Learning Orientation as Mediator between International Entrepreneurial Orientation and International Firm Performance in Global Halal Industry

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Abstract

The halal industry has provided a new competitive advantage for Muslim countries, especially Malaysia, as the export of halal products is now one of the most important contributions to the national income. The contribution is mostly by small-medium enterprises (SMEs). However, in ensuring the sustainability of SMEs in the international market, the firm needs to hire managers with internationally oriented entrepreneurs to prepare SMEs to face uncertain environments globally through the intervention of learning orientation as an organizational culture. Thus, this research was conducted to examine the mediating effect of learning orientation between the international entrepreneurial orientation and international firm performance of SMEs in the global halal industry. This study is a quantitative, cross-sectional study. Purposive sampling was used as the sampling method where the sample was selected based on four criteria: SMEs, manufacturer, possession of a Malaysia halal certification, and exporter of halal products. Responses collected from 136 top management teams from participating firms were analyzed using PLS-SEM. The results show that the relationship between international entrepreneurial orientation with international firm performance is conditional upon learning orientation. To operate internationally, having managers equipped with prior entrepreneurial behavior is insufficient to increase performance. Learning orientation thus serves as a platform to transfer tacit knowledge to employees and at the same time value employees’ ideas so that continuous changes can take place. This improvement will ultimately result in higher international firm performance.

Keywords: Entrepreneurial orientation, Firm performance, Halal, Learning orientation, Small-medium enterprise

Introduction

Recently, the interest in the halal industry as a new source of national income (“Halal Development Corporation – The Custodian of Malaysia’s Halal Economy,” 2020) has increased due to its strong presence in developed countries (Global Islamic Finance Report 2013, 2013). Therefore, Muslim and non-Muslim countries are working to claim their share in the global halal market. While Malaysia has led the Global Islamic Economy Ranking (GIER) for eight consecutive years since 2013, the country still lags behind when compared to non-Muslim countries like the US and Brazil in terms of its global halal food market (https://www.statista.com, 2021).
In Malaysia, the Halal Industry Development Master Plan (HIMP) (2008-2020), and later HIMP 2030, was introduced to drive the concept of halal as a new source of economic growth. Within the seven elements in its strategic framework, the importance of human capital was highlighted, which included establishing a larger pool of halal industry experts to meet global needs and foster thought leadership. Having competent talent is a key enabler to the comprehensive and future developments of the halal ecosystem. In a study among Malay-owned small-medium enterprises (SMEs) for halal food in Malaysia, Tengku Mansor and Daud (2020) verified that entrepreneurial resources (namely specialized know-how, financial capital and managerial capability) contribute significantly to organizational effectiveness and organizational growth. The importance of managerial skills and capability was also mentioned by Suhaiza Zailani et al. (2015), who identified that one of the internal factors of the halal orientation strategy is entrepreneurial intensity, which refers to the degree of entrepreneurship or level of commitment to the entrepreneurial endeavors demonstrated by a firm. Thus, entrepreneurial orientation is an important determinant for SMEs in the halal industry. However, not much research has been conducted on entrepreneurial orientation in the halal industry. For instance, 2019 research by Elias et al. suggested that entrepreneurial orientation had a beneficial impact on the business performance of a halal F&B company, but that the halal company only operated in the domestic market. On the other hand, Ismail (2017) conducted a study on the relationship between international entrepreneurial orientation (IEO) and the performance of the halal industry using geographical scope level as a moderator. However, the sample was taken in 2010 where the concept of halal in the international market was still new.

The idea to test learning as a mediator in SMEs in the global halal industry came from the suggestion by Ismail (2011). Furthermore, in general international business research, Wang (2008a), Hakala (2013a), Fernández-Mesa and Alegre (2015a), and Herath (2021) proved that entrepreneurial orientation significantly influenced firm performance through learning orientation (LO). Continuous learning is made possible in SMEs by LO cultures. This can enable SMEs to continuously adapt and stay on par with their rivals. Organizational members are also encouraged to challenge the status quo by LO itself. It also provides a forum for leaders to communicate their vision and involve workers in decentralized strategic planning. Therefore, this study examines the role of LO as a mediator between IEO and international firm performance (IFP) of Malaysian SMEs in the global halal industry.

**Literature Review**

*Resource-based View as Underpinning Theory*

The conceptual framework of this study is based on the resource-based view (RBV) introduced by Barney in 1991. RBV emphasizes on the discovery of assets and skills that meet the criteria of being valuable (V), rare (R), unique (I), and non-substitutable (N), which were then exploited as a competitive advantage to create greater value than what their initial owners had anticipated. The company must then think carefully about the best course of action to leverage its skills and resources to succeed in marketplaces where it can compete and improve performance. The manager's IEO is one of the company's greatest assets and is hardly ever duplicated by competitors. Numerous
studies, like those by Jogaratnam (2017) and Arshad et al. (2020), have cited entrepreneurial orientation as a resource that fits the RBV theory. Additionally, one of the capabilities that cannot be replaced is LO, which contributes to a distinctive company culture. This was demonstrated by Arshad et al. (2020) and Meekaewkunchorn et al. (2021). Combining these VRIN capabilities allows halal SMEs to preserve their competitive advantage and enhance their performance when doing business internationally.

**International Firm Performance (IFP)**

This study addresses the firm performance of the SMEs pertaining to the halal product that they sell overseas. It is the goal of all firms to expand their operations internationally. However, previous research related to the halal industry have used various performance measurements using general and specific terms to indicate the outcome. Usmanova et al. (2021) used the general term of “company performance” with the accumulation of market-share growth, market share, return on investment, return-on-investment growth, sales growth, and the profit margin on sales in their study in the China halal food industry. On the other hand, Ab Talib et al. (2017) used the term “business performance” by combining operational and financial performance in their study on the effect of halal food certification in Malaysia. There are also studies pertaining to halal that use specific terms to measure performance such as “financial performance” (Fard & Seyyed Amiri, 2018; Giyanti et al., 2021; Muhamed et al., 2020), “market performance” (Fard & Seyyed Amiri, 2018; Giyanti et al., 2021; Salindal, 2019), “operational performance” and “innovative performance” (Fard & Seyyed Amiri, 2018). However, all studies mentioned above referred to the halal industry in the domestic market. In measuring IFP, this study follows Ismail (2011) who assessed the financial performance of a company in the halal food industry that exports overseas by looking at overseas sales volume, sales growth and profitability.

**International Entrepreneurial Orientation (IEO)**

The concept of IEO was adapted from traditional entrepreneurial orientation. McDougall and Oviatt (2000) referred to IEO as a combination of innovative, proactive and risk-seeking behaviors that cross national borders and are intended to create value in organizations. Organizations with an entrepreneurial mindset alter and influence the environment by exploring new and creative ideas and are prepared to invest money to take advantage of ambiguous opportunities. Their proactive action ensures that they are superior to the opposition in expectation of future demands (Hakala, 2011). Businesses that are entrepreneurial are more capable of adapting their operations in circumstances where there is constant competition. (Covin & Slevin, 1989) such as the international market. Thus, entrepreneurial orientation can lead SMEs towards international expansion (Kumar, 2012).

**Learning Orientation (LO)**

LO is part of organizational learning which allows changes to take place within the organization in response to the internal and external environment. This study follows the original definition of LO from Sinkula et al. (1997), who referred to LO as an organizational culture that determines companies’ propensity to create and employ information. Learning-oriented organizations have a high tendency to value new knowledge and always see new ideas as a good thing for organizational improvement, thus supporting learning activities.
Organizations with LO encourage employees to question market information processing and norms inside the organization (Day, 2001), which lead to the development of a brand-new organizational culture that includes new norms, values, assumptions, beliefs and anticipated behavior despite the existence of organizational training and development (Baba, 2015). Henceforth, LO improves the mechanism through which a company learns and transforms the corporate culture in a more developed market which warrant long-term expansion and survival (Hussain et al., 2018).

**Relationship between IEO, LO, and IFP**

Since people see the importance of having entrepreneurship elements in an organization regardless of its size, entrepreneurial orientation as a strategic orientation has come to light. From the general perspective, numerous studies discovered that entrepreneurial orientation has a positive influence on firms’ performance (Fernández-Mesa & Alegre, 2015; Pett et al., 2019; Real et al, 2014; Subrahmanya, 2014). This is not only found in developed countries, but also in emerging countries as studied by Filser et al. (2014) on countries like Austria and Hungary. They stated that the more entrepreneurially oriented a firm is, the more it will grow. The same result is found among Greek international SMEs towards IEO (Thanos et al., 2016).

As stated by Chaston et al. (2001), one of the critical factors for an organization to grow is the ability of entrepreneurs to create appropriate systems for organization and support activities that can enhance knowledge and encourage learning. He concludes that entrepreneurially oriented firms can be expected to exhibit a higher-order level of organizational learning compared to firms that serve standard products and services to the customer. In the study of Garcia-Morales et al. (2006), proactive managers will help to generate a process of analyzing and questioning current organization operations. This leads to a process of organizational learning. Proactive behavior is an element of entrepreneurial orientation. Thus, entrepreneurially-oriented managers have the potential to support organizational learning.

In ASEAN countries, SMEs in the manufacturing industry show that LO increases performance. A study on SMEs in Thailand indicated that LO offers businesses a competitive edge which results in continuous improved performance (Mohd Shariff et al., 2017). In Indonesia, LO directly impacted financial performance together with innovation (Lestari et al., 2018). Recently, a study by Sawaean and Ali (2020) on SMEs in Kuwait also proved that innovation mediates the relationship between LO and performance.

The suggestion to test LO as a mediator began with the study by Wang (2008a) who tested the correlation between entrepreneurial orientation, LO and performance using the full mediating model. The SEM model was followed, where a direct relationship between the independent variable and the dependent variable was not expected. On the other hand, (Hakala, 2013) found that both entrepreneurial orientation and LO have immediate effects on growth and profitability. However, when the mediating effect of LO was tested, the direct effect of entrepreneurial orientation on profitability diminished. Thus, the results reveal that LO fully mediates the relationship between entrepreneurial orientation and profitability but fails to mediate the direct relationship between entrepreneurial orientation and growth. The same situation occurred in the association between entrepreneurial orientation as the independent variable, organizational learning culture and
innovation as the mediator, and export intensity as the dependent variable in the study by Fernández-Mesa and Alegre (2015). Once LO was included in the model, the direct effect of entrepreneurial orientation on SMEs’ export intensity in the direct model diminished. Though the direct relationship of entrepreneurial orientation to export intensity exists, the inclusion of the mediating variables explains more variance in export intensity than the direct model. This proved that the model is better when LO is included. However, this study was done in the domestic market.

Based on the discussion above, this study posits that:

H1: International entrepreneurial orientation has a significant influence on international firm performance.

H2: International entrepreneurial orientation has a significant influence on international firm performance learning orientation.

H3: Learning orientation has a significant relationship with the influence on firm performance.

H4: Learning orientation mediates the influence between international entrepreneurial orientation and international firm performance.

Method

This study is a descriptive and exploratory study. As this study focuses on creating a model for SMEs pertaining to the global halal industry, it is descriptive in nature where it represents a complex system and visualizes the relationship of variables in a system. However, it is also exploratory in nature in such that it is tested in the halal industry, which is a new field. The data was collected through online and offline methods. A self-administered questionnaire was sent to SMEs that manufacture and export JAKIM’s halal certified products via stratified sampling. The data collection period was from January until December 2019. Due to the inexistence of directories that fulfil all the criteria mentioned above, three directories were referred, namely the SME Corp directory, HIDC directory and MATRADE directory as well as the researchers’ own database. From there, three methods of data collection were conducted throughout this study. The first was majorly through email. This was done by following the steps suggested by Saunders et al. (2009) with some additional steps that are seen as necessary. The following were the steps taken:

i. Call company to ask for the target respondent (for example owner, manager, halal exec).

ii. Explain the purpose of study and get respondent’s email address.

iii. Email direct hyperlink with a covering email and attach a referral letter from the university. Date of email sent was noted in a clean database.

iv. A follow-up email was sent every two weeks. The date of every follow-up mail was noted. A thank you email was given out once the recipients responded.

The second method was by face-to-face distribution during the 16th Malaysia International Halal Showcase (MIHAS2019) and the last method was by sending the questionnaire directly to the target respondent, yet this was only done for firms within the researchers’ reach.

All the questionnaires were adapted from past research. IFP was measured using subjective measurements of financial performance pertaining to halal products that consisted of three items: overseas sales volume, overseas sales growth, and overseas profitability. The measurement was adapted from Ismail (2011). IEO was measured using the instrument by Hansen et al. (2011), which comprised of six items that were based on three constructs, which are innovativeness, proactiveness and risk-taking. The items are measured using a 5-point Likert scale using anchors of
This study used the partial least squares (PLS) technique of analyzing structural equations in analyzing data. PLS was chosen because this study focuses on the prediction of dependent variables (Roldán & Sánchez-Franco, 2012). The standardised β in the multiple regression analysis was similar to the path coefficient of Smart-PLS while bootstrapping technique was applied for this research as suggested by Hair et al. (2013).

### Analysis and Findings

**Table 1. Path coefficient result**

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>OS (Beta)</th>
<th>SM</th>
<th>SD</th>
<th>T</th>
<th>P</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>IEO -&gt; LO</td>
<td>0.344</td>
<td>0.352</td>
<td>0.071</td>
<td>4.843</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>IEO -&gt; IFP</td>
<td>-0.045</td>
<td>-0.046</td>
<td>0.081</td>
<td>0.561</td>
<td>0.575</td>
<td>Not Significant</td>
</tr>
<tr>
<td>LO -&gt; IFP</td>
<td>0.501</td>
<td>0.498</td>
<td>0.122</td>
<td>4.117</td>
<td>0.000</td>
<td>Significant</td>
</tr>
</tbody>
</table>

Table 1 presents the direct effect (path coefficient) assessment result for H1, H2 and H3. The supported hypotheses are significant at least at the level of 0.05, which expected the sign directions (for example, positive) and consisted of a path coefficient value (β) ranging from 0.344 to 0.501. A highly significant path (p=0.000) was found between LO and IFP (β=0.501 or 50% and t= 4.117) compared to IEO and LO (β=0.344 or 34% and t= 4.843). This shows that IEO has a significant influence on LO, which supports H2. The results also prove that LO has a significant influence on IFP, conforming to H3. However, the IEO and IFP path was not significant, indicating that IEO has no significant influence on IFP, thus H2 was rejected.

**Table 2. Mediation result**

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>OS (Beta)</th>
<th>LL</th>
<th>UL</th>
<th>T</th>
<th>P</th>
<th>Decision</th>
<th>Mediation</th>
</tr>
</thead>
<tbody>
<tr>
<td>IEO -&gt; LO-&gt; IFP</td>
<td>0.172</td>
<td>0.069</td>
<td>0.287</td>
<td>2.970</td>
<td>0.003</td>
<td>Significant</td>
<td>Full</td>
</tr>
</tbody>
</table>

Table 2 shows the result of the bootstrapping that assessed the mediator. IEO -> LO -> IFP was revealed to be statistically significant as p=0.003 and their corresponding β=0.172 or 17% and t= 2.970. Thus, LO is said to fully mediate the relationship between IEO and IFP. The findings support H4.

**Discussion and Conclusion**

Since the Halal Master Plan 2008 was first published fifteen years ago, halal has been a top priority for Malaysia's government. The halal industry has undergone significant development with the goal of exposing halal-certified Malaysian businesses especially SMEs outside of the domestic market by 2016. However, SMEs barely make up 12.1% (RM4,854.35...
million) of the value of exports in 2019 despite being the largest holders of halal certificates and having the highest involvement in export markets in Malaysia (“Halal Development Corporation – The Custodian of Malaysia’s Halal Economy,” 2020). This shows that SMEs have greater opportunity for expansion. This strategic direction of SMEs lies in the hands of the managers as the decision makers. The role of top management as decision makers in the firm’s internationalization strategy is important (Mostafiz et al., 2019; Zucchella et al., 2019). Therefore, it is crucial to assess whether SMEs in the global halal industry have established a manager’s IEO and LO culture. Based on RBV, IEO and LO may be a source of competitive advantage that improves performance. This study proves that the IEO of SMEs engaged in the global halal market has no impact on IFP. However, if LO is employed, the link becomes substantial.

The analysis result shows that only three hypotheses (H1, H3, H4) in this study were supported while H2 was not. This is opposite to the majority of previous findings which stated that the correlation between entrepreneurial orientation and firm performance exists (Fernández-Mesa & Alegre, 2015; Filser et al., 2014; Pett, Francis, et al., 2019; Real et al., 2014; Subrahmanya, 2014; Thanos et al., 2016). Yet, this study fails to find the direct relationship between the two variables. First, this might be due to the scope of study, which in this case is on emerging countries like Malaysia. Chaston and Scott (2012) claimed that businesses operating in emerging economies do not necessarily need to engage in entrepreneurial behaviors to sustain business growth and improve business performance since these goals can be met by maximizing the effectiveness and efficiency of their current operations. The findings of this study are also consistent with research on the consumption of halal food by Jumani and Sukhabot (2019), which indicated that 91.3% of Muslims prioritize products with the halal logo while making purchases at convenience stores. Unless they have other options, Muslims will only eat food that have been certified as halal, regardless of how it looks or tastes.

Contrarily, the substantial relationship between IEO and LO found in this study is consistent with findings made by Chaston et al. (2001) and Garcia-Morales et al. (2006), who emphasize that proactive behavior—a component of entrepreneurial orientation—can foster the process of organizational learning. The study on SME manufacturing firms in Thailand, Indonesia, and Kuwait by Mohd Shariff et al. (2017), Lestari et al. (2018), and Sawaaean and Ali (2020) demonstrated that LO significantly affects IFP (as was expected). The studies found that LO is a source of competitive advantage that positively affects the performance of SMEs. This study reveals that learning-oriented cultures are essential for boosting corporate success, especially considering the prevalence of an IEO. Regardless of whether they have already chosen the best top management, SMEs that produce halal products should consider implementing a LO if they want to survive at the global stage. The entire organization should be informed of the benefits of LO, and a structure should be in place to create a culture that supports it.

This study has theoretical contributions as well as managerial implications. This study can further define resources that are compatible with the RBV theory, particularly in the halal industry, which may have been disregarded in earlier studies. The findings indicate that bundling IEO and LO can improve SMEs’ international business performance rather than evaluating the resources independently. In terms of SMEs in the
halal sector, the top management should begin fostering a LO in their businesses. One strategy is to include it as one of the company's annual objectives or key performance indicators. From this, organizational policies can be established to establish LO as a culture and routine.

There are a few limitations to this study. First, it only investigates the influence of IEO and LO on financial performance. Future work is suggested to consider examining the effect of IEO and LO on both financial and nonfinancial performance of SMEs in the halal industry. The effect of the two variables may differ when tested against different performance measurements. Second, LO is a general concept in creating a learning organization. Thus, future research may look deeper into the specific type of learning such as reactive, adaptive, explorative, and exploitative learning. The outcome of learning type is expected to have various effects on the level of firm performance.

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