ ; CR= .783; AVE= .546)			Partner relationship by mutual trust	.762	19.881
A risk taker as a positive characteristic	.786	*	Personal friendship with export partners	.765	19.386
Encourage risks-taking with new ideas	.764	16.561	High degree of reciprocity with partners	.803	*
Explore and test business opportunities	.788	15.521	Institutional capability ( $\alpha = .951$ ; CR= .951; AVE= .796)		
Tolerance for high risk projects	.755	17.909	Government agencies relevant to exporting	.814	20.360
Taking initiative in every situation	.691	*	Financial institution support	.804	18.176
Excel at identifying opportunities	.694	14.845	Associations to access information	.816	21.652
Exploit anticipated changes	.763	12.961	Relationships with logistics firms	.809	21.803
Contact suppliers or customers	.756	13.446	Private company relations	.797	*
Introduce improvements and innovations	.740	*			
Create methods of operation	.717	13.670			
Seek out new ways to do things	.723	13.411			
Experimenting with new products	.740	14.082			

Note: AVE=average variance extracted; CR=composite reliability

We included four control variables in the study to ensure proper model description, while taking into account likely alternative elucidations for export performance variations. The control variables under review in the current study are international experience, technological turbulence,

customer turbulence (sometimes referred to as market turbulence), and competitive intensity. The latter three external environmental control variables were added to the study as an additional way of testing and explaining the complexities encountered by South African SMEs when



exporting. International experience was measured by the number of foreign markets entered by the South African SME in question. Competition intensity is measured with the following three items: There is substantial competition among companies in our export markets; new competitors enter these export markets regularly; and, competition is intense in our export markets (Kohli et al., 1993). Customer turbulence is measured using three items: Our customers regularly look for new products and services; It is difficult to monitor customer demands; Customers' product preferences change quite a bit (Zahra & Covin, 1995). Technological turbulence is measured with the following three items: The technology in our industry is changing rapidly; Technological changes offer limited opportunities in our industry; Technological breakthroughs make new product ideas a challenge (Kohli et al., 1993).

## 4. Analysis and Results

### 4.1. Measure Validation

To test the variables used in this study, both an

exploratory factor analysis (EFA) and a confirmatory factor analysis (CFA) were incorporated. SPSS 26.0 was used to perform the EFA. Following the EFA, the current study conducted a CFA using AMOS 20.0. The EFA was utilized to test the adequacy, reliability, and validity of the variables (as per Table 2). The CFA was used to determine model fit, as well as convergent and discriminant validity, and reliability. To test the reliability and validity of measures, the current measurement model uses AMOS 20.0 and included all multiple item scales and covariates. Through the CFA, the measurement model provides an acceptable fit to the data:  $\chi^2_{(454)}=716.579$ ,  $p<.001$ , AGFI=.866, SRMR=.0409, GFI=.883, TLI=.998, CFI=.998, and RMSEA=.009. Table 2 showed standardized factor loadings and t-values which were confirmed convergent validity of our measures. Results also showed that alpha reliability, composite reliability and average variance extracted of the variables, which are shown to be acceptable (Hair et al., 2010). Table 3 presents the descriptive statistics and correlations. In addition, we assessed the variance inflation factor (VIF) values and found no significant multicollinearity problems (VIF ranged from 1.796 to 2.268).

**Table 3:** Descriptive Statistics and Correlations

	Mean	SD	1	2	3	4	5	6	7	8
1. Technological turbulence	3.549	.9104	--							
2. Customer turbulence	3.545	.8603	.296**	--						
3. Competitive intensity	3.687	.9373	.182**	.290**	--					
4. International experience	2.257	.7116	-.159*	-.240**	-.140*	--				
5. Export performance	3.785	.6381	-.326**	-.340**	-.314**	.525**	--			
6. Entrepreneurial orientation	3.908	.7127	-.239**	-.176**	-.234**	.393**	.599**	--		
7. Relational capability	3.907	1.008	-.105	-.094	-.143*	.127	.225**	.652**	--	
8. Marketing capability	3.885	1.065	-.104	-.061	-.145*	.226**	.320**	.702**	.653**	--
9. Institutional capability	3.949	1.108	-.147*	-.168*	-.103	.112	.256**	.619**	.635**	.609**

Note: \*  $p < .05$ ; \*\*  $p < .01$

### 4.2. Assessing Common Method Variance

A further issue found when conducting survey approach relates to common method bias. Researchers agree that common method variance, or the variance attributable to the measurement method rather than to the constructs the measures represent, remains a potential problem in behavioral research (Podsakoff et al., 2003). A Harman's single-factor test was performed running an un-rotated EFA of all items selected for the study model by constraining the number of factors to one (Fuller et al., 2016). The results indicate that a single factor 40.885% explains less than 50% of the variance, therefore, although this may be

considered high, we may assume common method bias did not exist.

### 4.3. Test of Hypotheses

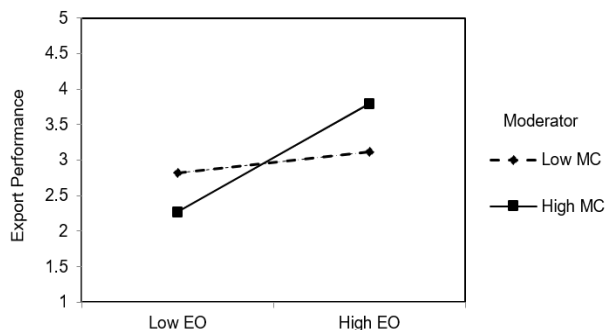
To test the hypotheses, a hierarchical linear regression analysis was incorporated to estimate the research model. As shown in Table 4, EO is positively associated with export performance ( $\beta=0.402$ ,  $p<0.001$ ;  $\beta=0.603$ ,  $p<0.001$ ;  $\beta=0.555$ ,  $p<0.001$ ). Thus, Hypothesis 1 is supported. These findings provide further evidence to support the importance of EO as a strategic making process that contributes to export performance for South African SMEs.

**Table 4:** Results of the Regression Analyses with Interactions

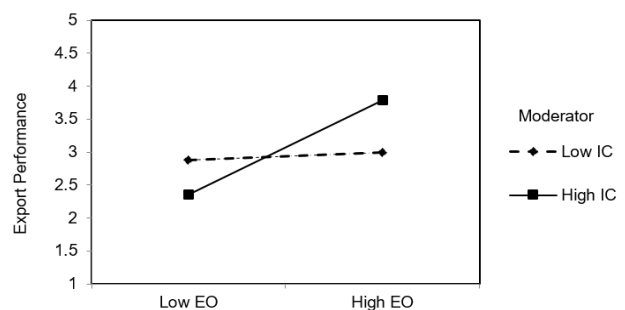
	Model 1	Model 2	Model 3	Model 4
Technology Turbulence	-.185**(-3.331)	-.123*(-2.451)	-.112*(-2.265)	-.095*(-2.152)
Customer Turbulence	-.126*(-2.183)	-.126*(-2.439)	-.133*(-2.601)	-.109*(-2.361)
Competition Intensity	-.182**(-3.278)	-.119*(-2.371)	-.115*(-2.345)	-.079+(-1.775)
International Experience	.439*** (8.051)	.300*** (5.776)	.262*** (5.012)	.151** (3.073)
Entrepreneurial Orientation		.402*** (7.618)	.603*** (7.656)	.555*** (7.733)
Marketing Capability			-.052(-.733)	-.096(-1.268)
Relational Capability			-.173**(-2.509)	.099(1.325)
Institutional Capability			-.056(-.848)	.100(1.352)
Entrepreneurial orientation x Marketing capability				.229*** (3.956)
Entrepreneurial orientation x Relational Capability				.085(1.412)
Entrepreneurial orientation x Institutional Capability				.248*** (4.208)
$\Delta R^2$	.391***	.128***	.028*	.096***
R <sup>2</sup>	.391	.518	.546	.642
Adjusted R <sup>2</sup>	.380	.507	.530	.624
Incremental F	35.274***	47.144***	32.529***	34.779***

Note: + p < .10; \* p < .05; \*\* p < .01; \*\*\* p < .001

Hypothesis 2, proposing that MC would moderate the relationship between EO and firm export performance was tested. This was supported as the significant interaction between EO and MC was positive ( $\beta=0.229$ ,  $p<0.001$ ). Thus, Hypothesis 2 was supported. As shown in Figure 2, the two lines in each moderation graph indicate a positive relationship between the predictors and criterion. The two lines are not parallel, meaning that the moderating effects of marketing capability exists. Marketing capabilities are fundamentally important for firms seeking market position. They provide the processes by which firms select intended value propositions for target customers and deploy resources to deliver offerings. As such, they complement a firms EO resulting in improved levels of export performance.



**Figure 2:** Moderation of Marketing Capability



**Figure 3:** Moderation of Institutional Capability

Hypothesis 3 which focused on the moderating effect of relational capabilities in the EO-EP relationship showed insignificant findings ( $\beta=.085$ , n.s.). A possible brief explanation for this result may be attributed to the belief that relational capabilities in many African countries are nothing more than ‘roadblocks’ preventing greater firm productivity, as they involve opportunistic behavior between individuals, ultimately leading to inefficiencies in firm operations and higher transaction costs (Boso et al., 2013; Fatoki, 2014). Hypothesis 4, proposing that IC moderates the relationship between EO and firm export performance, was supported as the significant interaction between EO and IC was positively related ( $\beta=0.248$ ,  $p<0.001$ ). Thus, Hypothesis 4 was supported. Illustration effects in Figure 3, shows the relationship between EO and export performance for high and low values of institutional

capability. When IC is high, the relationship between innovativeness and export performance is positive; when IC is low, innovativeness has virtually no relationship to export performance.

## 5. Discussions

### 5.1. Research Implications

Recent events (pandemics and trade wars) in the global environment have called into question the interconnectedness of nations. As a result, barriers to trade have increased among nations. However, this protectionist mindset remains shortsighted with consideration to global economic development. The importance of internationalization can therefore not be understated. From this perspective, small and medium-sized enterprises are considered an important engine for economic growth in terms of their positive effects on employment and the gross domestic product in a country. Despite the economic significance of SMEs in many economies, we still do not understand well enough how smaller firms should manage their activities with limited resources in order for these firms to achieve optimal exporting performance. Thus, and consistent with previous research, a key feature of the current study is focused on understanding the EO effect on SME export performance, in the context of South Africa (Chen et al., 2016). Additionally, an inimitable contribution of this paper is its sympathizing focus on relationship-based capabilities as a way of understanding SME export performance.

Generally, EO is considered to have a positive impact on export performance, however, the considerable variation in the literature (Rauch et al., 2009) when testing this relationship demands that a more extensive approach need to be utilized in understanding how and when EO contributes to performance (Lechner & Gudmundsson, 2014). Consequently, this study was motivated by the aforementioned mixed findings on the effect of EO dimensions on firm export performance, as well as by the disproportionately higher focus of research on large firms in previous studies. A review of available research shows that the majority of the literature on EO and performance has been conducted in developed nations (Lages & Lages, 2004), while relatively less research has been conducted on this topic in emerging nations (Kropp et al., 2006). As a consequence, the study outcomes carry additional weight. Results from the current study, as shown in Table 4, illustrate the massive importance of EO in South Africa.

With reference to the moderating effects of the various relationship-based capabilities available to South African firms, several important assumptions can be made. Firstly,

as direct effects, these capabilities do little to stimulate export performance in South Africa. Additionally, SME performance is negatively influenced by certain capabilities. However, relying on these main effect relationships provides an incomplete understanding of SME export performance. A greater understanding can be gained by the concomitant consideration of capabilities and EO as harmonizing interactions, complementing one another. This finding provides supplementary evidence to support the argument concerning the applicability, and equal value of relationship capabilities as they facilitate the performance of entrepreneurial firms. It seems that for SMEs in South Africa, certain capabilities enable these firms to coordinate and make better use of key resources. As moderating effects, two of the relationship-based capabilities tested in the current study displayed significant moderation between EO and EP. This may be attributed to the unique nature of the South African market as discussed in the literature review. Additionally, the collective cultural nature of South Africans could lend itself to these types of capabilities becoming prominent. The significance of institutional and marketing capabilities in South Africa seems to be thanks in part to the efforts of certain government organizations willingness to create environments within the country conducive to organizational growth. This process allows for a greater number of firms to access funding when expanding their operations. According to the GEM (2019), since 2016 more than twelve thousand SMEs in South Africa had received funding valued close to R1.0 billion through the Jobs Fund projects. In addition to this the National Treasury along with certain private-sector organizations had committed a combined R1.6 billion to 18 enterprise development projects to help small businesses to create roughly 70,000 permanent jobs. The funding was provided for business support, incubation, and for the purchase of machinery and equipment to compete globally. Furthermore, these projects also included opportunities for market research as a way of understanding foreign prospective clients and assist in building marketing capabilities for South African SMEs. However, one of the capabilities did not show a significant relationship in the study (relational capability,  $\beta=0.085$ , n.s.). Not all agreement associated with the existence of network position and relationships are conducive to firm performance (Ahuja, 2000). For example, relational capabilities on their own may lead to more opportunistic behavior which could potentially increase transaction costs (Peng, 2003). A further factor which could be attributed to the failure of relational capabilities providing satisfactory support for the relationship between EO and EP may lie in a conflict of interests between the parties involved. Fatoki (2014) found that when SMEs in South Africa were involved in expanding their business operations, relational

capabilities were sometimes hampered by a lack of communication, trust, information sharing, or shared vision among the actors involved. SMEs are often forced into a position where they lose sovereignty of certain business operations when pairing themselves with export partners more familiar with the general processes of internationalization. Likewise, many South African SMEs, because of this lack of exporting knowledge, rely on alternative exporting firms to indirectly export on their behalf (Kropp et al., 2006). This process has the undesirable effect of involving the SME in the exporting process less and less, resulting in relationships that never really mature, and end prematurely (Kumssa & Mbeche, 2004).

In conclusion, the findings of this study further show that relying exclusively on the main effects of the relationships between EO and export performance provides an incomplete picture of SME export performance in South Africa as many capabilities contribute to the relationship through their moderating effects. For many emerging countries, the importance of building and sustaining small businesses that contribute to the local economy and create jobs cannot be understated. Therefore, the development of dynamic capabilities provides a tool for sustainable growth, success, and development opportunities for South Africa as they foster economic and social development in South Africa; contributing significantly to both GDP and employment. In conclusion, it is hoped that the findings of this study would direct greater consideration towards the value of social relationships through which entrepreneurially oriented firms achieve improved export performance. This work offers an attempt to advance an understanding of the role of social interchanging mechanisms, and provides an understanding as to how firms can interpret their entrepreneurial posture to realize a stronger market positioning and sustained success. It appears that implementing EO and actualizing its full potential cannot be achieved through improvised manipulations of any single firm factor in isolation (Kollmann & Stöckmann, 2014). Rather, it is important that various capabilities are holistically aligned with the dimensions of EO, as a more complete understanding of EO arises from using a configurational approach, especially those that involve EO characteristics. Additionally, this study thus provides a transparent means for emerging market SMEs to improve export performance. As firms develop or improve their organizational EO, certain relationships may lead to superior outcomes for the firms. As an example, SMEs in South Africa focused on a propensity towards risk-taking would benefit greatly from institutional relationship building, while organizations attentive to innovativeness may well consider closer ties with consumer groups, and smaller firms looking to use strategic autonomy to improve performance may well

endow their interest in building relations with other exporting partners.

## 5.2. Limitations and Future Research

Within the current study, we acknowledge the existence of several limitations, whose consideration may offer opportunities for further research. Although our study provides a novel insight into the nature of the EO-export performance relationship, where a focus has been placed on organizational relational capabilities, as they moderate the relationship between EO and performance, some restrictions are noted. Other relevant organizational factors or capabilities not incorporated in the current study could have provided better indicators of performance. These indicators, when incorporated into the conceptual model, may have yielded superior results. This study is confined to SMEs in South Africa only, implying that the interactive relationships between the variables studied might be dissimilar for large-scale companies. With regards to the collection of data, where a self-report questionnaire was administered to obtain performance measures, certain limitations are acknowledged. While we undertook several measures to exclude biases in answering behavior, the measures still capture individuals' perceptions, which can misrepresent reality. Future research may seek to utilize objective performance indicators when conducting research. Related to the empirical approach relying on responses from owner/managers, the study could not investigate the perspective of employees and other stakeholders. Consequently, future studies may focus on interviews of various stakeholders that includes a panel studies where the diverse context may produce rather intuitive findings. Relating to data collection, the current study utilizes cross-sectional data. In future studies, longitudinal data could be helpful to test the true causality of the model present in this study, or other EO research.

Another point worth mentioning is the status of the firm taking part in the study. EO studies are almost always conducted on organizations currently in operation. Therefore, the dimensions selected for improved performance in some industries may be the very same dimensions which led to organizational in others. It is also suggested that EO might tend to maximize the upside and not reduce the downside for SMEs (Lechner & Gudmundsson, 2014). Thus, future studies may consider comparative studies based on an organization's status of survival. Future research should also investigate whether the dimensions of EO are always present. Consequently, as a final thought, this study calls for more research to be conducted where the focus of research moves towards configurational models, particularly those that involve the multi-dimensions of EO.

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