CONCEPTUAL FRAMEWORK ON MARKET ORIENTATION AND PERFORMANCE OF SMEs: ALLIANCES AS MEDIATING

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**ABSTRACT**

Firm capabilities become important to SMEs’ performance in expanding to foreign markets. Many countries focus on helping these SMEs because of the rapid internalization of competitors. This paper aims to propose a conceptual framework by identifying the determining factor that affects the international performance of Malaysian SMEs. Two capabilities that have determined the international performance of SMEs are market orientation and alliances. This framework was developed based on an extensive literature review. According to the proposed framework, alliances mediate the relationship between market orientation and international performance. Few studies have attempted to investigate the market orientation on international performance with mediating effect of alliances on international performance, especially in developing countries. This paper suggests that future researchers need to pay extra attention to the international performance of SMEs in emerging markets, including Malaysia.

**INTRODUCTION**

Background of Study

Before the twenty-first century, research focused on multinational firms from advanced Western economies dominated scholarly knowledge on international business (IB) (Amoah et al., 2021). However, during the last two decades, developing markets from...
Asia, Central America, and Africa have grown in appeal in international business and intellectual debate (Kim, 2021). Small and medium-sized enterprises (SMEs) are often critical to most economies across the world, particularly in developing and emerging economies (Gherghina et al., 2020). SMEs’ GDP growth is often faster than Malaysia’s GDP growth (DOSM, 2020). However, Malaysian SMEs’ company activity has been significantly hindered since the coronavirus epidemic (Mustapa and Mohamad, 2021). Currently, SMEs are not achieving superior performance (Her et al., 2020). This evidence is supported by the SMEs’ contribution to the nation’s GDP at only 37.7 per cent (RM491.6 billion), 38.3 per cent (RM552.1 billion), and 38.9 per cent (RM552.3 billion) in 2017, 2018, and 2019 respectively (DOSM, 2021a). In 2020, the contribution of SMEs fell to 38.2 per cent (RM512.8 billion) (DOSM, 2021b).

In 2019, the services SMEs sector accounted for the largest overall contributor to GDP, accounting for 57.7 per cent of total GDP (DOSM, 2021a). While the other sectors, namely manufacturing, agriculture, construction, and mining & quarrying sectors contributed about 22.3 per cent, 7.1 per cent, 4.7 per cent, and 7.1 per cent respectively (DOSM, 2021a). In 2020, services and manufacturing SME sectors remained the main drivers of SME GDP activities and both sectors represent more than 80 per cent (57.7 per cent and 22.9 per cent respectively) of SME GDP and Malaysia’s overall GDP (DOSM, 2021a).

Furthermore, the numbers are concerning because Malaysian SMEs contribute a relatively small percentage of the nation’s GDP compared to other countries (Hanifah et al., 2019a), and emerging countries (Aljuboori et al., 2021)the impact of various intellectual capital components, including human, structural, and relational capital, on the performance of small-and medium-sized Malaysian manufacturing enterprises were examined. A correlation between intellectual capital and firm performance were established based on the mediating role of innovation capability. To achieve this goal, a stratified sampling method was used wherein 262 participants’ responses from the focused manufacturing firms were obtained and analyzed via the structural equation model (SEM). While, Malaysian manufacturing SMEs, along with service SMEs, faced significant challenges in terms of GDP contribution (Aljuboori et al., 2021)the impact of various intellectual capital components, including human, structural, and relational capital, on the performance of small-and medium-sized Malaysian manufacturing enterprises were examined. A correlation between intellectual capital and firm performance were established based on the mediating role of innovation capability. To achieve this goal, a stratified sampling method was used wherein 262 participants’ responses from the focused manufacturing firms were obtained and analyzed via the structural equation model (SEM). Further, the percentage of Malaysia SMEs’ contribution to the nation’s GDP is insignificant (Hanifah et al., 2019b). As stated by Basah et al. (2020) and SME Masterplan, (2020), the GDP contribution of SMEs was comparably low, remains under-represented, and lags behind other middle-income countries (average of 38 per cent) (DOSM, 2021a). Given this fact, SMEs’ GDP contribution is significantly lower when compared to other emerging countries such as Vietnam (45 per cent), Thailand (43 per cent), Singapore (44 per cent), and Indonesia (57.24 per cent) (SMEs Annual Report, 2020a).

Furthermore, like newly industrialized economies, Malaysian SMEs confront internationalization concerns in both internal and external issues (Ooi & Richardson, 2019; Ruan et al, 2022). Specifically, a lack of assets, resources, and capabilities to exploit the marketplace, a lack of qualified human capital resources, a lack of technology and information and communications technology usage, a lack of research and development, and inadequate internal financing (Falahat et
al., 2020b). Malaysian SMEs have also suffered from major inadequacies such as poor productivity, comparatively low firm formation, challenges sustaining in the market due to heavy competition, insufficient preparedness, reliance on government support, and low growth rate (Alashwal et al., 2019). Poon et al., (2020) highlight that Malaysian SMEs now lack employees, funding, time to conduct research and development (R&D) activities, and the expertise to market products. Furthermore, most studies in the literature have concentrated on multinational firms centered on larger companies, and research into the capabilities or factors aspect to improve the international performance of SMEs is inconclusive (Ryu et al., 2021a). Across all these studies, there has been limited research into specific capabilities that accelerate international performance in emerging markets, particularly in service SMEs (Jean & Tan, 2019; Bai et al., 2021a). Gerschewski et al. (2020) have recommended more studies on international SMEs from different country contexts, as opposed to advanced economies, are required to potentially contribute fresh insights into the international performance context. As indicated by Chandra et al. (2020a), future research is required to understand the demands of internationalized SMEs from underserved regions, as these emerging markets can be a source of entrepreneurial firms and long-term growth.

**PROBLEM STATEMENT**

Many programs are reported to have been implemented by the government to create and nurture successful entrepreneurs in the manufacturing and services SME sectors so they to compete in a global marketplace (Wasiuzzaman et al., 2020). However, the amounts of Malaysian SMEs who export their goods and services has remained constant over the years (Falahat et al., 2020a; Mata et al., 2021), and the level of SMEs internalization has remained low (SMEs Annual Report, 2020b). As stated by DOSM, (2021a) and SMEs Annual Report, (2020c) from 2017 to 2020, the share of SMEs exports to total exports was only around 13.5 per cent to 17.9 per cent, even though there were 1,226,494 SMEs in Malaysia, accounting for 97.4 per cent of all establishments. Thus far, the contribution of Malaysia SME exports to total exports is still behind and low compared to the Philippines (25 per cent), Thailand (28.74 per cent), and India (48.1 per cent) (SMEs Annual Report, 2020d). These SMEs exporters consisted of manufacturing, services, and agriculture sectors.

Recently, local SMEs in all economic sectors have had difficulty developing locally or internationally due to a lack of market penetration and competitiveness in global marketplaces (The Twelfth Malaysia Plan, 2021). Malaysian SMEs face continuous obstacles and issues related to low competitiveness, their internationalization efforts have been hampered by a lack of understanding of foreign markets, resulting in their incapacity to compete (Gomez et al., 2021). Nakos et al, (2019a) urged because of the inconsistent findings from these two variables, academics have proposed that they should investigate how to transform market orientation into international performance in emerging markets. Up to this point, additional investigations and validation are required in the future to fully comprehend the essential principles of links between market orientation and international performance through empirical studies (Payne and Katrinli, 2021a; Reimann et al., 2022a).

Unfortunately, at the moment, insufficient collaboration and knowledge linkages are limiting Malaysian SMEs’ development with regional enterprises, with a specific lack of alliances between Malaysian SMEs and academic institutions being a persistent concern (SME Masterplan, 2020; World Bank, 2020; Kuriakose et al., 2022). Thus far, collaborative links among local SMEs and foreign or larger companies have been minimal. This has hindered Malaysian SMEs’ ability to compete in foreign markets (Kuriakose et al.,
Determinants influencing emerging-market SMEs’ international performance (Falahat et al., 2020a; Kafetzopoulos, 2020b) but there are few studies analyzing the determinants of firm competitive advantage and its potential mediating role in the relationship between organizational capabilities and SMEs’ international performance. In this paper, we hypothesize four essential export capabilities (market intelligence, product innovation, pricing, and marketing communication).

Therefore, this study has adapted the RBV and KBV to propose a conceptual framework as the key objective of this paper from the related literature to identify the determining factor that affects international performance. Additionally, the paper has a few key objectives; firstly, to identify and analyze how researchers approach international performance in the review of literature; secondly, to identify the factors that affect international performance, thirdly, to recognize the gaps in the prevailing literature and explain them for future research. Last but not least it suggests a conceptual framework for the mediating effect of alliances the on the relationship of market orientation on SMEs’ international performance. Whereas section two explains the underpinning theories and section three describes the literature on market orientation, alliances, and international performance; section four presents the methodology; section five describes the results and discussions; section six presents the conclusions and recommendations.

**LITERATURE REVIEW**

**Underpinning Theories**

The resource-based view (RBV) theory of the company asserts that heterogeneous firm resources that are valuable, rare, inimitable, and non-substitutable (VRIN resources) result in resource heterogeneous market positioning (Wernerfelt, 1984; Barney, 1991a). Likewise, resources and competencies are critical for generating long-term competitive advantage...
and improving organizational performance (Barney, 1991b). Assets, land, staff skills, expertise, knowledge or abilities, brand name, technology, equipment and machinery, contracts, money, efficient organizational processes and procedures, and other characteristics owned by the company. These are examples of physical and intangible assets, that may be used to devise and implement strategies to obtain a competitive advantage in the marketplace (Barney, 1991c).

Smaller organizations typically have fewer opportunities to gain a sustained competitive edge than bigger enterprises because of their constrained assets (Barney, 1991d). Decision-makers can achieve a competitive edge by pursuing strategies that capitalize on their internal resource-based strengths (including skills) by reacting to environmental changes while resisting potential risks and internal weaknesses (Barney, 2001e). Each resource refers to the different levels of capabilities and competencies owned by various firms, whereas the last explains why this heterogeneity cannot be moved from firm to firm without incurring huge costs (i.e., resources are ‘sticky’) (Wei et al., 2014).

Market orientation has been grounded based on RBV and has been studied in marketing literature using behavioral (Kohli & Jaworski, 1990a) and cultural perspectives (Narver and Slater, 1990). In the existing literature, market orientation was viewed as an organizational capability that enables organizations to recognize and respond to customers' requirements to provide higher value to customers (Day, 1994a). Fernandes et al. (2020b) identified that market orientation is valued, unique, hard to imitate, and irreplaceable and can provide long-term competitive advantages. It is considered one of a company's internal capabilities that can provide a long-term competitive advantage (Zhou et al., 2008). This resource enables the company to execute effective marketing plans by understanding and responding to client needs (Day, 1994b) understanding what they do, and measuring the bottom-line consequences of their orientation to their markets. The next challenge is to understand how this organizational orientation can be achieved and sustained. The emerging capabilities approach to strategic management, when coupled with total quality management, offers a rich array of ways to design change programs that will enhance a market orientation. The most distinctive features of market-driven organizations are their mastery of the market sensing and customer linking capabilities. A comprehensive change program aimed at enhancing these capabilities includes: (1. Drawing on RBV, according to Morgan et al. (2009) “firms with better market orientation achieve superior business results because they all have a better awareness of their customers’ explicit wishes and hidden needs. According to the findings of Ekeledo and Sivakumar, (2004), the resource-based view theory from Barney, (1991f) could be utilized to investigate not just FDI but as well as other entries such as exporting, licensing, management contracts, and so on.

There are a few theories that emerge, primarily network theory, RBV, international entrepreneurship, and the Uppsala model. But there are few attempts to improve theoretical syntheses or progressively develop and expand to underpin alliances studies (Zahoor et al., 2020c) mediators, and moderators that influence the internationalization of SMEs. In addition, we highlight limitations of the literature, most notably in terms of theoretical fragmentation; extant theories are deployed and illustrated but rarely extended in a manner that significantly informs subsequent work. At an applied (but related. According to Zahoor et al. (2020d) mediators, and moderators that influence the internationalization of SMEs. In addition, we highlight limitations of the literature, most notably in terms of theoretical fragmentation; extant theories are deployed and illustrated but rarely extended in a manner
that significantly informs subsequent work. At an applied (but related, the relationships between alliances and internationalization or international performance have been somewhat cursory, operating at a broad conceptual level instead of attempting to exhibit theoretical depth, simply by stating that there has been a lack of attention to theory.

RBV focuses on the tangible and intangible resources owned and required by firms to provide all the means to achieve goals (Li & Murphy, 2021). The knowledge-based view (KBV) extends RBV by recognizing knowledge as a firm’s most valuable resource, with “knowledge trade typically taking place via strategic alliances” (Grant, 1996) the firm is conceptualized as an institution for integrating knowledge. The coordination mechanisms through which firms integrate the specialist knowledge of their members are explored. In contrast to earlier literature, knowledge is viewed as residing within the individual, and the primary role of the organization is knowledge application rather than knowledge creation. The resulting theory has implications for the basis of organizational capability, the principles of organization design (in particular, the analysis of hierarchy and the distribution of decision-making authority. According to Grant, (1997a), KBV is a collection of ideas based on the premise that the function of knowledge is critical to the company’s success. As a result, one key KBV argument is that the organization operates to create, transmit, and turn knowledge into a competitive advantage (Kogut & Zander, 1992).

The KBV has often been used to study alliances (Eisenhardt & Schoonhoven, 1996). According to the knowledge-based perspective theory, the major goal of alliances is to increase the productivity of each ally’s knowledge utilization through knowledge acquisition (Grant & Baden-Fuller, 2004) the development of an effective knowledge-based theory of alliance formation has been inhibited by a simplistic view of alliances as vehicles for organizational learning in which strategic alliances have presumed to be motivated by firms’ desire to acquire knowledge from one another. We argue that the primary advantage of alliances over both firms and markets is in accessing rather than acquiring knowledge. Building upon the distinction between the knowledge generation (‘exploration’). Alliances provide SMEs with the ability to gradually expand operations abroad (Ulubaşoğlu et al., 2009). Many increasingly globalized enterprises are forced to form strategic alliances as the only way to access a foreign market (Nakos et al., 2019c). Hence, this framework uses the KBV theory by Grant (1997b), to develop expectations of the alliances to international performance relationship.

Literature Review and Hypotheses Development

International performance is a construct that has various definitions in the literature. The phrase international performance has evolved to refer to a firm’s success in foreign markets (Zahoor & Lew, 2021). However, according to Kafetzopoulos (2020c), international performance is defined as the degree to which a firm’s business objectives are achieved in foreign markets as a result of the configuration of international SMEs’ culture, strategy, and structure.

Differently, Chandra et al. claim that international performance is defined as SMEs’ performance in a foreign market and can examine through export intensity and export sales. Despite decades of research, Reimann et al. (2022b) whether static or dynamic. However, recent theoretical development proposed adaptive marketing capabilities (AMC dispute the use of perceptual measurements of international performance rather than objective measures as a possible point of disagreement. While, the use of single and multi-item (subjective and objective) performance measures has revealed a controversy among academics (Gnizy, 2019). Bai et al. (2021b) insist future research should
be undertaken to use objective indicators of international performance. This view is opposed by Tang et al. (2019) eloquently questions because international performance is a broad measurement, a single performance measurement cannot encompass all aspects of international performance.

Market orientation, as defined and detailed later, is being aware of customers’ needs and requirements, comprehending and meeting them, and eliciting attitudes and feelings (Fernandes et al., 2020c). Essentially, market orientation refers to a culture that promotes the development of value in the market and is market-driven to achieve a competitive advantage and, as a result, the greater worldwide performance of a family organization (Lobo et al., 2022a) their characteristics have motivated a wide range of research studies, including succession, corporate governance, and strategic management. The purpose of this study is to examine the role of resources (i.e. internationalisation networks. Reimann et al. (2022c)whether static or dynamic. However, recent theoretical development proposed adaptive marketing capabilities (AMC indicated that market orientation correlates with firm international performance. Nevertheless, Jancenelle et al. (2021a) discovered in a five-year longitudinal sample of enterprises that firms with the highest concentrations of market orientation are not necessarily rewarded the most in terms of superior performance in international markets. As Jancenelle et al. (2021b) report that an inverted U-shaped relationship between market orientation capability and performance. Therefore, this study suggested that:

H1: Market orientation has a significant relationship with international performance.

Alliances are long-term arrangements between different companies with strategic goals (Guimarães et al., 2021b). Strategic alliances, according to Nakos et al. (2019d), are agreements involving two or more organizations to share resources and knowledge. O’Dwyer and Gilmore, (2018) demonstrate that business-to-business activities enable SMEs to expand their abilities and gain incentives from their market activities, thus leading to alliances. Interestingly, when Nakos et al. (2019e) investigated the relationship between market orientation and alliances in SMEs, market orientation had a significant impact on alliances. The scholar discovered market orientation significantly predicts alliances.

H2: Market orientation has a significant relationship with alliances.

Ryu et al. (2021b) conducted a quantitative analysis between technological innovation and international performance, and the findings revealed that alliances influence technological innovation on international performance. This study’s population consists of international SME manufacturing enterprises in South Korea. Using panel regression, Rossmannek and Rank (2019) discovered a U-shaped association between alliance and performance in overseas markets involving international airlines from diverse countries. Simply put, previous research conducted on samples of Czech SMEs by Tyll et al. (2020), revealed that alliances are relatively weakly related to increasing SMEs’ competitiveness in international business. Furthermore, Nakos et al. (2019f) found that coalitions have a considerable impact on international performance. Based on the previous research review, the second research hypothesis can be derived as follows:

H3: Alliances have a significant relationship with international performance.

Previous research on domestically operated Pakistan SMEs by Ahmad et al. (2021c) reveals that alliances play an important role as a mediator between market orientation and performance. Karami et al. (2022a) study on effectuated control, alliances, getting new
knowledge, and international performance provides evidence that affectuates control results in the perspective of effective international performance through alliances and acquiring knowledge. According to previous research by Nakos et al. (2019g), the regression results are significant when both market orientation and partnerships are included. However, when the mediating variable alliances are included in the regression, the explanatory value of market orientation decreases. Following that, partial mediation exists via the mediating variable. Thus, this study proposes that:

**H4:** Alliances mediate the relationship between market orientation and international performance.

**METHODOLOGY**

This study uses theoretical and empirical literature to arrive at the development of the aspects that affect international performance. The specific objectives of this research are to review the conceptual models, methodologies, results, and findings adapted by the selected articles related to the central theme of market orientation, alliances, and international performance, and finally, to provide concluding remarks and future recommendations over the prescribed research area.

A literature review was conducted to recapitulate the empirical suggestion from the existing literature that fits the context of the paper. Journal articles, peer-reviewed literature, review articles, and book chapters were the main sources of information about the determinants of SMEs' international performance. Almost 160 research articles and books were concerned with the current proposed research model. Accordingly, two steps were used to select related literature.

The first step involved searching articles through databases such as Google Scholar, Science Direct, Taylor & Francis, Emerald Insight, Inderscience, Jstor, Sage Publishing, MDPI, Elsevier, Wiley, and Scopus were utilized. By targeted research papers published in ranked journals. The papers were chosen from the fields of international management, international business, marketing management, international marketing, entrepreneurship, small business management, international entrepreneurship, general management, world business, and business strategy areas from 2010 to 2022, using the keywords – international performance. The second step involved selecting papers that discussed market orientation, alliances, and international performance. The current article was written after a comprehensive analysis of numerous secondary data sources, that have been written by prominent scholars in the areas of market orientation, alliances, international performance, or foreign markets performance.

Additionally, a conceptual framework developed in this article is underpinned by RBV (Barney, 1991g), and KBV (Grant, 1997c). After a thorough literature review, some propositions have been developed.

**RESULTS AND DISCUSSIONS**

This paper tries to define the mediating of alliances between market orientation and international performance. This paper proposes market orientation as an antecedent of alliances. In addition, market orientation, and alliances become the most important capabilities for performance outcomes in foreign markets. Our findings have suggested that market orientation has both a direct impact on firm international performance and an indirect impact through alliances. This is in line with the findings of Payne and Katrinli, (2021b), according to a study conducted through semi-structured interviews, firms need employees with market orientation skills if they intend to build a competitive advantage in overseas markets. The study sample consisted of internationalized enterprises in the manufacturing industry.
Furthermore, we discovered that alliances have a considerable impact on international performance. These results are consistent with empirical research conducted by Yang and Meyer, (2019), who collected primary data in China from Chinese firms operating in the foreign market and foreign enterprises operating in China. The result indicated that alliances had a significant impact on firm performance in overseas markets. Finally, our findings suggest that alliances can act as a link between market orientation and international performance.

Even though, Nakos et al. (2019h) investigates the role of alliances but provides limited evidence since alliances partially mitigate the association between market orientation and the international performance of SMEs in the United Arab Emirates (UAE). Still, our findings support studies from Ahmad et al. (2021d) reveal that alliances play a significant role as mediators between market orientation and performance outcomes.

**CONCLUSIONS AND RECOMMENDATIONS**

The main purpose of this study is to review the relevant literature and highlight the need to consider the mediating effect of alliances on the relationship between market orientation and SMEs’ international performance. A deeper understanding of such relationships should make SMEs more aware of the possible effects of market orientation, and thereby enable them to take advantage of alliances in this insight. The significance of this review arose since it provides insight to owners, managers, and officers of SMEs and policymakers regarding the relevance of the approach for the SME sector in international markets. The study was necessitated for SMEs due to the varying business conditions and major competitors in the global business and the continued emergence of new customer preferences in global markets.

Furthermore, Karami et al. (2022b) employed perceptual measurement of international performance in prior research. Doubtless, Tolstoy et al. (2022) argue that further effort is needed to make better use of objective data or multi-source performance assessments to develop more accurate evaluations of the association between antecedents and international performance. According to Martín et al. (2022), earlier research has revealed that many recent findings use subjective measurement.

In summary, Nakos et al. (2019i) believe that due to varied outcomes from these two variables, it is necessary to investigate how to transfer market orientation capability into an international success. Future researchers say that they should look into various countries or contexts (Lobo et al., 2022b). It follows that future research can validate the results of market orientation on the foreign market performance of SMEs through a quantitative approach or statistical data (Payne & Katrinli, 2021c; Zaki et al., 2021; Reimann et al., 2022d). Admitting limitations, Nakos et al. (2019j) encourage future researchers to acquire samples from countries with dissimilar socioeconomic settings to those previously studied, samples of low and high-tech SMEs, and SMEs from emerging markets to investigate whether prior conclusions are valid in these areas.

Until now, in the same vein Nakos et al. (2019k) and Ahmad et al. (2021e), have argued that future researchers must examine SMEs in various forms of alliances because different types of alliances on international performance can yield different benefits. Moreover, there is a paucity of literature that observes how market orientation and participation in alliances as mediators impact the domestic and non-domestic performance of SMEs (Nakos et al., 2019l; Ahmad et al., 2021f). As previously believed, there are numerous viable topics of study in the field of market orientation and alliances in international markets among SMEs, particularly in developing nations.
There are few empirical studies on alliances relate to SMEs and large firms. As a suggestion for future research, it is crucial to employ qualitative or survey methodologies more profoundly and directly to the capability of alliances among SMEs or large firms (Mamédio et al., 2019). Going forward, therefore, Zahoor et al. (2020e) mediators, and moderators that influence the internationalization of SMEs. In addition, we highlight limitations of the literature, most notably in terms of theoretical fragmentation; extant theories are deployed and illustrated but rarely extended in a manner that significantly informs subsequent work. At an applied (but related propose much scope for research of SMEs on the factors that shape the relationships between antecedents, alliances activity as mediating, and performance outcomes (i.e., international performance). Based on the review, there is a need empirically investigate market orientation on international performance, with alliances as mediators among SMEs in an emerging market like Malaysia.

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**REFERENCES**


Conceptual Framework on Market Orientation and Performance of SMEs: Alliances as Mediating


**FIGURES AND TABLES**

**Figure 1 Conceptual Framework**

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  Market Orientation
    H1
  H2
  Alliances
    H4
  International Performance
    H3
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42