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## **A RESOURCE-BASED VIEW OF SMALL EXPORT FIRMS' SOCIAL CAPITAL IN A SOUTHEAST ASIAN COUNTRY**

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### **ABSTRACT**

*This study empirically examines the social capital that facilitates the flow of export knowledge, thereby supporting the entrepreneurial stance of small export firms. By applying the VRIO (value, rarity, inimitability and organisation of firm resources) framework to the resource-based view (RBV) of the firm, this study suggests that superior performance is a function of resources that are valuable, rare, inimitable and sufficiently organised to develop and sustain the firm's competitive advantage. This study argues that small, resource-constrained export firms in a developing economy are able to adopt entrepreneurial tactics and reap positive rates of return by exploiting their relational capital to acquire export knowledge. A survey of 175 small export firms in the Philippines was conducted, and the data were analysed using structural equation modelling. The results suggest positive relationships between the firm's social capital and export knowledge. Export knowledge is associated with entrepreneurial orientation, which then correlates with export performance.*

**Keywords:** social capital, resource-based view, export performance, small firms, entrepreneurial orientation, competitive advantage

### **INTRODUCTION**

Recent developments in the study of the resource-based view (RBV) of the firm have expanded the scope and nature of resources that a firm may acquire or develop in pursuit of sustainable competitive advantage (Barney, 1991; 2007; Christolm & Nielsen, 2009; Locket, Thompson, & Morgenstern, 2009; Wernerfelt, 1984; Newbert, 2007). The idea that firms are embedded in a social context that consists of networks, linkages or relationships with other social entities has brought the concept of social capital to the forefront of contemporary debate on the RBV. This social capital is viewed as an asset that affords the firm access to various resources that would be beyond its reach if the firm acted in isolation (Lages, Silva, Styles, & Pereira, 2009; Davidsson & Honig, 2003).

Social capital is considered the most recent addition to the collection of resources that a firm can develop to enhance its competitive advantage and reap above-average rates of return (Christholm & Nielsen, 2009; Okpara, 2009).

Social capital such as networks, informal connections, inter-firm relationships, and managerial ties are considered a critical resource base for international activities at small Southeast Asian firms (Ellis, 2010; Pollard & Jemicz, 2010). In terms of resources, these firms often suffer from the "liability of smallness" while they deal with both the pressures of international expansion and highly unpredictable local institutional environments (Manolova, Manev, & Gyoshev, 2009; Peng, Wang, & Jiang, 2008; Roxas, Lindsay, Ashill, & Victorio, 2009). Thus, social capital is viewed as a resource to fuel the firm's export activities and to fill voids in the institutional environment, such as the lack of available information on export opportunities, bureaucratic rigidity when dealing with government agencies, and the lack of government support for small exporting firms.

However, research in the RBV arena, particularly under the VRIO (value, rarity, inimitability and organisation of resources) framework (Barney, 2001a) that explores social capital as it relates to the stock of resources, dynamic capability, and performance at small exporting firms in emerging Asian economies is scarce (Armstrong & Shimizu, 2007; Ma, Yao, & Xi, 2009; Manolova et al., 2009). A research gap exists in understanding how social capital such as networks operates and endows benefits to firms that are beyond their start-up phase and are embarking in international activities (Anderson, Dood, & Jack, in press; Ellis, 2010). Similarly, small firms' relationships with other social entities that provide the best potential for recognising and exploiting international opportunities have not been analysed thoroughly in current research (Jones, Dimitratos, & Fletcher, 2009).

Because of social capital's fairly recent emergence as a recognised firm resource, little is known about its role in the VRIO framework of the RBV to explain sustainable competitive advantage. The VRIO framework suggests that having valuable, rare and inimitable (and therefore non-substitutable) resources is not sufficient; firms should also develop their dynamic capabilities to strategically organise or exploit these resources to gain a sustainable competitive advantage and superior rates of return (Barney, 2001b). In the extant literature, the VRIO framework is frequently ignored, assumed or relegated to the background in RBV-oriented empirical studies (Newbert, 2007). Leading scholars in the field argue that RBV will only progress as a field of inquiry if future research considers its more contemporary theoretical extensions, such as the interplay between resources embedded in the firm's social context and the dynamic

capability to develop the firm's competitive advantage (Chrisholm & Nielsen, 2009; Okpara, 2009; Newbert, 2007).

The current study attempts to address these research gaps by determining social capital's positive contributions to the stock of resources and dynamic capability of small export firms in a Southeast Asian country. Building on the VRIO framework, this study argues that social capital allows the firm to acquire knowledge about exporting that then supports the firm's entrepreneurial stance, enabling the firm to generate positive returns on its export activities. The study considers export knowledge as a critical resource that nurtures the firm's entrepreneurial orientation. A strong entrepreneurial orientation is likely to benefit the firm's overall export performance. The current study examines these propositions in the context of small export firms in the Philippine manufacturing industry. Small firms in the Philippines fall in the small and medium enterprise (SME) business category and contribute significantly to the country's economic output (Department of Trade and Industry, Philippines [DTI], 2011). Small manufacturing firms, such as those in the food and beverage processing, publishing, apparel and furniture industries, contribute significantly to the country's total export activities and output (DTI, 2011). Against the theoretical background of the VRIO framework of the RBV, the size of these small export manufacturers and research (e.g., Aldaba, 2008; National Statistics Office (NSO), 2008) on the challenges they face provide a rich context for examining the role of social capital in the firms' export performance.

The paper begins with a brief theoretical discussion of the RBV, social capital and entrepreneurial orientation. This is followed by a brief discussion of exporting small and medium enterprises (SMEs) in the Philippines and the significance of social capital in introducing knowledge about exporting that supports the firms' export performance. The next section presents the research framework and the relevant hypotheses. The paper then presents the research methodology and discussion of the results of the empirical study, followed by a discussion of the study's implications and areas for future research.

### **The Resource-Based View of the Firm**

RBV offers a theoretical basis for the importance of various types of resources to firms' overall competitiveness and performance. RBV posits that firms can achieve and sustain their competitive advantage if they possess tangible or intangible resources that are valuable, rare, inimitable and non-substitutable (Barney, 1991; Wernerfelt, 1984). These four characteristics of resources describe what Barney (2007) considers strategic assets that, if properly mobilised, build and sustain a firm's competitive advantage and improve its performance.

Among its various resource types, a firm's intangible resources are most likely to become strategic assets for developing competitive advantage because these resources are likely to be rare, valuable, imperfectly imitable and difficult for other firms to substitute. The most recent literature reviews of studies on RBV indicated an increasing focus on intangible resource forms as the basis for developing competitive advantage (Armstrong & Shimizu, 2007; Chrisholm & Nielsen, 2009; Galbreath, 2005; Miller & Shamsie, 1996; Locket et al., 2009; Newbert, 2007).

### **Social Capital**

One of the more recent developments in the study of intangible resources and their relationship to sustainable competitive advantage is the concept of social capital. In the current view, firms do not operate in isolation but rather are embedded in a network of relationships as they create value (Ma et al., 2009; Manolova et al., 2009; Walter, Auer, & Ritter, 2006). This network of relationships with other firms, economic or social entities, and individuals generates some form of intangible relational assets valuable to the firm. Such intangible resources are popularly known as social capital, which can potentially endow the firm with strategic resources essential to the creation of sustainable competitive advantage (Lages et al., 2009; Nahapiet & Ghoshal, 1998; Westlund, 2006). The study of social capital centres on the view that the actors, such as firms in a given network, can potentially extract benefits from their social structures, networks and memberships (Chrisholm & Nielsen, 2009; Davidsson & Honig, 2003).

Previous studies on social capital and business firms have emphasised the importance of inter-firm networks as well as networks of owners or managers, and these studies have examined how these social relationships act as conduits or channels to funnel externally available resources into the firm (Ainuddin, Beamish, Hulland, & Rouse, 2007; Bonner, Kim, & Cavusgil, 2005; Ellis, 2010; Ma et al., 2009; Newbert, 2007). These previous studies confirm that social capital provides firms with access to resources such as strategic knowledge that are vital to the value-creating processes because they allow firms to reduce the transaction costs of social interaction and exchange (Bonner et al., 2005; Luo, 2003). Social networks allow the flow of valuable information or knowledge into the firm, enhance its strategic assets and facilitate processes that enable a firm to behave proactively and innovatively (Luo, 2003; Walter et al., 2006). This knowledge that flows into the firm may take the form of information and know-how (Kogut & Zander, 1992), business opportunities (Walter et al., 2006), skills or management capability and market knowledge (Kale, Singh, & Perlmutter, 2000). As a result, an inimitable and non-substitutable strategic resource base is

developed which can be leveraged to improve market performance (Bonner et al., 2005), firm growth and overall firm performance (Anderson et al., in press).

### **Entrepreneurial Orientation**

Entrepreneurial orientation (EO) refers to the risk-taking behaviour of the firm's top management in terms of investment decisions and strategic actions in the face of uncertainty, as well as the extent and frequency of product innovations and the related tendency toward technological leadership and the firm's pioneering nature as evident in its propensity to compete aggressively and proactively with industry rivals (Covin & Slevin, 1990; Covin, Slevin, & Schultz, 1994; Gibbons & O'Connor, 2005).

EO implies that a firm can be situated along a continuum ranging from less entrepreneurial to more entrepreneurial (Covin, 1991; Covin & Slevin, 1990). Although it is exercised by the owner or top management of a small firm, EO is considered an organisational variable because organisations are reflections of the values and cognitive bases of powerful actors (Carpenter & Fredrickson, 2001). EO hinges on three fundamental constructs: innovativeness, proactiveness and risk-taking. Innovativeness reflects a tendency to support new ideas, novelty, experimentation and creative processes, thereby departing from established practices and technologies (Lumpkin & Dess, 1996). Proactiveness refers to a posture of anticipating and acting on future wants and needs in the marketplace, thereby creating a first-mover advantage vis-à-vis competitors (Lumpkin & Dess, 1996). Risk-taking is associated with a willingness to commit large amounts of resources to projects that may have a high cost of failure (Miller & Friesen, 1982).

### **SMEs in the Philippines**

The SME sector contributes significantly to the national productivity and overall economic output of the Philippines. The latest figures show that SMEs account for 99.7% of the total 783,065 businesses registered in the country (DTI, 2011). SMEs provide almost 70% of the country's total employment, contribute more than 30% of the country's gross domestic product (GDP) and account for over 25% of the country's total export revenue (DTI, 2011). Approximately 15% of these SMEs are engaged in manufacturing activities, and they constitute over 60% of the country's export firms. The top manufacturing industries in the Philippines include the manufacture of food products and beverages, publishing and printing, apparel, fabricated metal products, furniture and rubber or plastic products (DTI, 2011).

In recent years, the manufacturing sector's performance has been severely affected by economic upheavals in recent years, resulting in part in a decrease in the sector's contributions to the country's GDP (NSO, 2008). One of the few studies on this topic suggested that the manufacturing sector's dwindling economic performance can be attributed to the significant transaction costs associated with identifying and exploiting opportunities both in domestic and international markets in light of the global economic fluctuations (Aldaba, 2008). Anecdotal evidence suggests that manufacturing firms suffer from issues such as lack of access to technology, lack of funds, insufficient information (e.g., developments in product standards and scanning technology), and difficulty in meeting government requirements for obtaining business assistance (Aldaba, 2008). Likewise, a 2003 report from the country's Department of Trade and Industry (2003) indicated that the common problems encountered by SMEs include inadequate infrastructure for sourcing and transportation of raw materials, access to overseas markets, supply chain efficiency, inferior transport and communication infrastructure, limited access to market information and inconsistent quality due to low technology and lack of standards. Although these manufacturing firms strive to engage in export ventures, the difficulty of establishing long-term and reliable connections was viewed as one of the greatest obstacles to internationalisation (Aldaba, 2008). This anecdotal evidence is consistent with claims in the general literature concerning SMEs in emerging or developing economies. The unreliable, unstable institutional environment in developing countries like the Philippines triggers substantial transaction costs for business operations domestically and internationally (Roxas et al., 2009; Peng et al., 2008).

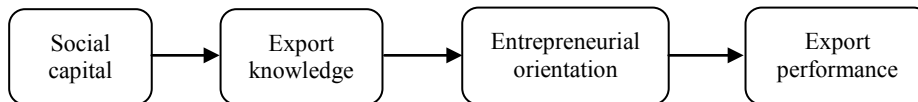
## **THE RESEARCH FRAMEWORK**

Considering the current situation facing small firms in the manufacturing-export industry in the Philippines, this study argues that networks provide small firms with a substitute for unavailable information and lack of government support and infrastructure. By building connections or networks, firms benefit by sharing information on where and how to access resources as well as how negotiate the tedious requirements of governmental administrative processes associated with exporting in particular and business-to-government transactions in general. In effect, social capital fills the institutional environmental voids in emerging economies by allowing local firms to take advantage of international business opportunities (Luo, 2003; Manolova et al., 2009).

Small export firms often find exporting challenging due to a lack of knowledge about foreign markets, consumer trends and the nature of competition. Acquiring export market knowledge and intelligence is often too costly for individual SMEs

because of their limited financial resources. In order to overcome the "liability of smallness", SMEs may cooperate with other entities to access and utilise export knowledge and successfully exploit export market opportunities. One way of achieving this is by developing networks and formal and informal relationships with key industry players that facilitate the transformation of export knowledge into superior performance.

However, possessing unique and inimitable market and export knowledge does not guarantee a firm's success in international ventures. The VRIO framework of RBV suggests that a firm must be capable of strategically organising its valuable resources to reap positive rates of return (Barney, 2007). In this study, this "organising" capability is represented by the firm's entrepreneurial orientation (EO). EO enables the firm to use its export knowledge to engage in proactive, innovative and risk-taking behaviour in its international ventures to reap higher yields of return. Figure 1 shows the relationships between relational capital, export knowledge, EO and performance. The model suggests that relational capital is an antecedent of export knowledge based on the view that networks and social and managerial ties are potential sources of export knowledge (Anderson et al., in press; Bonner et al., 2005; Luo, 2003). Export knowledge then fuels the firm's EO so that the firm can proactively identify and exploit international business opportunities in an innovative manner and at the same time minimise the risks of failure (Keh, Nguyen, & Ng, 2007). Higher levels of EO are likely to result in better performance outcomes. In effect, export knowledge mediates the relationship between social capital and EO, whereas the latter mediates the relationship between export knowledge and export performance.



*Figure 1. The research framework*

### **Hypotheses Development**

The lacklustre performance of Philippine SMEs in their international activities (e.g., exporting) and the role of networks and connections in that outcome mirror the views discussed previously under RBV. RBV suggests that a firm's relationships and networks afford the creation of social capital that funnels resources into the firm (Barney, 2007). Export firms require various types of knowledge-based resources such as information on international business opportunities, government policies and procedures, supply chain management and financial management requirements of exporting. Exporting is a resource-hungry business venture. The SME's "liability of smallness" indicates that they



do not necessarily possess readily available internal resources to meet the resource requirements of export ventures (Luo, 2003; Walter et al., 2006). Thus, social capital in the form of external connections and networks provides the opportunity to access valuable knowledge-based resources that are needed to fuel their export ventures.

Previous studies have emphasised the importance of social capital in the formation of inter-firm networks and networks of owners or managers and have considered how these social relationships act as conduits or channels that funnel externally available resources into the firm (Bonner et al., 2005; Ellis, 2010; Ma et al., 2009; Newbert, 2007). The network model of internationalisation (e.g., Hadley & Wilson, 2003; Ellis, 2010; Federico, Kantis, Rialp, A., & Rialp, J. 2009) also stresses that a firm's performance in its export ventures depends largely on its ability to build and maintain a strong and reliable network of relationships in both the home country and foreign markets. Social capital provides the firm with an understanding of possible constraints and opportunities for its export operations (Hadley & Wilson, 2003). Moreover, social capital has been identified as a critical element in the performance of SMEs in developing countries because proper support infrastructures for exporters do not exist in many of those locations (Roxas et al., 2009). SMEs are at a particular disadvantage from the lack of such support. As a result, SMEs in developing countries often resort to formal and informal networks to overcome the challenges of exporting. Thus, the following hypothesis is proposed:

H<sub>1</sub>: Social capital is positively associated with firms' export knowledge.

### **Entrepreneurial Orientation As Dynamic Capability**

The extant literature suggests that Barney (1991) and Wernerfelt's (1984) early work on RBV emphasised the static nature of the link between resources and competitive advantage (Newbert, 2007). The main criticism is that possession of strategic resources is not sufficient to gain competitive advantage (Makadok, 2001; Priem & Butler, 2001; Teece, Pisano, & Shuen, 1997). A firm must be capable of organising and allocating these resources in a way that maximises their productivity (Newbert, 2007). As a result, Barney (1991; 2007) extends his work on RBV by arguing that, in addition to possessing valuable, rare, inimitable and non-substitutable resource base, a firm also needs to be organised in such a manner that allows it to exploit the full potential of those resources to obtain a competitive advantage. The basic tenet of the enriched perspective of RBV, also known as the 'VRIO' framework, suggests that sustainable competitive advantage results from the possession of strategic resources coupled with firm-specific capabilities that effectively exploit these resources to create value for the firm

(Markides & Williamson, 1996). This dramatic evolution of RBV paved the way for the study of dynamic capabilities and their impact on firm performance. Dynamic capabilities include the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments (Teece et al., 1997).

The 'organisation' or 'capability' component of Barney's (2007) new VRIO framework of RBV broadly refers to information-based, firm-specific tangible or intangible processes that evolve over time through complex interactions among the firm's resources. The orientation, strategy or context that encourages a general and unified approach to the utilisation of its resources is normally sited at the firm level (Newbert, 2007). This view suggests that a firm's capability to innovate, for instance, is an example of its ability to deploy resources to create valuable new or significantly improved outputs. The overall strategic posture of the firm is another manifestation of resource organisation and deployment to create sustainable competitive advantage. In this paper, a firm's dynamic capability to be proactive and innovative and to take well-calculated risks in exploiting opportunities is viewed as one key "organisational" level variable that is essential in the deployment of resources to create value. This type of dynamic capability is a manifestation of the firm's entrepreneurial orientation.

This paper advances the view that the export knowledge generated from social capital will only be useful to small firms if the export firm is capable of adopting an innovative, proactive and risk-taking strategic orientation. Export knowledge can fuel the firms' dynamic capability, such as entrepreneurial orientation, to generate competitive advantage. Jantunen, Puumalainen, Saarenketo and Kylaheiko (2005) suggest that a firm can effectively engage in innovation, proactively exploit international business opportunities, and cautiously take well-calculated risks if it has sufficient knowledge to do so. Thus, we advance the following hypothesis:

H<sub>2</sub>: Export knowledge is positively associated with higher levels of entrepreneurial orientation.

Strategies are the mechanisms through which the firm manages its relationships with the external environment, and they serve as the basic driving force in the firm's value-creating processes in all functional areas of the business (Swamidaas & Newell, 1987). This creation of value is manifested in the firm's organisational performance. Several studies have cited the positive effects of an entrepreneurial orientation on various facets of organisational performance (Covin & Miles, 1999; Wiklund, 1999; Wiklund & Sheperd, 2005). In this particular study, EO is perceived as having a positive impact on the export performance of firms. EO enables an individual firm to innovate and develop products that offer superior

value in terms of benefits or cost relative to its competitors and that have the potential to meet customer needs in international markets. Proactive strategies allow the firm to evaluate its internal and external environment and take appropriate actions to maximise the use of current resources and, at the same time, to explore other sources for strategic resource requirements. A proactive firm will have the ability to deploy its resources to take advantage of business opportunities in international markets. A risk-taking firm has the potential to take advantage of lucrative investment and business expansion opportunities while minimising potential losses. Moreover, the VRIO framework of RBV suggests that EO can be viewed as a path-dependent, causally ambiguous, socially complex, and intangible type of capability that will allow a firm to outperform other firms that build their strategies on only tangible assets (Barney, 2001a). Therefore, we offer the following hypothesis:

H<sub>3</sub>: High levels of EO are positively associated with export performance.

### **Social Capital and EO: Mediated Relationships**

The previous arguments concerning the relationships among social capital, export knowledge and EO suggest a sequential connection, such that social capital relates to export knowledge, and export knowledge relates to EO. This indicates an indirect relationship between social capital and EO with export knowledge as a mediating variable. Testing this proposition against empirical evidence has the potential to provide more insights into the roles of resources and capabilities in the firm's value-creating processes under the VRIO framework of RBV (Barney, 2001a). Furthermore, we present the following hypothesis:

H<sub>4</sub>: Export knowledge mediates the relationship between social capital and EO.

## **RESEARCH METHODOLOGY**

The cross-sectional survey method within the positivist tradition of scholarly inquiry was used in the current study for several reasons. First, the study seeks to examine the measurement models of the constructs used in the investigation. Gathering data from a relatively large number of respondents can be systematically supported by the survey method (Czaja & Blair, 2005). In addition, the survey method allows for a systematic determination of estimates of the population parameters through sampling that will allow the generation of rigorous, valid, reliable, and replicable results (Zikmund, 2003). Finally, the survey method offers an acceptable way to test the preliminary propositions

advanced in this study (Czaja & Blair, 2005; Cavana, Delahaye, & Sekaran, 2001).

### **Sample and Study Setting**

The data used in this study are drawn from a large-scale survey of small firms conducted in 2007 in three cities in Mindanao, located in the southern part of the Philippines. More than 90% of the registered businesses in the Philippines are classified as small (up to 99 employees) and medium (100 to 199 employees) enterprises (NSO, 2010). According to World Bank and OECD standards, Philippine SMEs belong to the category of small firms (Ayyagari, Beck, & Demirguc-Kunt, 2003; NSO, 2010; OECD, 2004). The average number of employees and the value of sales used to classify Philippine small firms are likely similar to those of small firms as classified in World Bank and OECD databases. This classification also takes into account the relatively smaller size of the Philippine economy relative to that of other countries in the OECD/World Bank SME database (Ayyagari et al., 2003; OECD, 2004).

This large-scale survey of firms retrieved 1,055 (66%) of the 1,600 questionnaires that were distributed to randomly selected small firms. The use of fieldwork assistants or enumerators to personally deliver and collect the questionnaires to and from respondents contributed to the high response rate. The use of field enumerators for survey research is a commonly used and highly effective approach for conducting surveys in emerging or developing economies for two reasons. The reasonable cost of labour allows researchers to employ multiple field enumerators. This approach also eliminates problems with the reliability and efficiency of the delivery systems of typical government-owned postal services in developing countries like the Philippines.

The list of small firms was acquired from the city government's registry of businesses, which is updated annually using applications for new business permits and renewals for existing permits. The list from each city included 5 to 15 large firms (with 200 or more employees) that were excluded from the study. The unit of analysis is at the firm or enterprise level. However, the actual survey respondents were owners/managers of firms based on the argument that firm behaviour and performance are reflections of the strategic choices made by firms' top management (Anderson & Paine, 1975; Hambrick & Mason, 1984).

Only 180 firms (17%) out of the 1,055 retrieved questionnaires were manufacturing firms that export their products. The current study's focus on the social capital and export knowledge of small exporting firms indicated that only export firms should be included in this study. However, data cleaning procedures reduced the sample size to 175 firms after the elimination of questionnaires that

were deemed useless. Those 175 manufacturing-exporting firms ultimately formed the basis for the analysis used in this study. To date, information on export firms in the Philippines is not available from any publicly available or commercially accessible databases. Thus, estimation of the representativeness of the 175 sample firms with respect to the Philippine population remains a research challenge. Table 1 shows the demographic characteristics of the sample firms.

Table 1  
Demographic characteristics of the sample firms

Demographic Characteristics		<i>f</i>	%
Manufacturing industries	Food processing	85	48.57
	Textiles and apparel	22	12.57
	Metal crafts	15	8.57
	Wood products/furniture	14	8.00
	Housewares	8	4.57
	Chemicals	6	3.43
	Footwear	6	3.43
	Ceramics	4	2.29
	Others	15	8.57
Total		175	100.00
Firm size	10–99 employees (small)	127	72.57
	100–199 employees (medium)	48	27.43
	Total		175
No. of years exporting	0–5 years	95	54.29
	6–11 years	52	29.71
	11–15 years	16	9.14
	16+ years	12	6.86
	Total		175
Major export destinations	ASEAN region	65	37.1
	Greater Asia	35	20.00
	U.S./Canada	30	17.14
	Australia/New Zealand	21	12.00
	Europe	13	7.43
	Others	11	6.29
	Total		175

(continued)

Table 1 (continued)

Demographic Characteristics		f	%
Export intensity (% of sales)	1%–15%	25	14.29
	16%–25%	73	41.71
	26%–50%	26	14.86
	51%– 75%	26	14.86
	more than 75%	25	14.29
Total		175	100.00

Wave analysis did not reveal any non-response bias (Lankford, Buxton, Hetzler, & Little, 1995; Rogelberg & Stanton, 2007). Response bias analysis to account for enumerator effects (i.e., interviewer effects) did not reveal significant differences in the responses across the three groups of field enumerators (Groves & Magilavy, 1986). Results from the Harman's single factor test and partial correlation analysis using a marker variable suggested that mono-method bias was not a concern in this study (Hair, Black, Babin, Anderson, & Tatham, 2006). Using SPSS v. 18, missing values analysis was performed, and mean substitution was subsequently applied due to the missing completely at random (MCAR) nature of the values. The distribution of data was considered within the normal range with respect to skewness and kurtosis indices.

## Measurement

### *Independent variables*

Two constructs were used to measure social capital in the context of export performance at small firms: *export partner relational capital* and *generic export relational capital*. *Export partner relational capital* was used to capture the social capital dimension associated with the firm's relationships with their export partners. These export partners may include international customers overseas who deal directly with the local export firms, international agents located overseas who deal with local export firms, and domestic companies that act as export agents who 'buy' the products from manufacturers and then ship them to overseas customers. This construct is measured by five items adapted from Kale et al. (2000) with a 7-point Likert scale: 1 (strongly disagree) to 7 (strongly agree). A sample item states, "There is close personal interaction between my firm and our export partners."

Export firms must deal with various government agencies, financial institutions and other businesses to undertake all the activities related to exporting. A new

construct was developed to measure the quality of relationships between the export firms and other business or government entities that they encounter on a regular basis. A construct called *generic export relational capital* was developed with eight items. The items were developed based on the extant literature and the results of informal interviews with five export firms. Then, the items were reviewed by academic and industry experts. A pilot test was conducted with 10 exporting firms; the respondents were asked to indicate which of the eight items generally applied to exporting firms. The results indicated that only five items are viewed as common across the ten firms. Thus, these five items were combined to measure the construct called "generic export relational capital", with each item having a 7-point Likert response scale: 1 (strongly disagree) to 7 (strongly agree). A sample item states, "We have reliable relationships with government agencies relevant in our exporting activities."

*Export knowledge* was measured by eight items adapted from Shamsuddoha and Ali (2006) with each item having a 7-point Likert-type scale. A sample item states, "The firm is able to arrange shipping and forwarding without difficulty." *Entrepreneurial orientation* was measured by nine items adopted from Covin and Slevin's (1989) work; responses to statements (e.g., in dealing with my competitors, my business typically responds to actions that competitors initiate or typically initiates actions to which competitors respond) are expressed using a 7-point scale, with seven reflecting an entrepreneurial orientation and one reflecting a less entrepreneurial orientation.

### ***Dependent variable***

*Export performance* was measured by asking respondents to indicate whether their expectations for the export venture had been met over the past three years using a 7-point scale (1 well below expectations and 7 well above expectations) across four performance indicators: export sales, export profit, export sales growth, and new market entry. These items were adapted from Shamsuddoha and Ali (2006).

### **Data Analysis**

Structural equation modelling (SEM) was used to test the hypotheses of the study aided by the software called EQS 6.1 (Bentler, 1995). SEM is a multivariate statistical technique to confirm the relationships of latent variables in a model strongly guided by theory. Using Anderson and Gerbing's (1988) two step approach, this study developed and confirmed an effective measurement model using confirmatory factor analysis. Subsequently, the study analysed the structural model depicting the hypothesised relationships of the constructs. Although the sample size of 175 is relatively small, it is considered acceptable for

SEM purposes if there are no significant issues with the degree of normality of data distribution (Loehlin, 2003; Hoyle, 1995; Kline, 1998).

Confirmatory factor analysis (CFA) was performed on all of the constructs using maximum likelihood technique (Brown, 2006). The indicators or items were pre-selected or assumed to load to a specific factor or construct based on prior strong theoretical, conceptual or empirical evidence (Brown, 2006; Hair et al., 2006). Details of the CFA are shown in Table 2.

Results of the CFA showed that all of the items measuring each of the five constructs loaded highly on the pre-determined factors with no path estimate below the .5 minimum value (Brown, 2006). All constructs showed acceptable levels of reliability, as evidenced by the high internal consistency coefficients (i.e., Cronbach Alpha) ranging from 0.82 (generic export relational capital) to 0.94 (EO). Itemised analysis revealed that the composite internal consistency of each factor would not improve if a component-item was deleted.

Convergent validity was indicated by the fact that the items loaded significantly on their corresponding construct (Bagozzi, Yi, & Phillips, 1991). Further evidence of convergent validity included the average variance extracted (AVE) values, which were all above the threshold of 0.50, thus indicating that the constructs contained less than 50% error variance (Fornell & Larcker, 1981). Discriminant validity was established after the square root of each construct's AVE was found to be larger than its correlations with other constructs, as shown in Table 2 (Fornell & Larcker, 1981; Hair et al., 2006).

The overall goodness of fit indices indicated that the measurement model fit the data well as evidenced by  $\chi^2 = 864.40$  (150 df)  $p = 0.15$ , NFI = 0.96, CFI = 0.94, and RMSEA = 0.03. The results of the ROBUST Method, which is offered by EQS to examine the model for slight departures from the normality assumption of data distribution, confirmed the results generated by the maximum likelihood technique.

Overall, the results of the test of the measurement model-data fit suggested that the constructs used in this study possessed satisfactory level of construct validity, internal consistency (i.e., reliability), convergent as well as discriminant validity. Table 3 shows the means, standard deviation and correlations of the five constructs used in the succeeding analysis of the structural model-data fit.



Table 2  
The measurement model

Construct and corresponding indicators	Standardised factor loadings*
1. Entrepreneurial orientation (AVE = 0.75)	$\alpha = 0.94$
Tried and tested products vs. R&D and technological leadership	0.89
No. of new product lines in past few years	0.83
Minor vs. Dramatic changes in product lines	0.87
Proactive vs. Responsive dealings with competitors	0.86
Introduction of new products/techniques/technologies	0.87
Avoid vs. Adopt competitive posture	0.89
Preference for low risk vs. High risk projects	0.83
Cautious vs. Bold acts to explore business environment	0.91
Cautious vs. Bold decision-making	0.85
2. Export partner relational capital (AVE = 0.78)	$\alpha = 0.89$
There is close personal interaction between my firm and our export partners	0.75
The relationship between my firm and our export partners is characterised by mutual respect	0.85
The relationship between my firm and our export partners is characterised by mutual trust	0.71
The relationship between my firm and our export partners is characterised by personal friendship	0.78
The relationship between my firm and our export partners is characterised by high degree of reciprocity	0.81
3. Generic export relational capital (AVE = 0.84)	$\alpha = 0.82$
We have reliable relationships with government agencies relevant to our exporting activities	0.86
We have reliable relationships with financial institution necessary for our exporting activities	0.97
We have reliable relationships with trade and business associations to gather information and support for our exporting activities	0.92
We have reliable relationships with other shipping and forwarding companies that we engaged without exporting activities	0.97
We have reliable business relationships with other private companies that are directly involved in our exporting activities	0.86

(continued)

Table 2 (continued)

Construct and corresponding indicators	Standardised factor loadings*
4. Export knowledge (AVE = 0.81)	$\alpha = 0.88$
The firm is able to arrange shipping and forwarding without difficulty	0.96
The firm is able to prepare and handle necessary export documentation	0.86
The sales people are sufficiently knowledgeable about our existing foreign markets	0.95
Overall, we have sufficient information about the foreign markets we are serving	0.93
We have current information about foreign government regulations that affect our markets	0.88
We know the economic situation in our export markets	0.91
We have sufficient knowledge about the international marketing services available for private and public sources	0.91
We have the skills and knowledge to cope with the challenge of globalisation	0.81
5. Export Performance (AVE = 0.73)	$\alpha = 0.85$
<i>Indicate whether the results of export activities have met or exceeded your expectations over the past three years with respect to:</i>	
Overall export sales	0.85
Export profit	0.95
Export sales growth	0.81
Entry to new markets	0.79

Note: \*all significant at 0.05 (i.e., test statistic > +1.96)  
 AVE = average variance extracted based on standardised solutions

Table 3  
 Descriptive statistics and correlations of the variables used in the study

Constructs	Mean	SD	EO	ERC	GRC	EK	EP
Entrepreneurial orientation (EO)	4.85	1.28	<b>0.87</b>				
Export partner relational capital (ERC)	4.52	1.08	0.71*	<b>0.88</b>			
Generic export relational capital (GRC)	5.21	1.12	0.55*	0.33*	<b>0.92</b>		
Export knowledge (EK)	4.42	1.35	0.60*	0.72*	0.69*	<b>0.90</b>	
Export performance (EP)	3.95	1.42	0.45*	0.68*	0.63*	0.75*	<b>0.85</b>

SD – standard deviation

\*significant at  $p < .05$ .

In bold, diagonal figures show the square root of average variance extracted (AVE) values.

### Hypothesis Testing

Results from fitting the structural model to the data using maximum likelihood technique showed satisfactory results as indicated by  $\chi^2 = 350.56$  (219 *df*)  $p = 0.06$ , NFI = 0.96, CFI = 0.94, and RMSEA = 0.04. The ROBUST technique was also applied using EQS, and the output confirms these results. Further details are shown in Figure 2.

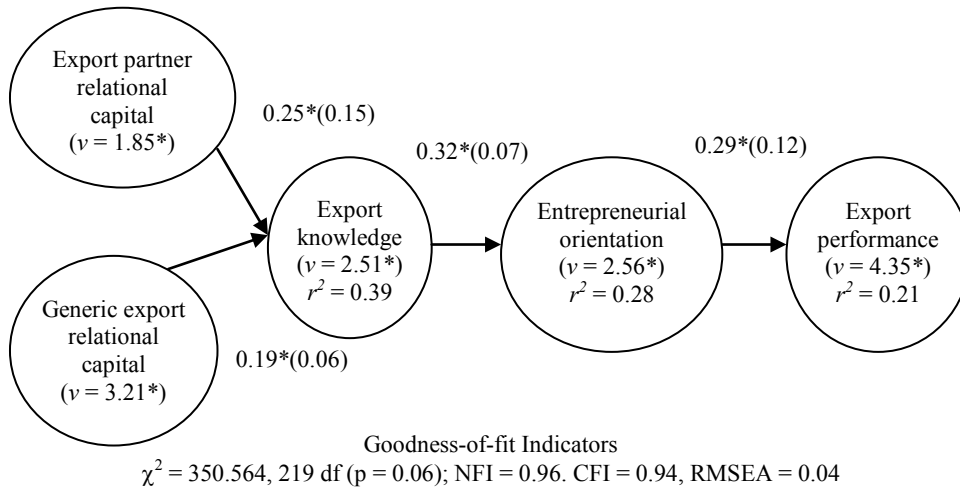


Figure 2. The structural model

The results showed that all of the variables had variances that were statistically different from zero, which indicated that each variable was highly distinguishable (i.e., distinctive) from the others (Bentler, 1995). Both export partner relational capital and generic export relational capital explained 39% of the variations in the firm's export knowledge. Meanwhile, export knowledge explained 28% of the variations in the level of EO of firms, and the latter explained 21% of the variations in the level of export performance of the sample firms.

The path coefficients were all significant at 0.05 level of confidence. The empirical evidence indicated that both types of social capital are positively associated with higher levels of export knowledge, although export partner relational capital tends to have greater effect on export knowledge than generic export relational capital. Higher levels of export knowledge were also found to have positive association with entrepreneurial orientation, which in turn was shown to have positive impact on export performance. The empirical evidence offered support for H<sub>1</sub> and H<sub>3</sub>.

Given the  $r^2$  values of 0.21 to 0.39, the effect sizes for all of the hypothesised relationships were considered medium to large (Field, 2005). These indicators of effect size suggested that, despite having relatively small yet significant path coefficients, the results could be considered practically significant and meaningful from which inferences could be drawn (Cohen, 1992; Field, 2005; Pedhazur, 1982).

### Mediation Analysis

Mediation analysis is the process of establishing that export knowledge intervenes or mediates the relationships between social capital and entrepreneurial orientation. The process follows the standard approach proposed by Baron and Kenny (1986). Table 4 shows the results of the mediation analysis.

Table 4  
*Mediated relationships*

Mediated Path Analysis	Model A	Goodness-of-fit measures		Model B	Goodness-of-fit measures		C (A – B)	Extent of mediation
		$\chi^2(df)$ NFI/CFI/ RMSEA	Direct effects		$\chi^2(df)$ NFI/CFI/ RMSEA	Indirect effects		
Export partner relational capital → EO	0.41* (0.50)	280.87 (216) 0.92/0.95/ 0.03	0.12* (0.09)	394.45 (215) 0.94/0.93/ 0.04	0.29	<i>partial</i>		
Generic export relational capital → EO	0.24* (0.29)	245.65 (216) 0.95/0.91/ 0.02	0.15* (0.11)	311.45 (215) 0.95/0.92/ 0.03	0.09	<i>partial</i>		

Note: \* significant at  $p < 0.05$   
 $df$  – degrees of freedom  
 Model B – controlling for export knowledge

The results show the significant relationships between the two types of social capital and EO, as shown in Model A. The goodness-of-fit indicators suggest that the model fits the data well. When export knowledge was controlled for under Model B, the path coefficients between the two types of social capital and entrepreneurial orientation remained significant despite the reduction in values. Following the guidelines in Baron and Kenny (1986), the results suggest that export knowledge *partially* mediates the relationship between social capital and entrepreneurial orientation. Partial mediation is an indication that, although other extraneous factors may possibly mediate the social capital-entrepreneurial

orientation linkage, the empirical evidence gathered by the study suggests the mediating role of export knowledge in the specified relationship.

## **DISCUSSION, CONCLUSION AND IMPLICATIONS FOR FUTURE RESEARCH**

The empirical evidence shows the positive inter-relationships amongst the firm's social capital, export knowledge, entrepreneurial orientation and export performance. The study's attempt to link social capital to the firm's value-creating entrepreneurial undertakings by funnelling valuable export knowledge into the firm highlights the contributions of this study on the theoretical, methodological and empirical fronts. At the theoretical level, the finding that the two types of social capital serve as channels through which the sample firms are able to acquire, improve or augment their export knowledge expands the theoretical scope of a firm's strategic assets in the context of RBV (Armstrong & Shimizu, 2007; Barney, 2001b; Newbert, 2007). Although the debate on whether social capital should be considered a valuable firm resource is ongoing (Chrisohm & Nielsen, 2009; Federico et al. 2009), the positive impact of social capital on export knowledge, as shown in the current study, supports the view that social capital may well be treated as a strategic asset that enables small export firms in an emerging economy to overcome their liability of smallness in terms of export knowledge identification and acquisition. The results reinforce the view that social capital can potentially bestow the firm with benefits that have strategic performance implications (Ellis, 2010; Federico et al., 2009).

Moreover, the results of the current study highlight the mediating role of entrepreneurial orientation in the relationship between export knowledge and performance outcomes at the sample firms. Under the VRIO framework of RBV (Barney, 2007), a firm must possess the "organising capability" to strategically exploit its valuable, rare, and inimitable strategic assets. The results show that entrepreneurial orientation is an example of this organising capability that leverages and exploits valuable export knowledge within the firm.

The results suggest that export knowledge fuels firms as they embark on proactive, innovative and risk-taking ventures to identify and exploit international business opportunities. Consequently, when firms have higher levels of entrepreneurial orientation, they are likely to achieve better performance outcomes. In general, the results are consistent with the VRIO framework of RBV because resources (e.g., social capital and export knowledge) and their deployment through the firm's capabilities (e.g., entrepreneurial orientation) are likely to generate competitive advantage and positive rates of return for firms (Barney, 2001b). A firm that has an adequate stock of knowledge and the

capability to deploy its knowledge base is likely to perform better than others. These results address one of the issues suggested by Jones et al. (2009) on the connection between networks and the recognition and exploitation of international opportunities. Small export firms are likely to be more knowledgeable about exporting and to be innovative, proactive and successful in identifying and exploiting international business opportunities if they have close, reliable partnerships with their customers as well as the various government agencies, financial institutions, and other firms that impact the firms' export activities (Ellis, 2010).

This study contends that export knowledge becomes a strategic asset if the firm has the entrepreneurial orientation to leverage that knowledge in the identification and exploitation of international business opportunities to become competitive and reap positive rates of return. This view extends the argument of Keh, Nguyen and Ng (2007), among others, that strategic use of knowledge is critical to the optimal performance of firms.

At the methodological front, the current study contributes to the development and testing of the measurement model for two types of social capital within the context of small export firms in developing economies. Although a plethora of studies relate networks and social ties to the internationalisation of firms (e.g., Acquaah & Eshun, 2010; Jones et al., 2009; Ma et al., 2009), studies that develop and test measurement scales of social capital that are applicable to small export firms are rare. The current study's development of measures of social capital is a contribution to a robust and replicable measurement of this complex, controversial concept.

The study's empirical contribution lies in its focus on how small manufacturing-export firms in the Philippines use social capital to support their international ventures. The results of the study suggest the importance of building and sustaining long-lasting, reliable social networks that enable small manufacturing firms to acquire or augment their knowledge on exporting. Interestingly, despite their size, a number of firms in the sample demonstrated high levels of entrepreneurial orientation that explain their higher levels of export performance. Although small manufacturing firms are typically seen as having severe resource inadequacies (Keh et al., 2007; Fry & Freeman, 2005; Acquaah & Eshun, 2010), the findings suggest that small firms are capable of proactive, innovative, risk-taking endeavours, activities that are conventionally considered resource-intensive (Covin & Slevin, 1989; Covin & Miles, 1999). However, the liability of smallness may have triggered these small manufacturing-export firms to build social capital aggressively to acquire more knowledge and may have prompted them to intensify their entrepreneurial orientation, aided by their acquired knowledge of exporting, to sustain or improve their export performance.

However, the firm's social capital with its export partners appears more strategically important than the generic export relational capital, as indicated by the path coefficients. One plausible explanation is that the relationship between the firm and its export partners is well-defined, task-oriented, and strategically critical to the export venture, whereas relationships with government entities, banks and other firms may be general and may involve numerous other aspects of business operations. Nonetheless, the study results lend credence to the concept of "competing by social capitalising" in international business ventures. In a highly globalised yet interconnected economic landscape, small firms need to leverage their wide array of social network contacts, including managerial ties, to gain access to resources and to identify and exploit opportunities.

Overall, the study highlights the contributions of social capital and export knowledge to the competitive advantage and overall performance of small export firms in the Philippines. The inimitability of social capital and export knowledge affords the firm with potential strategic assets. Building social or business networks and knowledge acquisition and creation are unique and specific to the historical, structural and organisational conditions of firms. The path dependence of network formation and knowledge acquisition makes social capital and export knowledge unique and highly inimitable resource bases. Inimitability is further enhanced by the socially complex nature of the firm's social capital and the intangibility of export knowledge, which makes their appropriation by different firms particularly difficult.

The study highlights the critical role played by social capital in supplanting the need and augmenting or enriching the export knowledge of the small Philippine manufacturing firms in the sample. However, firms must develop the "organising capability" suggested by the VRIO framework of RBV, in the form of entrepreneurial orientation, to exploit export knowledge effectively into various forms that create value for the firm.

A major limitation of the study is its failure to consider the "time lag effect" in examining the social capital – export knowledge – EO – export performance connections (Smallbone, 2007). The time lag effect is a limitation of cross-sectional survey design due to the difficulty involved in accommodating the formation of social capital and the accumulation of export knowledge over an extended period of time. Thus, the impact of these constantly evolving-variables on firm-level phenomena such as EO and performance will vary depending on the stage of evolution of these variables at the time of the survey.

Future research directions include an investigation into other forms of social capital that a small firm develops over time and their impact on the variables identified in the model tested in this study. Other research might examine

whether a firm's capability to learn has an attenuating or enhancing effect on the relevance of social capital and the exploitation of knowledge gained from it. The current study's focus on market-related social capital can be challenged by the view that social capital is a community level phenomenon and should be measured at the community level. Finally, resource identification, acquisition and deployment are dynamic and not necessarily linear processes. Repeated study designs may be able to capture the changes within the firm as it engages in social capital building, knowledge acquisition, and entrepreneurship to sustain its international business ventures.

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