



**Faculty of Technology Management and Technopreneurship**

**MANAGERIAL CAPABILITIES, LEARNING ORIENTATION AND  
INTERNATIONAL FIRM PERFORMANCE OF MALAYSIAN  
HALAL SMEs**

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**MANAGERIAL CAPABILITIES, LEARNING ORIENTATION  
AND INTERNATIONAL PERFORMANCE OF MALAYSIAN HALAL SMEs**

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**A thesis submitted  
in fulfillment of the requirements for the degree of Doctor of Philosophy**



**UNIVERSITI TEKNIKAL MALAYSIA MELAKA**

**2023**

## DECLARATION

I declare that this thesis entitled “Managerial Capabilities, Learning Orientation and International Performance of Malaysian Halal SMEs” is the result of my own research except as cited in the references. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

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## APPROVAL

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## DEDICATION

This thesis is dedicated to all my friends that are undergoing obstacles during our PhD journey. There will always be a rainbow after the rain.

“If we can’t stand the fatigue of studying, then we will bear the pain of ignorance.”

- Imam Shafi’i



## ABSTRACT

Halal industry has become a new competitive advantage especially for Muslim countries especially Malaysia, where small medium enterprises (SMEs) export of halal product is one of important contributions to the national income. In ensuring the sustainability of SMEs in the international market, SMEs needs to develop its internal capabilities especially managerial capabilities in facing uncertain environment internationally with the intervention of learning orientation as organisational culture. Thus, this research was conducted to examine the mediating effect of learning orientation between managerial capabilities and international performance of SMEs in halal industry. This study is a quantitative, cross-sectional study. Purposive sampling was used as the sampling method where sample was selected based on 4 criteria; SMEs, manufacturer, obtained Malaysia Halal certification, and at least must export their halal product. A response from 136 top management team from participating firms were analyse using PLS-SEM. There is a mixed result of learning orientation as a mediator in the relationship between managerial capabilities (foreign market knowledge (FK), international experience (IE), international entrepreneurial orientation (IEO), global mindset (GM)) and international firm performance (IFP). Learning orientation act as a full mediator in the relationship between FK and IEO with international performance, while acting as partial mediator in the relationship between IEO and GM with international performance. Direct relationship occurs in all variables except for FK and IEO towards international performance. The insignificant direct relationship between FK and IEO towards IFP is due to the different performance measurement used in this study compare to previous research. Operating in emerging countries does not require much innovation while there is a tendency that the use of indicators selected especially for financial performance measurement resulted in different effect on the IEO to performance relationship. This study shows that learning orientation help SMEs in halal industry to transfer tacit knowledge embedded in managerial capabilities to the whole organization, thus can perform better internationally. Theoretically, this study contributes in specifying resources fit under Resourced Based View theory and confirmed the use of the theory to increase performance of SMEs in global halal industry.

## **KEMAMPUAN PENGURUSAN, ORIENTASI PEMBELAJARAN DAN PRESTASI FIRMA ANTARABANGSA TERHADAP PKS HALAL DI MALAYSIA**

### **ABSTRAK**

*Industri halal telah menjadi kelebihan daya saing baharu khususnya bagi negara Islam khususnya Malaysia, di mana eksport produk halal oleh perusahaan kecil sederhana (PKS) merupakan salah satu sumbangan penting kepada pendapatan negara. Dalam memastikan kemampuan PKS di pasaran antarabangsa, PKS perlu membangunkan keupayaan dalaman terutamanya keupayaan pengurusan untuk menyediakan diri dalam menghadapi persekitaran yang tidak menentu di peringkat antarabangsa dengan campur tangan orientasi pembelajaran sebagai budaya organisasi. Justeru, kajian ini dijalankan untuk mengkaji kesan pengantaraan orientasi pembelajaran antara keupayaan pengurusan dan prestasi antarabangsa PKS dalam industri halal. Kajian ini adalah kajian kuantitatif dan bersifat keratan rentas. Persampelan bertujuan digunakan sebagai kaedah persampelan di mana sampel dipilih berdasarkan 4 kriteria; PKS, pengilang, mendapat pensijilan Halal Malaysia, dan sekurang-kurangnya mesti mengeksport produk halal mereka. Maklum balas daripada 136 pasukan pengurusan tertinggi daripada firma yang mengambil bahagian telah dianalisis menggunakan PLS-SEM. Terdapat dapatan yang bercampur terhadap orientasi pembelajaran sebagai pengantara dalam hubungan antara keupayaan pengurusan (pengetahuan pasaran asing (FK), pengalaman antarabangsa (IE), orientasi keusahawanan antarabangsa (IEO), minda global (GM)) dan prestasi firma antarabangsa. Orientasi pembelajaran bertindak sebagai pengantara penuh dalam hubungan antara FK dan IEO dengan prestasi antarabangsa, sementara bertindak sebagai pengantara separa dalam hubungan antara IEO dan GM dengan prestasi antarabangsa. Hubungan langsung berlaku dalam semua pembolehubah kecuali FK dan IEO terhadap prestasi antarabangsa. Hubungan langsung yang tidak signifikan antara FK dan IEO terhadap IFP disebabkan oleh pengukuran prestasi yang digunapakai berbeza dengan kajian terdahulu. Pengoperasian di negara sedang pesat membangun tidak memerlukan banyak inovasi manakala terdapat kecenderungan bahawa penggunaan penunjuk yang dipilih terutamanya untuk pengukuran prestasi kewangan menghasilkan kesan yang berbeza terhadap hubungan IEO dengan prestasi. Kajian ini menunjukkan bahawa orientasi pembelajaran membantu PKS dalam industri halal untuk memindahkan pengetahuan tersirat yang tertanam dalam keupayaan pengurusan kepada seluruh organisasi, sekali gus boleh menunjukkan prestasi yang lebih baik di peringkat antarabangsa. Secara teorinya, kajian ini menyumbang dalam menentukan kesesuaian sumber di bawah teori Resourced Based View dan mengesahkan penggunaan teori untuk meningkatkan prestasi PKS dalam industri halal global.*

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## CHAPTER 1

### INTRODUCTION

It has always been the dream of any organization to be renowned globally, regardless of its size. Global expansion allows an organization to access a wider market, thus enjoying more profits and more importantly being sustainable in the industry.

However, due to their size, small and medium enterprises (SMEs) often face difficulties growing. Moreover, big firms and SMEs differ in terms of communication patterns, centralization, and constraints in resources that can be leveraged across markets to build reputation (Fernández-Olmos and Díez-Vial, 2013). Yet, the study by Kalinić (2010) on traditional SMEs in Italy, which had limited international experience, proves that organizations can successfully increase their export percentage by up to 20% after their first process of internationalization. Expanding the market to a larger geographic area promises two benefits to small medium enterprises: lengthening the market saturation process, and in being less vulnerable to demand fluctuations (Karush and Samii, 2004). These benefits are not only advantageous to SMEs, but also contribute to the country's income.

In realizing the importance of the contribution of SMEs to the national income, Malaysia has incessantly included SMEs as part of the country's development agenda. This can be seen in the Shared Prosperity Vision 2030 which aims to strengthen political stability, enhance the nation's prosperity, and ensure that the citizens are united whilst celebrating ethnic and cultural diversity as the foundation of the nation state. Among the eight strategies recommended, the key economic growth activities (KEGA) 5, which is 'Association of Southeast Asian Nations (ASEAN) Hub', and KEGA 6 which is 'Halal and Food Hubs', directly focus on the SME development and the halal industry. KEGA 5 targets on expanding

Malaysian goods and services over the ASEAN region by operating as ASEAN hubs. Twelve activities with the potential to be developed as ASEAN Hubs are (i) logistics, (ii) financial technology and Islamic financial technology, (iii) law and arbitration, (iv) halal industry, (v) high skilled human capital, (vi) digital platforms, (vii) maritime trade, (viii) ASEAN lifestyle, (ix) animation and digital content industry, (x) Asian tourism, (xi) health tourism, and (xii) gas trading market. The importance of developing Halal and Food Hubs is once again highlighted in KEGA 6. Malaysia is seeking to develop food hubs which are globally accepted and which carry the JAKIM halal standard. This will help boost Malaysia's halal industry (Ministry of Economic Affairs Malaysia, 2019).

The SME Master Plan (2012-2020) was drawn up in support of the development agenda to determine the direction of SMEs in Malaysia. Based on the SMEs' performance in 2018, from RM1,361.5 billion of Malaysian gross domestic product (GDP), 38.3% were contributed by SMEs (Small and Medium Enterprises (SMEs) Performance to GDP 2018, 2019). The new SME Development Framework (National SME Development Council, 2011) includes the country's vision to create globally competitive SMEs across all sectors (agriculture, electrical and electronics, healthcare, communications content and infrastructure, education, palm oil, wholesale and retail, tourism, financial services, business services, oil, and gas and energy) that can enhance wealth creation and contribute to the social well-being of the nation. This indicates Malaysia's desire for SMEs that can compete internationally. For example, the Going Export Programme (GoExp) that directly drives SMEs towards internationalization and the Catalyst Programme that prepares SMEs to go global are among the initiatives in the SME Master Plan 2012-2020 (National SME Development Council, 2011). All these strategies affirm the essential role that internationalization of SMEs play to boost Malaysia's income.

Entering the international market would also benefit the country at the macro level and the firms at the micro level. The push to enter the international markets becomes ever more compelling with the emerging halal market, the establishment of the ASEAN Economic Community (AEC) and several memorandums of understanding (MOUs) with big economies like China.

As Malaysia is a part of the AEC community, the process of internationalization involving nearby countries is no longer an issue. With the Muslim population worldwide set to grow at a doubling rate from 1.8 billion in 2010 (Halal Industry Development Corporation, 2012), the halal export is thus forecasted to increase in tandem to RM 50 billion in 2020. Currently, JAKIM's halal certification is recognized in 42 countries. This recognition at international platforms ("NST Leader : A thought starter, should Jakim go global ?, 2019"), as well as the potential internationalization of JAKIM presents Malaysia with a huge opportunity to affirm itself as a major player in the halal industry with a promising market around the world. Even so, at present, there is a lack of serious discussion on the impact of the value of products that are registered as halal (Mazlan and Hamzah, 2015). It can be said that the increase in the global Muslim population and the rise of international recognition of the Malaysia halal certification can be the push factor for Malaysian SMEs go international.

## **1.1 Background of the study**

### **1.1.1 International performance of SMEs**

Internationalization is always related to a country's gross domestic product (GDP), which measures the country's economic size. As firms began to internationalize and perform well abroad, countries also gain benefit in terms of income. Performance from international operations is often referred as performance/international performance (Usmanova et al.,

2021) and degree of internationalization (DOI)/internationalization intensity (Domagała, 2021). Nevertheless, the country's economic growth are the impacts of export and import values (Ali et al., 2018). Since SMEs account for the bulk of manufacturing companies (98.5%) and a major part of employment (42%), internationalization of SMEs has become important agenda in Malaysia.

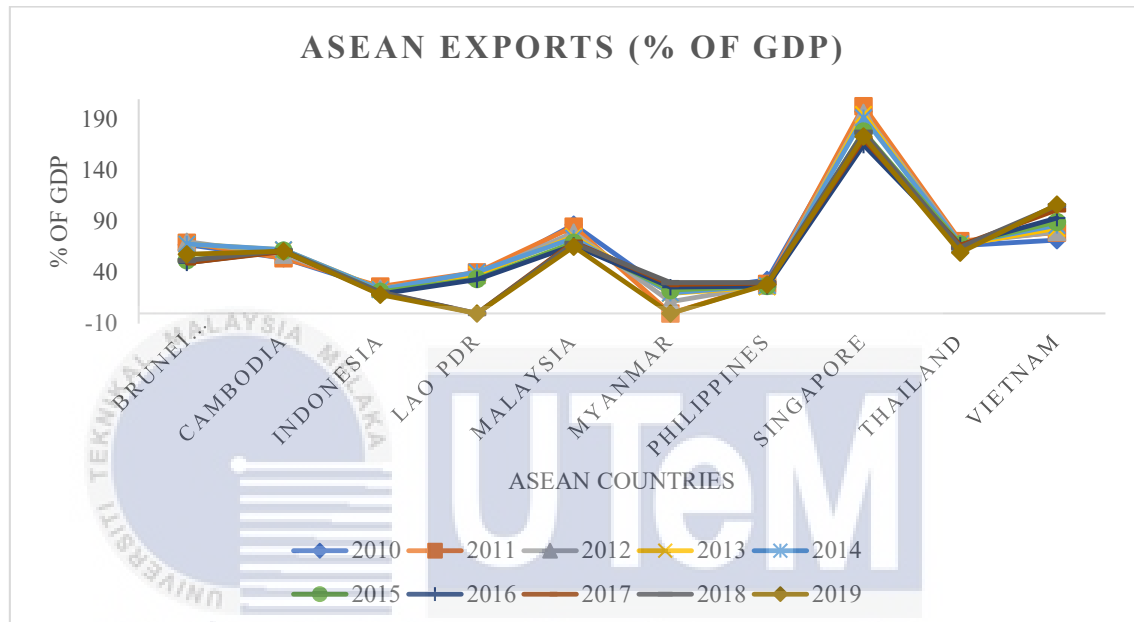


Figure 1.1: ASEAN export 2010-2019

Sources: World Development Indicators

However, even though SMEs conquer most of the Malaysian market, its contribution to export is still not at a satisfactory level. Figure 1.1 shows the percentage of ASEAN exports per GDP for past 10 years (2010-2019). It indicates that till 2019, Malaysia still not able to overtake Singapore or Vietnam despite the small fluctuation. Government have continuously focus and give assistance to boost the export level, yet Malaysia cannot beat small countries like Singapore and Vietnam. This raises the issue of what else exporters should focus on to overcome this problem. Thus, this study is to investigate the firm internal

factors that could help exporters to increase their international firm performance, which directly help increasing Malaysia export level.

Table 1.1: SMEs total export among ASEAN countries

Countries	SMEs Share of Total Employment (%)	SMEs Contribution to GDP (%)	SMEs Share of Total Exports (%)
Japan	70.2	50.0	53.8
Korea	87.5	49.4	30.9
Malaysia	58.9	31.9	19.0
Thailand	77.9	38.7	29.5
Philippines	61.0	35.7	20.0
Indonesia	97.2	57.8	15.8
Vietnam	77.0	40.0	20.0
India	40.0	17.0	40.0
Sri Lanka	35.0	52.0	20.0
Bangladesh	40.0	22.5	11.3
Pakistan	70.0	30.0	25.0
Germany	79.0	53.8	55.9
United States	49.4	46.0	33.7

Sources: Yoshino and Wignaraja (2015)

Table 1.1 shows that Malaysian SMEs export contribute to 19% of overall the country exports. This is still considered low compared to other ASEAN countries like Thailand (29.5%), Philippines and Vietnam (20%) (Yoshino and Wignaraja, 2015). This is

aligned with Malaysia overall export level shown in Figure 1.1. This also give us information that the export level of Malaysian SMEs aggregating to the country export level. Therefore, it is important to research factors that affect the international firm performance of SMEs.

### **1.1.2 Factors affecting international performance of SMEs**

In general, factors affecting international performance can be divided into two which are internal and external factors. Several study indicate that internal factors in a form of firm and management resources/capabilities play a major role in influencing SMEs international performance (Ciszewska-Mlinarič et al. (2010); Fernández-Olmos and Díez-Vial (2013); Birru et al. (2019). Nevertheless, others found that external factors such as export promotion programmes impact SMEs international performance (Wang et al., 2017). This study is more interested in internal factors, specifically managerial capabilities, and organizational culture as mediator that affect international firm performance of SMEs based on Resource-based View theory.

### **1.1.3 Managerial capabilities as internal capabilities affecting international firm performance of SMEs**

Due to the adoption of resource-based view (RBV) as grounded theory, this study focuses on the internal factors, specifically the influence of managerial capabilities towards SMEs international firm performance. In contrast with large firms, SMEs strategic directions are more influenced by the top management. Camisón-Haba et al. (2019) refer managerial capabilities as skills and knowledge rendered by the top management team to the firm. It may range from problem-solving competence/knowledge, experience, managers leadership capabilities, ability to monitor environment, manager position & exercise of power, manager education, manager managerial/economic education, human, social and cognitive abilities.

By this, the managerial capabilities of the top management determine the success and failure of the SMEs in performing internationally.

#### **1.1.4 Learning orientation as a missing link in the relationship between managerial capabilities and international firm performance of SMEs.**

Previous research on the direct effect of managerial capabilities towards international firm performance give a mix result. Foreign market knowledge have positive relationship with SMEs international performance in emerging market (Amankwah-Amoah et al., 2022). However, Descotes and Walliser (2013) argue that export knowledge on international financial performance is indirect, depending on the organizational process. In terms of international experience, several studies have revealed that international experience directly relate with internationalization and performance (Boermans and Roelfsema, 2013; Luo and Peng, 1999; Filatotchev et al., 2009) but proved to be opposite result in Barroso et al. (2011) and Contractor et al. (2005). Among all variables, entrepreneurial orientation is usually considered to have a positive impact on SMEs performance (Thanos et al., 2016; Birru et al., 2019). Yet, Rauch et al. (2009) discuss the probability of different result of EO-performance relationship. Finally, when consolidating articles on global mindset, Hruby et al. (2016) found there is a mix of positive and negative outcomes of global mindset.

In addition, the idea to test learning as mediator in general studies is based on previous research by Wang (2008a), Hakala (2013a), Fernández-Mesa and Alegre (2015a) and Herath (2021). On the other hand, its importance in SMEs global halal industry come from suggestion for future research by Ismail (2011). Thus, based on the inconsistent result of significant effect of managerial capabilities towards international firm performance in general studies and the suggestion to include it halal industry, the need to empirically test