Strategic Orientation and Absorptive Capacity: The Mediating Role Of Functional Conflict

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Strategic Orientation and Absorptive Capacity: 
The Mediating Role Of Functional Conflict

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Abstract

Research Aims: This study investigates the mediating role of functional conflict in explaining the effect of market orientation on the absorptive capacity of small and medium enterprises (SME) exporters in emerging markets.

Design/Methodology/Approach: The data were successfully collected from 124 respondents and tested using structural equation modelling via Smart-PLS.

Research Findings: The results support the notion that responsive market orientation and proactive market orientation positively influence absorptive capacity. In addition, functional conflicts serve as a quasi-mediator in the relationship between responsive market orientation and absorptive capacity.

Theoretical Contribution/Originality: The export competitiveness of SMEs is the output of intangible assets of external knowledge. The ability to identify the relevant knowledge, disseminate that knowledge within the organisation and transform it into valuable products or services is pertinent. Nevertheless, firms vary in terms of the ability to develop absorptive capacity. Accordingly, previous research investigates the antecedent of absorptive capacity, but very few have looked at the role of market orientation and the conditions that influence the relationship.

Managerial Implications in the South East Asian Context: Interaction with foreign importers affects SME knowledge development. Functional conflict requires open dialogues to develop meaningful outputs; as such, SMEs in South East Asia should aim to build good connections with their overseas importers.

Research Limitations & Implications: The limitations of this study include the small sample size, the external condition of Covid-19 that was not included in this study and the cross-sectional approach of data collection which did not capture the dynamic nature of the firm’s capability.

Keywords: Absorptive Capacity, Exporter-Importer Relationship, Functional Conflict, Market Orientation, Malaysia, SMEs
INTRODUCTION

The export competitiveness of small and medium enterprises (SMEs) is the output of intangible assets of external knowledge, often acquired through relationships with foreign partners. In such a dynamic environment, this exporter–importer (E–I) relationship relies on knowledge transfer and acquisition (Aykol & Leonidou, 2018). Along this line, the ability to identify relevant knowledge, disseminate this knowledge within the organisation and transform it into valuable outputs is pertinent. The literature demonstrates the positive and critical role of absorptive capacity in SMEs (Shekhar & Valeri, 2023) and in export ventures (Acedo et al., 2021). This is especially true for SMEs in emerging markets, such as Southeast Asia, due to the limitation of tangible resources and underdeveloped institutional support.

Firms vary in their capability to profit from absorptive capacity (Lichtenthaler, 2009; Phuong et al., 2022). While some studies report the positive role of absorptive capacity on performance in foreign market learning (Evangelista & Mac, 2016), others find that only potential absorptive capacity, not realised absorptive capacity, positively influences performance (Aliasghar et al, 2019). A cross-country meta-analytic study found inconsistencies in the relationship between absorptive capacity and performance, indicating divergent empirical evidence (Yao et al., 2020). Interestingly, while research on the organisational influences of absorptive capacity has gained momentum in the past decade (Lichtenthaler, 2009), knowledge of how strategic factors help to develop effective absorptive capacity remains limited (Aliasghar et al., 2019; Kohtamaki et al., 2020). Recently, researchers have shown interest in the factors affecting absorptive capacity (Shekhar & Valeri, 2023). Notably, previous studies have offered evidence that the effect of an antecedent on absorptive capacity is non-linear; this suggests the existence of an external condition that influences a firm’s strategic orientation and absorptive capacity (Lichtenthaler, 2016). Therefore, this study seeks to answer the following questions: How do SMEs develop absorptive capacity? What conditions may affect this path?

Prior related knowledge shows that a firm’s strategic orientation helps in building absorptive capacity. For example, some previous studies proposed market orientation (MO) as a firm strategic process affecting absorptive capacity (Lichtenthaler, 2009; Hoque et al., 2022). The role of MO in SME exporting has been widely researched (Ismail & Isa, 2021). However, knowledge into the relationship between MO and absorptive capacity is still underdeveloped. Therefore, in this study, we propose to examine the effect of strategic orientation on absorptive capacity among SMEs in the export market.
In addition, since E–I serves as the conduit for knowledge flow, we suggest that conflict has a mediating effect on the relationships between strategic orientation and absorptive capacity. By strategic orientation, we mean market alignment; specifically, the two main dimensions of MO that pertain to customer and competitive orientations. The literature hypothesises that conflict with a knowledge source limits the ability to acquire and exploit external knowledge (Cuervo-Cazurra & Rui, 2017). Previous research mostly assumes that conflict carries negative connotations and that this reduces the effectiveness of knowledge acquisition and transfer. Few studies have examined the positive outcomes of functional conflict; namely, how it affects MO and knowledge absorptive capacity.

The research objectives of this study are twofold. First, it seeks to determine to what extent market orientation dimensions and E–I functional conflict affect the absorptive capacity of SMEs. Second, it asks to what extent functional conflict mediates the relationship between market orientation and absorptive capacity. The remainder of this paper is as follows: The next section discusses the literature review and hypotheses. This is followed by the methodology, results and discussion. The paper ends with research limitations and conclusions.

**LITERATURE REVIEW**

The absorptive capacity allows firms to create and maintain a competitive advantage through the arrangement of external knowledge (Camison & Fores, 2010). It links to the implementation of organisational routines that allow the assimilation, transformation, and exploitation of external knowledge (Malhotra et al., 2005). In the export market, foreign importers are the primary source of external knowledge (Mejri et al., 2019); thus, they are an important means of achieving a competitive advantage (Rua, 2018). Absorptive capacity helps firms to identify relevant external knowledge in the foreign market, assimilate this knowledge within the organisational structure and implement or exploit the newly acquired external knowledge to create output that can fulfil the needs and requirements of the market (Cohen & Levinthal, 1990; Jansen et al., 2005). This external knowledge complements existing knowledge while the firm adapts its knowledge structure to align with the new knowledge. By doing so, firms can discover new ideas and solutions to increase their output value and profits.

The importance of absorptive capacity in the strategic management literature has been extensively discussed for its capability to improve firm performance (Franca & Rua, 2017). Absorptive capacity is widely applied when exploring inter-organisational learning and knowledge transfer.
within strategic alliances (Lane et al., 2006; Flatten et al., 2011). In short, absorptive capacity enables firms to convert external knowledge into performance (Kostopoulos et al., 2011).

Researchers have identified that absorptive capacity is a largely underdeveloped topic (Noblet et al., 2011; Sancho-Zamora et al., 2022). Roberts et al. (2012) suggested that future studies should investigate absorptive capacity as more than just an asset, as so much of absorptive capacity can contribute to its development and application (Hagemeister & Rodriguez-Castellanos, 2010; Wang & Han, 2011). For example, previous research investigated the antecedent of absorptive capacity in small businesses and determined that absorptive capacity development is an emerging area (Shekhar & Valeri, 2023) that should receive extensive research enquiry.

Strategic orientation is a critical internal resource (Akgün & Polat, 2022) that can influence a firm’s ability to absorb external knowledge. The literature links strategic orientation to a business direction that guides a firm towards a competitive advantage, business sustainability and performance through a sense of market dynamics (Hong et al., 2023). The underlying philosophy of strategic orientation is a set of values that give employees a common sense of direction and knowledge utilisation (Lichtenthaler, 2016). A previous study showed that a firm’s learning capability is influenced by strategic orientation, including customer orientation (Jean et al., 2018). Others view MO as a critical strategic orientation (Lichtenthaler, 2016).

Scholars relate MO to a firm’s capabilities (Atuahene-Gima et al., 2005), such as its information processing capability (Boso et al., 2012). MO refers to a firm’s efforts to generate information about the customer and competitors (Bhattarai et al., 2019) and the external environment from which the firm processes and makes use of information internally (Day, 1994; Sinkula, 1994). In the export market context, MO is important because it helps firms to better understand customer needs so they can align their strategies with market conditions (Julian et al., 2014; Madsen et al., 2015).

MO has been the subject of continuous debate from its early development (Kirca et al., 2005). For example, Narver and Slater (1990) identified MO based on three components: customer orientation, competitor orientation and inter-functional coordination. However, following criticisms of MO for being too narrow in perspective, other scholars proposed a broader perspective with two dimensions: responsive market orientation (RMO) and proactive market orientation (PMO) (Narver et al., 2004).

Notwithstanding the debate, this study converges on customer needs, express current needs (RMO), latent future needs (PMO) and competitor orientation. The reason is customer and
competitor orientations were outward looking pertaining to the external information of export market which is critical for SMEs to attain international performance objectives (Mejri et al., 2018). In addition, achieving goals is not only by satisfying the needs of the customers but also by becoming more efficient than competitors (Narver et al., 2004). Therefore, focusing on both customers and competitors allows firm to respond toward market information and produce better decisions (Slater et al., 2010).

MO has long been the focus of many studies (İpek & Tanyeri, 2021), to the extent that many attempts have been made to conduct meta-analysis and integrate knowledge about MO (Bıçakcioğlu-Peynirci & Îpek, 2020). Previous studies have investigated the antecedents and outcomes of MO, as well as the factors that moderate the relationships. Among the most common topics of investigation are the capability outcomes of MO. For example, a recent meta-analysis examined a stream of research focusing on the effectiveness of developing MO among firms from less developed countries and the impact of MO on firm capability (Bıçakcioğlu-Peynirci & Îpek, 2020).

Knowledge about customer demands helps firms to better satisfy their customers and understand their competitors’ strategies (Jaworski & Kohli, 1993). For SMEs, market information is a critical intangible asset that firms depend on, especially considering the lack of tangible assets. Firms rely on foreign partners for export market knowledge. This leads to our examination of exporter–importer relationship conflicts as a condition that influences market intelligence and its relationship to absorptive capacity.

In another review, scholars found that among the least investigated consequences of MO was knowledge management, such as knowledge internalisation (İpek & Bıcakcioğlu-Peynirci, 2020). While the concept of knowledge management is rather broad, absorptive capacity is the critical element in the internalisation of external knowledge. To our knowledge, no study has investigated the influence of inter-organisational conflict on the relationship between MO and firm capability (knowledge management).

The role of MO in the development of absorptive capacity has merit because both are linked to the learning process and knowledge management. Kohli and Jaworski (1990) assert that MO concerns the generation and dissemination of market knowledge. This serves as prior knowledge useful to recognise ‘…the value of new information, assimilate it and apply it to commercial ends’ (Cohen & Levinthal, 1990). The next sections synthesise the extant literature on absorptive capacity, MO and inter-organisational conflict to develop our hypotheses.
Responsive Market Orientation (RMO)

RMO refers to the creation and distribution of market information about existing products, services, and customers (Wang et al., 2020). Firms can use RMO to discover and comprehend the current and expressed needs of their customers (Zhang & Duan, 2010). From another perspective, RMO enhances project teams’ competencies at merging knowledge in a more cost-effective way to solve customer problems; it also lessens transaction costs and the risk of expanding into unfamiliar territory (Atuahene-Gima et al., 2005), such as the international market. This resonates well with the international expansion of SMEs with limited tangible resources that nonetheless need to compete in the resource-demanding export market. As generating foreign market intelligence is costly, RMO helps contain resource commitments and costs. In fact, the literature shows customer intimacy and responsiveness to foreign market needs as strategies that have been used by SMEs (Kowalik et al., 2022), implying that RMO has been successfully helping SMEs to compete internationally.

The information generated by RMO can be integrated easily into a firm’s knowledge system (Wang & Liu, 2020); in doing so, it increases the firm’s ability to identify relevant external knowledge using fewer resources and at less cost. This is especially true for SMEs, which, due to their small size, have more flexibility and less bureaucracy. Cohen and Levinthal (1990) argue that the ability to evaluate and utilise outside knowledge, one of the critical processes of absorptive capacity, is largely a function of the level of prior related knowledge. Hence, RMO is critical to upgrading capabilities (Cuervo-Cazurra & Rui, 2017), such as absorptive capacity. Focusing on current customers and their expressed needs reduces the likelihood of errors in problem-solving, makes future information searches more predictable and makes their use in the product development process more reliable and less complex. Therefore, this study hypothesises that:

Hypothesis 1: Responsive market orientation positively influences the absorptive capacity of SMEs.

Proactive Market Orientation (PMO)

While RMO focuses on expressed needs and solutions, PMO aims at developing market knowledge about future, unexpressed needs and solutions (Wang et al., 2020). It tackles new markets through the discovery and fulfilment of latent customer needs and solutions so as to disclose new opportunities (Lichtenthaler, 2009). Therefore, PMO is considered a form of exploration (Yuki & Kubo, 2023) because it entails activities of discovery, change and innovation (Slater & Narver, 1995).
PMO relates to information far beyond the firm’s experience. As such, the latent and unexpressed information is expected to be complex and vague (Atuahene-Gima et al., 2005). RMO and PMO focus on different aspects of market intelligence and the complexity associated with this knowledge; consequently, developing a strategy that uses both RMO and PMO is too costly if resources are scarce (Wang et al., 2020), as is often the case with SMEs in an emerging market. In markets where technology, consumer needs and competitor strategies are constantly changing, PMO can help firms predict future market information and engage in radical, innovative activities (Li et al., 2008; Zhang & Duan, 2010). Similarly, PMO leads consumer decision-making and encourages generative learning, which leads to radical innovation (Lamore et al., 2013). Because information derived from proactive MO is, by definition, novel, complex, diverse, and ambiguous, it is likely to be synergistic with a learning orientation (Atuahene-Gima et al., 2005). This resonates well with the view that latent needs and solutions are commonly associated with industries such as software, intensive R&D, and services (Narver et al., 2004). Randhawa et al. (2021) maintain that SMEs may not be able to deliver proactive customer value offerings due to their focus on reactivity and efficiency in solving existing client problems. Furthermore, SMEs in emerging markets tend to be in commodity-related industries where radical innovation is not common. This study focuses on the manufacturing sector. Here, developing market intelligence through PMO for radical innovation is costly and reduces output value. In fact, absorptive capacity based on complex and ambiguous information requires large capital investment for resource-scarce SMEs. Based on this discussion, the following hypothesis is proposed:

Hypothesis 2: Proactive market orientation negatively influences the absorptive capacity of SMEs.

**Competitor Orientation**

Competitor orientation is about a seller’s understanding of its key current and potential competitors’ strengths, weaknesses, capabilities, and strategies (Narver & Slater, 1990). It benefits owner-managers to know about the practices of other firms (Crick & Crick, 2022) and to be able to monitor the market and respond to its movements appropriately and in a timely manner (Kazemian et al., 2022). The ability to monitor competitors’ actions and react to market changes can drive better performance (Kazemian et al., 2022). For example, a competitor might capture the value of new product innovations introduced by a market-oriented firm, and competition intensity is likely to affect the performance benefits derived from MO (Chaudhary et al., 2022). Competitor orientation helps SMEs generate information about their competitors and integrate this knowledge into the firm’s knowledge structure. Knowledge about
competitors’ actions and strategies guides SMEs towards external knowledge identification and valuing the relevant knowledge that is critical for generating competitive output. Thus, MO implies firm market knowledge that serves as an input to the initial process of absorptive capacity development (Lichtenthaler, 2009). Simply put, competitive advantage leads to effective absorptive capacity development in SMEs. Based on this discussion, the following hypothesis is proposed:

Hypothesis 3: Competitor market orientation positively influences the absorptive capacity of SMEs.

**Mediating Role of Functional Conflict**

This study proposes that the effectiveness of a firm’s strategic orientation in developing absorptive capacity is influenced by exporter–importer relationships, such as functional conflict. Most studies focus on the negative side of conflict; very few investigate the positive perspective of conflict or functional conflict. Functional conflict can be viewed as disagreements between organisational actors that can be resolved and ultimately have a positive effect on processes, decision-making and the tenor of the organisation (McClure, 2010). It consists of differences of opinion regarding tasks, procedures, strategy or any business-related issue that can be discussed openly among exporters and importers to enhance their relationship (Skarmeas, 2006). This is a positive, healthy conflict whereby both parties openly discuss any issue that arises between them. Further, both parties can regenerate and develop their relationship when the conflict is managed wisely (Pfajfar et al., 2019).

Functional conflict can assist an exporter and importer in working harder and more efficiently to achieve better performance outcomes (Jehn & Chatman, 2000; Jehn & Mannix, 2001). Ideally, both parties are willing to accept new ideas and perspectives that can benefit the relationship (Menon et al., 1996). De Clercq et al. (2009) describe functional conflict as assisting the management team in employing new technologies to attract new customers by arranging firm resources to create customer value (Ketchen et al., 2007). Empirical research indicates that functional conflict can also provide constructive and destructive influences on firm outcomes (Prasad & Junni, 2017).

A previous study that investigated MO-inter-organisational conflict interactions found that conflict negatively influences MO (McClure, 2010). Since knowledge about customer needs in RMO is current and expressed, any new knowledge is closely related to existing knowledge (Osorio Tinoco et al., 2020) and can be easily and properly integrated into a firm’s existing knowledge system (Wang & Liu, 2020). As such, SME exporters can effectively and efficiently
develop responsive market intelligence and reduce information asymmetry, making it easy for the exporter to have open discussions with the importer.

With RMO, exporters also become more responsive to customer needs and to meeting importer expectations. This, in turn, helps both parties to work collaboratively. This helps firms to identify the relevant knowledge available from the importer and to share it with the exporter. Further, functional conflict inspires certain structuring ties, whereby the employees of each firm in the relationship interact effectively and coordinate joint activities (Pfajfar et al., 2019). The ability to identify and effectively disseminate relevant information thus improves, as the partners in a functional conflict can challenge each other’s ideas and assumptions while respecting their respective viewpoints (Massey & Dawes, 2007). Hence, this study proposes the following hypothesis:

Hypothesis 4: Functional conflict positively mediates the relationship between RMO and absorptive capacity.

Other studies have found that the effectiveness of PMO is contingent on environmental and intra-/inter-organisational factors (Yuki & Kubo, 2023). Unlike RMO, PMO requires a deeper understanding of latent customer needs and a greater commitment of resources to develop high-value outputs (Osorio Tinoco et al., 2020). The complexity and ambiguity of information about customer needs are difficult to comprehend for resource-scarce SMEs, and PMO capability development involves significant costs (Yuki & Kubo, 2023). The inability of SMEs to effectively develop PMO market intelligence can make it difficult to have open discussions with importers. This is especially true when the exporter fails to effectively understand future customer needs, which in turn produces difficulty in creating products or services with high customer value. Thus, the following hypothesis is proposed:

Hypothesis 5: Functional conflict positively mediates the relationship between PMO and absorptive capacity.

Acquiring relevant knowledge by employing competitor orientation can reduce the risks associated with forming partnerships with inappropriate rivals (Crick & Crick, 2022). Understanding competitors helps a firm to develop relationships with complementary partners (Crick & Crick, 2022). Information about competitors can assist as inputs for developing strategic processes and actions based on intelligence gained from competitor orientation, which revolves around the firm’s understanding of competitive opportunities and competitive retaliation (Eibe Sørensen, 2009). Knowledge about competitors’ strategies, strengths and
weaknesses can help SMEs to communicate with their importers and work cooperatively in a functional conflict. Thus, this study proposes the following hypothesis:

Hypothesis 6: Functional conflict positively mediates the relationship between competitor orientation and absorptive capacity.

![Diagram showing the conceptual model of the study and its hypothesised relationships]

Figure 1. Shows The Conceptual Model of This Study and Its Hypothesised Relationships

**RESEARCH METHOD**

**Data Collection**

This study uses a cross-sectional quantitative survey approach. The respondents were SME exporters with between 20 and 200 employees. Most of the respondents held the title of Managing Director at their respective companies, with less than RM10 million in sales turnover over the last 24 months. The sample was derived from the directory of the Federation of Malaysian Manufacturers and cross-checked with the directory of the Malaysian External Trade Development Corporation. A total of 1,060 SMEs from the cross-industry manufacturing sector met the requirements and were therefore selected as the sample.

The questionnaires were first sent via postal mail, followed by reminder calls and emails one week after the first wave. To maximise the responses, the researcher also conducted face-to-face data collection with the selected sample in the areas of Kuala Lumpur, Selangor, and Melaka, as most SME exporters were based in these areas. Ultimately, 124 respondents participated, putting the result in the 11.69 percent response rate. All the data proceeded to analysis.

In terms of measurement, this study utilises existing measures based on a 5-point Likert scale. The construct to measure market orientation was based on items developed by (Narver & Slater,
1990) and later adapted by Narver et al. (2004) and Zhang and Duan (2010). Absorptive capacity was measured as proposed by Chen et al. (2009), consisting of three items, and by Lichtenthaler (2016), consisting of one item. Functional conflict was measured based on the approaches used by Song et al. (2006).

**Data Analysis**

The data were tested for validity and reliability using Smart-PLS software. Table 1 shows the results of the factor analysis. Here, just one item was deleted due to low loading (less than 0.7), leaving the remaining items with 0.81 and above. These high standardised factor loadings indicate the existence of convergence validity for all the items measuring the respective latent construct.

For discriminant validity, this study used the score of the square roots of Average Variance Extracted (AVE). As shown in Table 2, the square root of the AVE for all constructs was greater than the correlation between the constructs, thus supporting discriminant validity.

In terms of validity, Cronbach alpha and composite reliability results were 0.70 and greater for all the constructs. These results demonstrate the existence of reliability for the measurement used in this study.

Table 1. Measurement Items and Factor Loading

<table>
<thead>
<tr>
<th>Construct</th>
<th>Item</th>
<th>Factor Loading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsive</td>
<td>We constantly monitor our level of commitment and orientation to serving customers.</td>
<td>0.85</td>
</tr>
<tr>
<td></td>
<td>Our strategy for competitive advantage is based on our understanding of our customers’ needs.</td>
<td>0.81</td>
</tr>
<tr>
<td></td>
<td>We measure customer satisfaction systematically and frequently.</td>
<td>0.87</td>
</tr>
<tr>
<td></td>
<td>We have routine or regular measures of customer service.</td>
<td>0.81</td>
</tr>
<tr>
<td>Proactive</td>
<td>We help customers to anticipate developments in the markets.</td>
<td>0.89</td>
</tr>
<tr>
<td></td>
<td>We incorporate solutions to unarticulated customer needs in our new products and services.</td>
<td>0.88</td>
</tr>
<tr>
<td>Competitor</td>
<td>Competition in our industry is cut-throat.</td>
<td>0.78</td>
</tr>
<tr>
<td></td>
<td>There are many ‘promotion wars’ in our industry.</td>
<td>0.73</td>
</tr>
<tr>
<td></td>
<td>Anything that one competitor can offer, others can match readily.</td>
<td>0.84</td>
</tr>
<tr>
<td>Absorptive</td>
<td>Our firm is able to give external knowledge a commercial application.</td>
<td>0.87</td>
</tr>
<tr>
<td></td>
<td>Our firm is able to understand, analyse and interpret information from the environment.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Our firm is able to combine its internal knowledge with external information.</td>
<td>0.85</td>
</tr>
<tr>
<td></td>
<td>We thoroughly collect industry information.</td>
<td>0.87</td>
</tr>
<tr>
<td>Functional</td>
<td>We see constructive changes occur on projects because of conflicts.</td>
<td>0.84</td>
</tr>
<tr>
<td></td>
<td>We know each other better because of the way conflicts are handled.</td>
<td>0.91</td>
</tr>
<tr>
<td></td>
<td>We are more sensitive to one another because of the way that conflicts are handled.</td>
<td>0.84</td>
</tr>
<tr>
<td></td>
<td>We feel energised and ready to get down to work after a conflict.</td>
<td>0.86</td>
</tr>
<tr>
<td></td>
<td>We work together to solve conflict.</td>
<td>0.85</td>
</tr>
</tbody>
</table>

*Item deleted due to low loading*
Since this study adopted a survey method based on respondents’ perceptions of the phenomenon, the data was at risk of a multi-collinearity issue. However, the variance inflation factor (VIF) score was less than 3, demonstrating non-existent multi-collinearity.

Table 2. Matric Correlation, AVE

<table>
<thead>
<tr>
<th>Construct</th>
<th>Alpha</th>
<th>Composite</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Absorptive</td>
<td>0.82</td>
<td>0.89</td>
<td>0.92</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Responsive</td>
<td>0.85</td>
<td>0.90</td>
<td>0.58</td>
<td>0.91</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Proactive</td>
<td>0.73</td>
<td>0.88</td>
<td>0.59</td>
<td>0.72</td>
<td>0.93</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Competitors</td>
<td>0.70</td>
<td>0.83</td>
<td>0.40</td>
<td>0.32</td>
<td>0.48</td>
<td>0.88</td>
<td></td>
</tr>
<tr>
<td>5. Conflict</td>
<td>0.91</td>
<td>0.93</td>
<td>0.54</td>
<td>0.16</td>
<td>0.41</td>
<td>0.16</td>
<td>0.92</td>
</tr>
</tbody>
</table>

*Square root of AVE in parentheses

RESULTS AND DISCUSSION

Results

To test the hypotheses, this study ran the data using Smart-PLS software capable of analysing complex models from a small sample (fewer than 150 cases). The results are shown in Table 3.

All the independent variables (RMO, PMO and competitor orientation) constituted 27 percent of the explained variance in functional conflict. Meanwhile, the independent variables and functional conflict constituted 47 percent of the explained variance in absorptive capacity.

Hypothesis 1 proposed a positive effect of RMO on absorptive capacity. The results support the hypothesis with a highly significant effect ($\beta = 0.34$, $p > 0.001$). These results come as expected, as the literature demonstrates a positive relationship between the two constructs.

Hypothesis 2 proposed a significant negative influence of PMO on absorptive capacity. The results show that PMO positively affects absorptive capacity ($\beta = 0.26$, $p > 0.05$), so hypothesis 2 is not supported. These results come as a surprise and require further insight and deliberation.

Table 3. Results of the Structural Model

<table>
<thead>
<tr>
<th>Path</th>
<th>Estimate</th>
<th>T-Statistic</th>
<th>$f^2$</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main effect</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RMO $\rightarrow$ Absorptive Capacity</td>
<td>0.34***</td>
<td>3.91</td>
<td>0.03</td>
<td>2.42</td>
</tr>
<tr>
<td>PMO $\rightarrow$ Absorptive Capacity</td>
<td>0.26*</td>
<td>2.32</td>
<td>0.05</td>
<td>2.46</td>
</tr>
<tr>
<td>Competitor $\rightarrow$ Absorptive Capacity</td>
<td>0.16</td>
<td>1.83</td>
<td>0.04</td>
<td>1.31</td>
</tr>
<tr>
<td>Conflict $\rightarrow$ Absorptive Capacity</td>
<td>0.31***</td>
<td>3.73</td>
<td>0.14</td>
<td>1.40</td>
</tr>
<tr>
<td>RMO $\rightarrow$ Conflict</td>
<td>0.48***</td>
<td>4.27</td>
<td>0.16</td>
<td>2.09</td>
</tr>
<tr>
<td>PMO $\rightarrow$ Conflict</td>
<td>0.07</td>
<td>0.68</td>
<td>0.00</td>
<td>2.45</td>
</tr>
<tr>
<td>Competitor $\rightarrow$ Conflict</td>
<td>-0.03</td>
<td>0.32</td>
<td>0.00</td>
<td>1.31</td>
</tr>
<tr>
<td>Mediating effect</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RMO $\rightarrow$ Conflict $\rightarrow$ Absorptive Capacity</td>
<td>0.15*</td>
<td>2.43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PMO $\rightarrow$ Conflict $\rightarrow$ Absorptive Capacity</td>
<td>0.69</td>
<td>0.49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitor $\rightarrow$ Conflict $\rightarrow$ Absorptive Capacity</td>
<td>0.31</td>
<td>0.75</td>
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Table 3. Results of the Structural Model

<table>
<thead>
<tr>
<th>Path</th>
<th>Estimate</th>
<th>T-Statistic</th>
<th>f²</th>
<th>VIF</th>
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<tbody>
<tr>
<td>Model evaluation</td>
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<tr>
<td>R² Absorptive Capacity</td>
<td>0.49</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adj R² ADC</td>
<td>0.47</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R² Conflict</td>
<td>0.29</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adj R² Conflict</td>
<td>0.27</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

***Significant at 0.001, **Significant at 0.01, *Significant at 0.05

Hypothesis 3 predicted a positive effect of competitor orientation on absorptive capacity. The results show the effect was positive but not significant, hence hypothesis 3 was not supported. The effect of functional conflict on absorptive capacity was very significant and positive. Although not what was hypothesised, the results show that functional conflict in an exporter–importer relationship leads to close interactions and open discussions. This in turn helps cross-border partners to better manage their differences and disagreements (Pfajfar et al., 2019) and helps them be more willing to share relevant information and resources, thus intensifying the absorptive capacity of SMEs.

In terms of mediating effects, only the relationship between RMO and absorptive capacity was mediated significantly by functional conflict (β = 0.15, p > 0.05). Therefore, hypothesis 4 was supported. The other mediating relationships were positive but not significant, hence hypotheses 5 and 6 were not supported.

Table 4. Summary of Hypotheses Testing

<table>
<thead>
<tr>
<th>No</th>
<th>Hypotheses Statement</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Responsive market orientation positively influences absorptive capacity of SMEs.</td>
<td>Supported</td>
</tr>
<tr>
<td>H2</td>
<td>Proactive market orientation negatively influences absorptive capacity of SMEs.</td>
<td>Not supported</td>
</tr>
<tr>
<td>H3</td>
<td>Competitor market orientation positively influence absorptive capacity of SMEs.</td>
<td>Not supported</td>
</tr>
<tr>
<td>H4</td>
<td>Functional conflict positively mediates the relationship between RMO and absorptive</td>
<td>Supported</td>
</tr>
<tr>
<td></td>
<td>capacity.</td>
<td></td>
</tr>
<tr>
<td>H5</td>
<td>Functional conflict positively mediates the relationship between PMO and absorptive</td>
<td>Not supported</td>
</tr>
<tr>
<td></td>
<td>capacity.</td>
<td></td>
</tr>
<tr>
<td>H6</td>
<td>Functional conflict positively mediates the relationship between competitor orientation and absorptive capacity.</td>
<td>Not supported</td>
</tr>
</tbody>
</table>

Discussion

The literature shows that absorptive capacity is an important SME capability because it helps in identifying relevant market knowledge and transforming the obtained knowledge into valuable products or services (Aliasghar et al., 2023). While absorptive capacity is a unique capability that varies among firms, the role of a firm’s behaviour in terms of market intelligence in developing absorptive capacity has not been investigated fully. Boso et al. (2018) observed a positive and significant effect of MO on resource transformation capability, namely the capability to transform export resources into profitable export market offerings in both developed and emerging economies. The authors also assert that MO provides benefits in terms
of external knowledge acquisition and absorption from key players in the market. This is consistent with (Hodgkinson et al., 2012), who assert that absorptive capacity provides a context to improve understanding of market orientation theory.

The present study is more specific in relating MO to the learning behaviours of SMEs; namely, the exploratory and proactive dimensions of customer orientation and competitor orientation. This kind of knowledge is critical for the competitive development of SMEs and to achieve performance goals. In addition, notwithstanding the role of the E–I relationship in building an SME’s knowledge resources, the condition that may influence the effectiveness of MO on absorptive capacity, which has been emphasised by others (Hodgkinson et al., 2012), should be investigated in parallel. Thus, this study examines the conditions of functional conflicts.

RMO was the most significant factor influencing the absorptive capacity of SME exporters. This finding resonates with the notion that SMEs in emerging markets and non-technology-based industries focus on cost-effectiveness and price competition in the export market. As they focus on the expressed needs of customers, the knowledge is less expensive and complex to derive and easier to implement. This suits the typical resource limitations of SMEs. Moreover, we can relate this finding to that observed by Hodgkinson et al. (2012), who found that absorptive capacity helps firms to identify relevant market intelligence. It also reduces information overload and transfer problems due to the less complex structure, which are common problems for SMEs.

That cultural sensitivity bolsters the functionality of conflict had not been subjected to empirical testing before the present study. This finding suggests that an exporting firm’s understanding of and adjustment to the importer’s domestic market business practices provide a unique vantage point for forging strong overseas distributor relationships. This seems to accord with the view that cultural disparities may lead to the creation of climate in cross border exchange that is positive and supportive (Skarmeas, 2006).

The role of PMO in absorptive capacity comes as unexpected and against the trajectory that was developed based on extensive literature support. Contrary to the notion widely proposed by the literature that PMO and RMO should not be executed at the same time, this study shows otherwise. This finding was obtained during the Covid-19 pandemic. Specifically, data collection was performed immediately after the peak of the pandemic in 2022. The Covid-19 phenomenon changed our perceptions of customer needs and solutions, as well as what market opportunities and sustainability demand innovation in all business sectors (Montani & Staglianò, 2022). Moreover, the possibility of economic shock due to phenomena like the
pandemic must be deliberated in any firm’s future strategic planning. To survive, SMEs must not only meet the current needs of their customers but also look for future solutions to unexpected conditions like the Covid-19 pandemic. This requires SMEs to think creatively to meet latent customer needs.

Competitor market orientation was not a predictor of absorptive capacity among SME exporters in emerging countries. One explanation for this result is that most of the respondents were from the commodity-based industries of food and beverages. For SMEs, foreign importers tend to be the source of knowledge about export market competitors. The competitor orientation of international entrepreneurs often leads to the creation of competition (Crick & Crick, 2022), as SMEs continuously look for opportunities and export market intensity. The lack of knowledge sharing by existing partners, specifically information about competitors, undermines SMEs’ knowledge bases, which does not help the identification of relevant knowledge.

As for mediating effects, the significant mediating effect of functional conflict on the relationship between RMO and absorptive capacity implies the quasi-mediating role of functional conflict. This shows that RMO leads to SME market intelligence and the ability to respond accordingly to knowledge. This in turn increases the ability of SMEs to have open discussions and effective communications with their foreign importers to allow joint problem-solving.

The other two mediation effects were not supported. In the case of competitor orientation, the findings can be explained by the potential of an alternative importer (customer) because of competitor information shared by an existing importer. The potential creation of competition discourages importers from having open discussions about competitors with SMEs. As for PMO, the complexity and vagueness of the information imply that costs, future business opportunities and business strength inhibit importers from openly sharing information with SMEs.

MANAGERIAL IMPLICATIONS IN THE SOUTH EAST ASIAN CONTEXT

The findings of this study have managerial implications, particularly in the context of South East Asia. First, this study reports that customer orientation, both RMO and PMO, has a significant and positive influence on absorptive capacity. Contrary to previous research, SMEs do implement both strategic MO dimensions while competing in the export market. Although both RMO and PMO involve costs, especially PMO’s involvement of the unexpressed knowledge of customer needs and solutions, this should not deter SMEs from implementing the strategies simultaneously. Still,
we suggest that SMEs especially in South East Asia be cautious in doing so, as the limitation of resources may have adverse effects in the long run.

Relationships with foreign importers also have a pertinent role in knowledge development behaviours among SMEs in South East Asia. Functional conflict refers to open discussions that produce valuable outputs. We assert that managers of SMEs in South East Asia should nurture effective working relationships with their foreign importers.

**THEORETICAL IMPLICATIONS**

This study has several theoretical implications. The first implication stems from the strategic orientation and external knowledge framework. Existing knowledge about absorptive capacity is limited in terms of factors influencing absorptive capacity. Few studies explore the non-linear effect (Lichtenthaler, 2016), but to our knowledge, none have investigated the mediating role of functional conflict on strategic orientation-absorptive capacity interaction. Based on the knowledge perspective and the strategic orientation stream of research, this study uncovered insight into absorptive capacity and developed a conceptual model depicting the direct and indirect effect of strategic orientation on absorptive capacity through functional conflict. Market knowledge is a critical resource for SMEs’ internationalisation and customer (importer) is the common source of this knowledge (Mejri et al., 2018). Therefore, the strategic orientation of market knowledge leads to functional conflict implying open discussion of disagreement that enhances the fluidity of knowledge exchange which in turn positively affects absorptive capacity.

Second, the novel implication of this study mainly focuses on the significant and positive mediating influence of functional conflict on the effect of RMO on absorptive capacity. The results indicate a quasi-mediation function of functional conflict. The findings provide a better understanding of the role of functional conflict in the relationship between strategic orientation and the absorptive capacity of SMEs. Not all types of conflict imply negative consequences. The functional conflict between SME exporters and their foreign importers emerged as a significant positive mediator influencing RMO and its effect on absorptive capacity.

Third, although the role of functional conflict on the effect of PMO and competitor orientation on absorptive capacity was not significant the findings provide valuable theoretical evidence. Despite the pertinent function of knowledge about competitors and knowledge about future solutions and opportunities, competitor orientation and PMO were not the factors that significantly influenced functional conflict.
CONCLUSION

While it offers positive results, this study has some limitations that require careful interpretation of its findings. First, the study was conducted after the peak of the Covid-19 pandemic, when the industry and international business were just picking up. Thus, the results may have been affected by environmental factors that were not investigated in this study. Future studies might look into the external environmental and institutional factors that influence the knowledge generation and acquisition capabilities of SMEs. Second, the respondent sample in this study was relatively small, which limited the complex analysis of the data. Future studies may look into larger data for such analysis. Third, the data collection used a cross-sectional approach that did not capture the dynamic quality of the business environment and the changes in company values and capability. A longitudinal examination would be more effective at gauging such changes and their effects on the variables. Notwithstanding these limitations, this study achieved its objective and answered the research questions.

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References


