

## The Relationship Between Halal SMEs Social Capital and Foreign Market Knowledge

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**Abstract:** This study examines the influence of social capital dimension in network relationships on foreign market knowledge. Three key dimensions of social capital in network relationships were measured in this study are structural dimension, relational dimension and cognitive dimension. This study used quantitative data collection method, a total of 107 managers/decision makers have participated in the survey. The results were analysed using SEM- Partial Least Squared (PLS) technique. The researcher found that structural dimension and relational dimension have significant effect with foreign market knowledge. This suggest that Halal SMEs in Malaysia were focusing on structural and relational dimension in building their foreign market knowledge.

**Keywords:** social capital, network relationship, foreign market knowledge, Halal SME.

### 1. Introduction

Ever changing business environment makes it necessary for organizations to employ effective plans of action and business strategies especially when they make decision to enter foreign markets. This study aims to focus on the Halal SMEs which is considered as one of the main contributor to Malaysian's economic development and have great impact to both employees and customers. This industry has a great potential as it can be seen that there is an increase in Muslim population accompanied with the potential demand for halal products.

Past literatures on the network relationships of SMEs decision makers have used various network related theories, one of those is the incremental or stage-based theories of Uppsala internationalisation process model (Johanson & Vahlne, 2009). Johanson & Vahlne (2009) argued that incremental advances in foreign market knowledge (FMK) helps firms to minimise risk and overcome uncertainty by learning. This notion is similar to Cavusgil (1984) who indicated that as firms gained experience in a span of time, they will accumulate more resources and develop the capabilities need by the managers for international business activities (Cavusgil, 1984).

According to literature reviews, it is also identified that most past researches focused their studies on how firm use network agents as their external relationship for knowledge acquisition on foreign market (Ciravegna, 2011; Suárez-Ortega et al., 2015), specifically to tackle the barriers of a psychic distance which is the difference a person has in terms of language spoken, business practices, local culture and even education (Johanson & Vahlne, 2009). Using the social capital view, this paper anticipates that business owners can access the external tacit and strategic knowledge through social networks (Savory, 2006). by using the mechanism of social capital to mobilize key resources. And to exchange information (Adler and Kwon, 2002; Nahapiet and Ghoshal, 1998. Additionally, according to Ibeh and Kasem (2011), firm's relationship with its networks including the range of relationship and its qualities with actors in the foreign market, can ease the internationalisation decisions. However, it shows that some scholars are concerned with the benefits and drawbacks of engaging in relationships that goes beyond formal and contractual linkages (Adler and Kwon 2002). This led to the different perspectives on the role of social capital (Granovetter 1992; Moran 2005). Other researchers suggested that these dimensions (structural, relational and cognitive) in social capital approach can influence and motivate the access and sharing of knowledge (Inkpen and Tsang, 2005; Musteen, Datta and Butts, 2014)

This study aims to investigate the influence of structural, relational and cognitive dimension of social capital on the foreign market knowledge of Halal SMEs decision maker. The main concern here is, as past research suggested, in order to seize worldwide opportunities, Halal SMEs need to constantly reconfigure their current and existing resources of their stock knowledge and generate new knowledge from external sources (Schultz, 2001). As stated by Schotter & Abdelzaher (2013), the strategy of internationalizing Halal SME are to push and attempt to leverage the competencies across neighbouring markets with similar characteristics as their home market. The findings of the study would determine the significant of social capital on foreign market

knowledge, this study is expected to contribute to the development and internationalization of halal SMEs which can be different from general SMEs. It is also hoped to strengthen the contention of many halal SMEs to enter international markets and perform in the foreign market they enter.

## **2. Literature Review**

### **2.1. Theoretical Background**

Drawing from the Network and Uppsala theory, scholars in the area of firm's internationalisation have largely agreed on the importance of networking for internationalizing firms. This perspective which is mainly drawn from the industrial marketing literatures, recognizes that firms are connected to other 'actors' in the market and this phenomenon is seen as "systems of social and industrial relationships encompassing, customers, suppliers, competitors, family and friends" (Coviello & Munro, 1997).

In other types of network studies, several researchers have suggested the importance of social network ties, in line with the social capital theory. According to Granovetter (1985), social structures have significant role in economic and management activities.

### **2.2. Social Capital Dimension**

The social capital theory has begun to gain its traction in the international business literature with the proposed dimensions, namely are structural, relational, and cognitive (Lee, 2009; Nahapiet & Ghoshal, 1998). This study further analyses the link between social capital and foreign market knowledge by using each of the dimensions mentioned above. These three dimensions can provide a useful tool to evaluate how halal SMEs use their network to facilitate foreign market knowledge. The first dimension, which is structural dimension, discusses two components. The first one is the network density, which represents "the ratio of existing relationships among network members to the total number of possible relationships" (Marsden, 1990). The higher the density of the network may represent the probability of network members directly connected with each other. On the other hand, low network density represents that the network relationships are loose in terms of direct connections. Network density also points out to the degree to which there are structural holes (missing/loose connection between the linkages) present in the network (Musteen et al., 2014). The next component is the network diversity, characterises how a firm's network is shaped which can give significant influence in the knowledge accumulated and acquired. Firms that have connections to diverse network, for example, from public officers to politicians to prominent businessmen, are more likely to have an access to "unique" opportunities and knowledge.

The next dimension taken into account in this study is the relational dimension, which refers to the strength of ties based on the intensities (closeness) of the network relationships, and the frequency of interaction which refers to how constant are the communications between the network actors. These ties are also characterised by relationships that have strong trust foundation that may have developed from the efforts of interactions. According to Granovetter (1973), social interaction may also encompass reciprocal obligations and emotional intensity. A strong relationship between network actors is depicted with how they build trust and relationship over the years through interaction. On the other hand, low ties nature is opposite, with no strong relationship and limited emotional investment for the particular network.

The last dimension is cognitive, which can be defined when two or more network members have the same shared presentation (Musteen, et al., 2010; Sui, et al., 2015), and this can be in the form of language, culture and ethnic. According to Sui, et al. (2015), cognitive roles, such as language, can be used as a means to get close to cultural and heritage of people from different countries.

### **2.3. Foreign Market Knowledge**

According to Bohatá and Mládek (1999), foreign market knowledge also helps smaller firms to cope with their disadvantages in seeking international markets, given their lack of financial and human resources. Thus, this ensures SME managers' abilities to identify opportunities in the foreign market (Liesch & Knight, 1999). A study by Chetty and Holm (2000) which examined managers' role in the internationalisation process found that managers were forced to focus on the product trends rapid and constant change and innovations in the market.

In return, foreign market knowledge will assist managers who have the knowledge to be more prepared in the new environment and deal with risks associated with internationalisation (Liesch et al., 2011). Besides, foreign market knowledge allows managers to develop business relationships, acquire more information regarding their international effort and effectively position their firms' products in the new market environment. Foreign market knowledge (FMK) helps SME in improving their international performance (Musteen, 2014; Zahra,

2005), especially those SMEs from developing economies where the managers have less international experience (Pollard & Jemicz, 2010). Blomstermo, Eriksson, Lindstrand, & Sharma (2004) stated that the use of knowledge for internationalisation is absolutely necessary and important, to detect errors and mistakes and help firms to take corrective measures to overcome the problems, and act as a resource to generate performance outcome, and this is accurate, especially since decision-making that firms undertake is always driven by its stock of knowledge (Hohenthal, Johanson, & Johanson, 2014; Ojala, 2009). Further, according to Sharma & Blomstermo (2003) firms are able to perceive the risk during their establishment of new relationship in international market if they have sufficient knowledge (Guercini & Runfola, 2010). Thus, we understand that social capital in networking is an important key to success when firms need to learn, acquire knowledge and gain experience.

#### **2.4. Relationship Between Structural Dimension and Foreign Market Knowledge**

Burt (1992) pointed out that the component of the structural dimension offers substantial information benefits to intermediaries who connect them. It serves as a bridging mechanism between disconnected parties, resulting in the flow of knowledge and information through the network. Consequently, network members are better informed about a particular market and can access knowledge in a faster and systematic manner. Contrastively, dense networks are characterised by a few structural holes and tend to have redundant knowledge compared to sparse networks, which are characterised by more structural holes and are associated with greater information diversity (Koka & Prescott, 2002). Studies by Jeong (2016) and Zhou and Hsu (2007) found that managers were able to obtain foreign market knowledge via sparse or disconnected networks, including suppliers, clients, trade show contacts and co-participants of seminars. These arguments provide a platform for Malaysian halal SMEs with a low-density network, where they should have greater access to knowledge in the foreign market as firms build ties with individuals who are not directly connected with each other. Ellis (2001) mentioned that a more distant professional network may give higher quality information, which provides firms with a more complete understanding of conditions and trends in the foreign markets such as the information and knowledge regarding local competitors, customers, and new opportunities. These networks can also facilitate firms in learning the local culture, political climate and legal environment of a particular foreign market. Other than that, a firm with low density but the diverse network will have the benefit of confidence where network actors might discuss possible opportunities in foreign markets with their partners, as the idea will not be appropriate for their competitors who are also on the loose network (Coviello, 2006).

In sum, this study posits that structural dimension will result in greater accumulation of foreign market knowledge at the time of firm's internationalisation.

Therefore, it is hypothesised that:

***H1: There is a positive relationship between the structural dimension of Halal SME owners and foreign market knowledge.***

#### **2.5. Relationship Between Relational Dimension and Foreign Market Knowledge**

According to Granovetter (1973), relationship ties are categorised into two kinds, namely strong and weak. Strong ties depict a high trust level resulting from a relationship that has developed over time as firms repeat their interactions. Contrastively, weak ties show the absence of such relationships, which has a limited emotional investment. Although past literature has discussed and debated the role of strong ties, some scholars suggested that weak ties are more beneficial as it often involves less cost to maintain and can also generate diverse knowledge (Granovetter, 1973; Poppo et al., 2008). However, a substantial number of scholars also emphasised the importance of strong ties embodied by trust, commitment and cooperation. Loosely, it can be said that strong ties between network members make coordination between network members to be easier. This study is in line with this view as the argument for this view is more solid. As suggested by Levin and Cross (2004) in their study, strong ties have great benefit as it assists firms with an easier transfer of know-how knowledge and information (Freeman et al., 2010).

According to Pirson and Malhotra (2011), network members are willing to share their knowledge based on their level of trust, removing any uncertainty whether a network member is an ally and will not act opportunistically (Inkpen & Tsang, 2005). Moreover, the existence of trust provides firms with the expectation that knowledge will be used for the betterment of both parties (Uzzi & Lancaster, 2003). The findings from the literature proved that trust relatively increases the success of agreements between firms to have co-operations (Mora-Valentin et al., 2004). As mentioned by Nahapiet and Ghoshal (1998), the relational dimension influences not only access to knowledge sharing but also the expected value of knowledge sharing and

motivation for firms to share knowledge among network members. This argument provides us with the basis to suggest that strong ties would help halal Malaysian SMEs in foreign market knowledge accumulation.

Therefore, it is hypothesised that:

**H2: There is a positive relationship between the relational dimension of network relationships and foreign market knowledge.**

### 2.6. Relationship Between Cognitive Dimension and Foreign Market Knowledge

Cognitive dimension can increase the chance of an individual to share or exchange knowledge (Chow & Chan, 2008). In terms of influencing the extent of SME owners' foreign market knowledge, several scholars such as Musteen et al (2014) and Sandberg (2014) have found that the ability to transfer the knowledge and know-how is related to an effective communication between network members which categorically falls in the cognitive dimension. Since communication is crucial to the success of foreign market knowledge accumulation, network members who have a common vision and attributes would easily transfer the know-how and knowledge systematically. Therefore, it is hypothesised that:

**H3: There is a positive relationship between cognitive dimension and foreign market knowledge.**

### 3. Methodology

The instrument selected for this study was questionnaire survey. The questionnaire mainly included self-designed questions and was developed to suit the targeted respondents in the present study. Since, the target respondents are the Halal SMEs, it was developed to suit the respondents for its simplicity and user-friendliness. Halal SMEs are those business who described themselves as being *halal*, because they are very concern with Islamic religious issues and practices according to Islamic teaching and guidelines, namely approved by JAKIM Malaysia, an organisation that certified the business as Halal practices. For this purpose, the samples of this study are those Halal SMEs based in Malaysia and they must have involved in business at the international level. A total of 107 respondents answered the survey.

### 4. Results and Discussion

Table 4.1 shows the respondents profile that involved in this study. The the results depicted that there was a total of 76 (71.03) respondents from the top managers, and 31 (28.97) respondents were owner/CEO/director of the Halal SMEs. Based on the firm's establishment the table depicted that majority of the respondent's firm have been established for less than 5 years which account for 60 (50.47%) from total respondents, while 56 firms have been established for more than 5 years (49.53%).

Further, the results shown that 47 of the respondents' SMEs have international experience of more than 5 years (43.92%), 42 firms have international experience between 2 to 5 years (38.32%) and a total of 18 firms have less than 2 years of international experience. Further, the findings suggested that a majority of *halal* SMEs that deal in international business are of the food & beverages industry, which accounts for 75 firms (70.09%), 15 (14.02%) firms in the agricultural industry, 4 firms (3.74%) in meat and poultry industry, and 13 firms (12.15%), have specified others. The study also found that the majority of our Halal SMEs' respondents employed workers between 50 to 99 personnel which accounts for 49.53% from the total respondents, 43 firms have less than 50 employees (40.19 %), and 11 firms have 100-199 employees (10.28%).

**Table 1:** Respondent profiles

Respondents Position	76 (71%) top managers, 31(29%) SME Owners
Firm's Establishment	56 (49.5%) firms > 5 years, 61(50.5%) firms < 5 years
Firm's International Experience	47 (43.9%) firms >5 years, 42 (38.3) firms 2-5 years, 18 (17.8%) firms < 2 years
Firm's Industry	75 (71%) firms food & beverages, 15 (14%) firms agriculture, 4 (3%) firms poultry, 13 (12%) firms others
Number of employees	43 (40.2%)firms < 50 employees, 53 (49.5%)firms 50-99 employees, 11 (10.3%) firms 100-199 employee

#### 4.1. Results for Correlation and Hypothesis testing

A preliminary correlation analysis was used to determine the relationships among the variables in the study. As Table 4.2 indicates, all relationships were significant and in the expected direction. Correlation coefficients ranged from  $r=.27$  to  $r=.60$ .

**Table 2.** Results for Correlation Analysis

	Foreign Market Knowledge (FMK)	Structural Dimension	Relational Dimension	Cognitive Dimension
Foreign Market Knowledge (FMK)	1			
Structural Dimension	0.574943	1		
Relational Dimension	0.604785	0.487752	1	
Cognitive Dimension	0.273014	0.541122	0.391953	1

After the initial correlation analysis, path coefficients was used to determine the predictive strength among variables. This is done before confirming the hypothesis through bootstrapping. All relationships were significant and in the expected direction. For this test, path coefficient values that are greater than 0.1 are deemed as significant. From table 4.3 below we can conclude that the predictive strength between cognitive dimension and foreign market knowledge is very low whereas both structural and relational dimension have strong relationships.

**Table 3.** Path Coefficient (Predictive Strength)

	FMK
CD	-0.152
RD	0.445
SD	0.427

**Table 4.** Bootstrapping Result for Hypotheses Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STD EV )	P Values
Cognitive Dimension -> FMK	-0.152	-0.144	0.1	1.517	$p < 0.13$
Relational Dimension -> FMK	0.445	0.474	0.113	3.926	$p < 0.001$
Structural Dimension -> FMK	0.427	0.408	0.119	3.594	$p < 0.001$

The bootstrapping procedure was conducted and based on the results as shown in the Table 4.3, there are two positive relationships between the constructs and one negative relationship between the constructs, i.e, the structural dimension (SD) has a positive relationship with FMK (t-value:3.594 and p-value: 0.001), and the relational dimension, has a positive relationship with FMK (t-value: 3.926 and p-value: <0.001) while the third dimension, that is cognitive dimension, has a negative relationship with FMK (t-value: 1.517, p-value:0.13).

**Table 5.** Hypotheses Result

Hypotheses	Results
H1. there is positive relationship between structural dimension and FMK	SUPPORTED
H2. there is positive relationship between relational dimension and FMK	SUPPORTED
H3. there is positive relationship between cognitive dimension and FMK	NOT SUPPORTED

## 5. Discussion and Conclusion

The literatures that are based on social capital approach suggests that factors relevant to knowledge and performance are not only based on the number of network contacts or structure but also includes the level of commitment, quality of relationship and trust among the connected relationships (Adler & Kwon, 2002). This paper examined the three dimensions of social capital that lead to a firm's foreign market knowledge. Using the Halal SMEs as the context, this study measured the social capital dimensions and foreign market knowledge of SMEs decision makers (ie owners /top managers).

The relationship between structural dimension and FMK in this study is consistent with the literature on social capital approach which argued that network diversity and density benefits the individuals in terms of the quality and quantity of information (Burt, 1992). The keys of structural dimension which is network diversity and density, will assist *halal* SMEs to grasp multiple contacts globally (diversity), while those *halal* SMEs with strong network ties (density) are able to gather reliable knowledge regarding the targeted foreign market especially during their first venture which they lack experience.

Secondly, the findings have revealed that the relational dimension of social capital has a positive relationship with foreign market knowledge, meaning that firms with frequent interactions have a higher chance of enhancing their knowledge about a particular foreign market. This kind of effective interactions are like to contribute to a sense of trust between network members resulting them to exchange foreign market knowledge. These findings are consistent with the literature on knowledge transfer such as Argote, McEvily, & Reagans (2003), who have found that the effectiveness of knowledge transfer are associated with frequent interactions.

However, our third finding has shown that there is no positive relationship between cognitive dimension and foreign market knowledge. Which, according to Nahapiet & Ghoshal (1998), suggest that the shared values, goals and perspectives between network members enables a firm to acquire information. This view is further supported by Chiu et al (2006) who suggest that cognitive dimension will give firms a better visualisation of information exchanged. Moreover, Tsai and Ghoshal, (1998, p. 467) has described shared vision as a mechanism that can bring different organizations together and bond them in order to combine or integrate their resources. However, since our findings have shown different result, there are a few literatures that have suggested that cognitive dimension to be more of a substitute (Ortiz, Donate, Guadamillas, 2016) and how it is more relevant for firms that are situated in an industry cluster where they demonstrate greater impact of knowledge acquisition rather than firms which do not belong to a cluster.

This research makes a number of theoretical contributions to literature on the network relationship based on social capital approach especially in the context of Halal SMEs from developing countries in seeking the foreign market knowledge (FMK) for enhancing their international activities. As stated by several scholars, even though there have been many studies in the past on international business, empirical research regarding understanding of the role of networks in terms of social capital approaches are sparse especially from developing economies, and even there is few, most studies are case based and therefore have limited generalizability. In addition, the study contributed to the literatures by focusing on internationalizing Halal SMEs, and the effects of social capital dimension on FMK.

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