

How do Entrepreneurial Human Resource Practices Determine Small Firms' Performance?

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ABSTRACT

This study examines the effects of entrepreneurial human resource practices on market-oriented behaviour, relational capability, and business performance at small-sized firms. For the purpose of the study, a survey was carried out for two different product types, namely handi-crafts and food/drink, and sample firms were purposively selected. Interestingly, the findings suggest that, though practices may not directly improve firms' performance, implementing practices characterised by entrepreneurial orientation is a start for high performance as market oriented behaviour and relational capability moderate the effects. The practices stimulate employees' mind-sets, shaping their behaviour and willingness to find new ways of doing business and satisfying external customers. The implication of the study was that such practices should be designed to improve small firms' market-oriented behaviour and relational capability for better business performance.

SARI PATI

Penelitian ini menguji pengaruh praktik sumber daya manusia kewirausahaan terhadap perilaku orientasi pasar, kapabilitas relasional dan kinerja usaha pada perusahaan kecil. Survei dilakukan pada dua sektor berbeda, yaitu kerajinan dan makanan/minuman di tempat sampel dipilih secara purposif. Temuan penting penelitian ini adalah praktik sumber daya manusia kewirausahaan tidak berpengaruh secara langsung terhadap kinerja usaha tetapi melalui kemampuannya menguatkan perilaku orientasi pasar dan kapabilitas relasional. Implementasi dari praktik yang berdasarkan orientasi kewirausahaan adalah titik awal untuk kinerja usaha yang tinggi dan dimoderasi oleh perilaku dan kapabilitas tersebut. Praktik tersebut menstimulasi pola berpikir karyawan, membentuk perilakunya dan menemukan cara baru untuk melakukan usaha dan memuaskan konsumen. Implikasi manajerialnya adalah praktik tersebut harus didesain untuk mengembangkan perilaku orientasi pasar dan kapabilitas relasional agar mencapai kinerja usaha yang lebih baik.

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INTRODUCTION

The literature of relationship marketing underlines the importance of personal interactions, both external and internal (Hunt & Arnett, 2006). This requires human resources that are capable of developing customer relationships which are characterised by high customer satisfaction. To satisfy customer needs, a firm must develop a strategy to encourage employees at all levels to be proactive in customer relationship development. Employees need to be fully aware of their crucial roles as customer value creators to develop satisfaction and trust in business relationships. This awareness can happen when the firm demonstrates great concern for employees who perceive such concerns positively.

Given the importance of human roles in the relationship marketing strategy, the current study examines the effects of entrepreneurial human resource practices (EHRP) on relational capability (RC), market orientation (MO), and small firms' business performance (BP). The study extends the literature, as the practices are seen as entrepreneurial phenomena. This study justifies the reason for integrating entrepreneurial concept into the practices carried out in small-sized firms. Measuring small firms' success by incorporating human resource management has been strongly recommended by Huang & Wang (2011) because previous studies on the construct have focused on large firms. Accordingly, Smirnova, Naude, Mouzas, Kouchth, (2011) note that studies on the impact of this MO on BP through the development of RC are still insufficient. The authors also suggest that the links among the constructs are poorly understood in a non-Western context. Therefore, the current study was carried out in an Asian developing country, Indonesia, where small firms have made a great contribution to the national economic recovery (Wengel & Rodriguez, 2006). This study provides evidence by evaluating the effects in two different product categories, namely handicrafts and food/drink. Shedding light on the effects generate useful recommendations for

entrepreneurs and government, who may learn from the findings and develop better strategies in improving small firms' performance.

Literature review and hypotheses development

Human resource practices (HRP) have been viewed as a facet of internal market orientation that generate high employee satisfaction and commitment and enhance a firm's customer satisfaction and performance (Gounaris, 2006; Nasution & Mavondo, 2008). These practices build on the philosophy of human resource management as firms build mechanisms for education, training, and rewards (Abzari, Ghorbani & Madani ., 2011). Since small firms tend to lack financial and human resources, owners/managers should creatively design practices to enhance their firms' success. This may require an ability to apply proactive and innovative approaches for ensuring employees' capabilities. As entrepreneurs, owners/managers often undertake activities that involve the discovery, evaluation, and exploitation of opportunities to apply new approaches to resource and process management (Uyar & Deniz, 2012). This depends on owners/managers' decisions and approaches implemented to alter the quality of their human resources. Human resources are the most crucial resources for small firms, as they are the only resources that are capable of creative and innovative efforts. Effective human resource management in entrepreneurship activities can lead to great success for entrepreneurs. Therefore, viewing human resource practices (HRP) as an entrepreneurial phenomenon is of value for analysing small firms' success. EHRP aims to develop new HRP approaches, which are seen as entrepreneurial acts and energised by entrepreneurs' entrepreneurial orientation. How entrepreneurs are innovative, aggressive, proactive, and evaluative in reaching their business enterprise vision can be evaluated through EHRP.

Furthermore, humans are the most valuable and adaptable firm resources, as they can learn and adapt by enhancing their skills and knowledge

to create superior value for customers (Nasution & Mavondo, 2008). Developing customer relationships calls for firms to commit resources, including employees, to these relationships. Employees have various roles which are critical to maintaining the stable relationships that lead to greater partner satisfaction (Sulhaini, 2012). They can create and solve conflicts with customers and thereby develop greater trust and satisfaction in the relationship. This emphasises the critical roles played by employees in organisations' capability to manage customer relationships.

Relational capability (RC) is defined by Rodriguez-Diaz & Espino-Rodriguez (2006a) as superior skill in managing the resources shared between companies. This superior skill is transmitted to human resources through an integrated process of personnel selection, training, and motivation, all of which work to establish and manage external cooperation. Because customer relationships entail dynamic and iterative human interactions, cooperation requires substantial personnel adaptations and training so that the relationship can facilitate the firm's efforts to gain a better market position. This suggests that personnel require training and motivation to advance their skills and ability to strengthen customer relationships. Firms can thus systematically enhance their RC through HRP that includes entrepreneurial elements in the recruitment, training, and reward systems. The implementation requires process feedback and thus evaluation.

Human RC relates to the development of employees' knowledge and skills in managing customer relationships, and the capability leads to more value creation (Ngugi, Johnsen, & Erdelyi, 2010). Iterative interactions in the relationships provide opportunities for employees to learn the changing nature of customers' needs or relationship requirements. Therefore, management that recognises the importance of having highly motivated, creative, and proactive employees in the face of customer dynamics

will develop favourable EHRP. A customer relationship entails communication exchanges and activities in which the ability to manage interactions and actions can define relationship quality. According to Iglesias, Sauquet, & Montana, (2011), from a relationship marketing perspective, trust, satisfaction, and commitment in customer relationships are determined by trust, satisfaction, and commitment within the firm. This means that the strength of customer relationships reflects how internal relationships are managed. EHRP within a firm creates a climate of internal cooperation, teamwork interactions, and, thus, human RC at an organisational level. A firm's capability to develop external relationships depends on the level of concern for employees shown by management. Practices should be designed to develop and reinforce employees' relational capability. Hence, the first hypothesis is formulated as follows:

H1: The stronger the entrepreneurial human resource practices, the stronger the relational capability.

Market orientation (MO) refers to a firm's commitment to searching for market opportunities and developing responsive strategies for better BP (González-Benito, González-Benito, & Gallego, 2009). The success of MO implementation lies in a firm's ability to gather and internally disseminate market information as well as to develop reactions to information which creates superior value for targeted customers. Accordingly, Lings & Greenly (2009) and Huang & Wang (2011) view this orientation as a firm's capability to collect and internally disseminate market information to respond effectively. MO can thus also be viewed as the generation of market intelligence pertaining to current and future customers' needs, information dissemination, and organisation-wide responsiveness (Jaworski & Kohli, 1993). On the other hand, the implementation of human resource practices will equip the firm with the capability to be market-oriented (Abzari, Ghorbani & Madani, 2011). These practices directly determine firms'

MO, because they enable firms to retain and motivate employees based on approved behaviour towards external customers (Conduit & Mavondo, 2001). Maintaining employees' satisfaction enables firms to behave in a more market-oriented manner. Thus, the adoption of MO is paramount so that employees will be motivated to behave in a market-oriented manner. Organisational systems such as recruitment, training and rewards systems drive employees' motivation to engage in market-oriented behaviour (Lings & Greenly, 2009).

Employees are frequently exposed to external customers who give them the opportunity to learn about and be responsive to customers and their latent needs (Sulhaini, 2012). This is attained specifically through EHRP implementation. In the absence of good EHRP that makes personnel satisfaction a priority, it is difficult to remain market-oriented. Satisfied employees are more responsive to competition and market changes (Slater & Narver, 1995). They demonstrate cooperative behaviour with external customers because they are aware of the importance of MO. Therefore, EHRP implementation can improve firms' MO (Conduit & Mavondo, 2001). This is also iterated by Grinstein (2008), who explains that firms' commitment to its employees' satisfaction relates positively to MO; it nurtures the relationship between firms and employees, promoting a feeling of belonging. Employees become more dedicated to meeting customers' needs by proactively learning about customers, aggressively sharing information internally, and working together in teams. In sum, EHRP ensures employees' satisfaction, thereby strengthening their firms' orientation towards customers/market. We thus propose the hypothesis below.

H2: The stronger the entrepreneurial human resource practices, the stronger the market orientation.

Human capital is a real source of competitive advantage, and developing EHRP that result

in employees educated and trained in an organisation-specific manner will lead to better marketing performance as such a strategy generates high customer values (Nasution & Mavondo, 2008). This suggests that EHRP can be a real source of competitive advantage as long as practices are unique, ambiguous, difficult to imitate, and generate better performance. The practices also allow firms to build firm-specific human capital, including employees' knowledge of the firms' products and services, customers, and work processes, thus enabling them to interact effectively with customers. These practices provide firms with a skilled workforce capable of aggressive learning. This leads to the ability to be more productive and innovative, to customise firms' offerings, and to satisfy customers, thus leading to higher sales growth and firm performance (Beugelsdijk, 2008).

EHRP enhance firms' strategic responses and ability to satisfy customers so that sales and profit grow sustainably (Gounaris, 2006; Nasution & Mavondo, 2008). Highly motivated employees determine firms' external marketing success, because they are motivated to provide exceptional value for external customers (Lings & Greenley, 2009). Mavondo, Chimhanzi, & Stewart, (2005) argue that EHRP provides a basis for firms' superior performance when human resources possess the skills necessary to create superior value for customers. EHRP are directed at shaping employees' behaviour, attitudes, and motivations towards external parties and environments. This is because employees are firms' most adaptable and valuable resources in the face of rapid changes in market environments. EHRP determine firms' orientation to be more responsive and better performing than competitors. Hence, EHRP determine firm performance.

H3: The stronger the entrepreneurial human resource practices, the higher the business performance.

The implementation of a relationship marketing strategy requires firms to identify and satisfy customers' wants and needs. Their satisfaction contributes to relationship marketing success (Hunt & Arnett, 2006). Accordingly, customer satisfaction through the creation of superior customer value is the aim of MO implementation. Firms need an orientation towards individual customers due to increased pressure to develop more satisfying offerings and thus solving individual customers' problems more effectively. Exhibiting trust and commitment in the customer relationship thus becomes part of the offering, thereby determining consumers' satisfaction. Therefore, relational capability (RC) can be viewed as firms' human capability to promote customer satisfaction through strong, profitable relationships.

Smirnova & Kushch (2006) found that MO has a positive relationship with RC. RC requires MO, because the orientation influences firms' ability to develop business relationships with partners (Smirnova, Naude, Mouzas, Kouchth, 2011). Relationship management tasks are carried out by teams of employees and require complex internal and external interactions and cooperation. This is key to serving customers and managing business relationships. MO increases firms' motivation to search for customers' and competitors' information and develop the ability to manage relationships with customers (Liyun, Keyi, Xiaoshu, & Fangfang, 2008). To develop RC, it is first necessary to develop an orientation that promotes external customers' satisfactions by shaping individuals' actions and behaviours within the firm. The hypothesis below can then be proposed.

H4: The stronger the market orientation, the stronger the relational capability.

Market orientation (MO) means putting the greatest priority on the profitable creation of customer value that is better than competitors' through internal system developments towards effective

responsiveness to market dynamics (Slater & Narver, 1995). MO is paramount for firms' success, because it captures firms' ability to anticipate, address, and capitalise on market dynamics, thus leading to better BP (Kropp, Lindsay & Shoham, 2006). MO refers to a firm's propensity to adopt marketing concepts to establish the satisfaction of customers' needs and wants as a firm's priority; the firm must have the abilities necessary to assess and respond to market changes (Baker & Sinkula, 2009). The effect of MO towards BP has been widely studied, and it is commonly argued that this orientation improves BP. This is because the orientation directs firms to respond effectively to customer needs and preferences, thereby leading to higher customer satisfaction; this, in turn, leads to higher BP (Kropp, Lindsay & Shoham, 2006; Grinstein, 2008; Li, Zhao, Tan, & Liu, 2008). Nevertheless, Li, Zhao, Tan, & Liu, (2008) and González-Benito, González-Benito, & Gallego, (2009) suggest that the effect can vary according to market environment. Therefore, it is still valuable to examine this effect in different contexts. The current study provides evidence from the context of small firms operating in low-tech industries—handicrafts and food and drink.

Among small firms, MO improves BP because the orientation stresses obtaining and using customer information and developing strategic responses to customer needs. The orientation facilitates the collection and use of customer information to satisfy customers and improve sales performance (Li, Zhao, Tan, & Liu, 2008). MO can be viewed as firms' commitment to customers, and it can be translated and implemented into specific marketing strategies to create advantages in market opportunities (González-Benito, González-Benito, & Gallego, 2009). Baker & Sinkula (2009) argue that market-oriented firms are able to generate high profit margins as a result of effective target market selection, product development, pricing strategies, distribution, and promotion. The orientation reflects a higher competency than simple innovation in adding value through

customising strategies to market to target customers. In summary, MO guides firms to establish customers' satisfaction, through which firms can attain better BP. Therefore, the below hypothesis is proposed.

H5: The stronger the market orientation, the higher the business performance.

Smirnova, Naude, Mouzas, Kouchth, (2009) define RC as firms' ability to sense and capture opportunities to reconfigure knowledge and competences to achieve a sustainable competitive advantage on the base of business relationship management. This is the outcome of a gradual process by which firms cultivate better competitive positions through developing and managing business relationships. A greater RC will lead to greater cooperation, greater commitment, and greater trust (Rodriguez-Diaz & Espino-Rodriguez, 2006b). This suggests that one can study RC by investigating the fluctuation of those relationship marketing variables. This is also supported by Sulhaini (2012), who suggests that the ability can be evaluated through the fluctuation of trust, commitment, and satisfaction. A higher RC will result in a higher level of those variables.

Panayides (2007) argued that RC facilitates consumer orientation and customer satisfaction, through which firms can ensure marketing success. Accordingly, Hunt & Arnett (2006) argue that a relationship marketing strategy can enhance firms' competitiveness and financial performance. This encourages firms to develop their RC to improve their performance. It manifests itself through communication exchanges, activities designed and coordinated with partners; successful relationships, characterised by new product success, depends on firms' ability to promote trust, communication, and coordination within the relationships (Kucukkancabas, Akyol, & Ataman, 2009). RC is argued to have a great impact on BP (Smirnova & Kushch, 2006; Smirnova, Naude, Mouzas, Kouchth, 2009; Ngugi,

Johnsen, & Erdelyi, 2010). Firms with high RC will have better customer integration and coordination of inter-firm relationships, leading to superior benefits, and business success is a direct impact of the capability (Smirnova, Naude, Mouzas, Kouchth, 2011). Based on these arguments, we hypothesise the following:

H6: The higher the relational capability, the higher the business performance.

In sum, the model in Figure 1 is proposed.

METHODS

We gathered data to examine the effect of EHRP by means of a survey in six areas throughout Lombok Island, Indonesia. Regarding the sample, 85% consisted of small firms with 5–20 employees, while the remainder consisted of firms with 21–55 employees. The majority of firms surveyed were self-owned; the others had family or joint ownership. For the handicraft sector, we obtained data from 273 firms; 232 firms from the food/drink sector were used. A total of 505 managers/owners of small firms were purposively selected and surveyed. For the purpose of the study, it was decided that respondents should come from small firms with at least five employees. This was to ensure the respondents could answer all of the questions regarding MO. The questionnaire for the survey was designed on the basis of existing scales. All items were carefully selected from the literature and pre-tested through face-to-face interviews with 10 managers/owners. These items were adopted and adapted so that they were relevant to the actual conditions of the small firms under study.

The first construct (EHRP) was measured in terms of vision, creativeness, innovativeness, evaluativeness, aggressiveness, and proactiveness (Uyar & Deniz, 2012) to assert entrepreneurial elements in the practices. To assess MO, we adopted and adapted eight items from the work of González-Benito, González-Benito, J.G. & Gallego, I. (2009). As identified in the literature review, RC

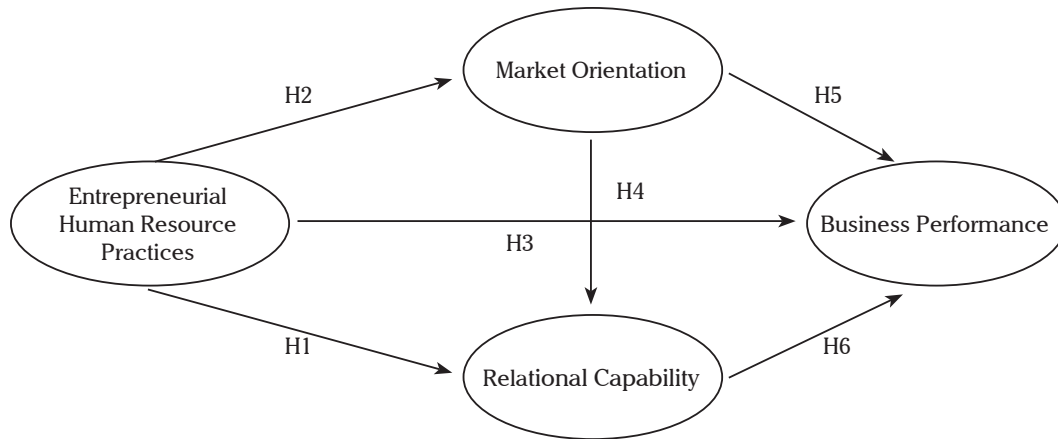


Figure 1. The proposed model

consists of three dimensions: trust, commitment and satisfaction. We combined and adapted the work of Voss, Johnson, Cullen, Sakano, & Takenouchi, (2006) on benevolence, credibility, trust, and calculative and affective commitment, as well as the work of Chung, Huang & Sternquist, (2011) on economic and social satisfaction. The last construct, BP, was evaluated by adapting the work of Hakala & Kohtamaki (2011). All of the constructs were measured using seven-point Likert scales, ranging from 1 = strongly disagree to 7 = strongly disagree.

RESULTS AND DISCUSSION

Confirmatory factor analysis was used to test the validity and reliability of the scales for each sample group. The measurement results are displayed in the Appendix, where all factor loadings were greater than the threshold of .50 (Hair, Black, Babin, Anderson, & Tatham, 2006); all were significant at $p < .05$, and all were positive. Analysis also indicated that Cronbach's alpha values and composite reliability exceeded the common cut-off value of .70 (Hair, Black, Babin, Anderson, & Tatham, 2006). Furthermore, we calculated the Average Variance Extracted (AVE) for each construct, and the values were found to be above the common threshold of .50 (Hair, Black, Babin, Anderson, & Tatham, 2006) except for RC of the handicrafts sector, demonstrating the inadequacy of the convergent validity. Support for the reliability and convergent validity was nonetheless

contributed by composite reliability. The value was well above the threshold of .70.

Furthermore, to conduct discriminant validity testing, we compared the square root of AVE of each construct to its correlation with the other construct (Fornell & Larcker, 1981) and by constructing 95 percent confidence intervals. The results are displayed in Table 1. In all cases, the square root of AVE is greater than its correlation. This indicates that discriminant validity is established for each sample group. Additionally, no item loaded significantly on another construct for which it was not intended, thus providing evidence of discriminant validity.

Testing of the robustness of the model for the two sample groups was run separately, using a structural equation modelling software package, i.e., AMOS 20. The model of each sector had a significant χ^2 was significant (handicrafts = 199.991, with 83 degrees of freedom; food/drink = 188.471, with 80 degrees of freedom, and all significant at $p < .0001$). This could be true because the study had a large sample size. Support for the models' fitness came from the other model fitness statistics, i.e., handicrafts sector; CMIN/DF: 2.410 GFI: .912; AGFI: .872; TLI: .937; CFI: .951; RMSEA: .073; and Food and Drink sector: CMIN/DF: 2.358; GFI: .909; AGFI: .863; TLI: .950; CFI: .962; RMSEA: .077. These suggest a good fit for the measuring models, and results were similar for both groups.

Table 1. Discriminant validity

	Mean	St.Dev	RC	BP	MO	HRP
<i>Handicrafts Sector</i>						
Relational Capability(RC)	5.319	.659	<i>.657</i>			
Business Performance (BP)	6.155	.774	.612	<i>.759</i>		
Market Orientation (MO)	4.649	1.253	.716	.649	<i>.855</i>	
Human Resource Practices (HRP)	3.917	1.683	.705	.623	.901	<i>.914</i>
<i>Food/Drink Sector</i>						
Relational Capability(RC)	5.390	.832	<i>.838</i>			
Business Performance (BP)	6.157	.743	.381	<i>.787</i>		
Market Orientation (MO)	5.098	1.156	.407	.341	<i>.870</i>	
Human Resource Practices (HRP)	4.401	1.687	.356	.277	.742	<i>.929</i>

All significant at $p < .05$; the diagonal (in italics) shows the square root of the average variance extracted for each construct

Findings and Discussion

To test all hypotheses, we used a structural equation modelling technique with AMOS 20. The structural model of each sample group reached a good level of fitness, i.e., handicrafts products: CMIN/DF: 2.305; GFI: .916; AGFI: .876; TLI:.942; CFI: .955; RMSEA: .070; and food/drink products: CMIN/DF: 2.443; GFI: .903; AGFI: .852; TLI:.947; CFI: .960; RMSEA: .079). The results of hypotheses tests are demonstrated in Table 2.

The current study provides interesting insights into the impact of EHRP on MO, RC, and BP in a developing country. Data was collected from Indonesian small firms active in two different product types: handicrafts and food/drink. For both sample groups, the path from EHRP to BP was not supported by our data. Additionally, contrary to our expectations, the path from EHRP to RC was not statistically significant for food/drink products. However, these were directionally supported by our data.

In the case of handicraft products, it was proven that EHRP improve RC. The practices equip employees with specific capabilities and skills designed for relationship building. Customer

relationship management emphasises personal and team roles, so EHRP should be directed towards increasing employees' competences and motivation in developing customer relationships. Additionally, inter-firm trust develops based on trust at the personal level, as involved in interactions and communication. Individual or team work by employees can create or solve conflicts within relationships, and on that basis, satisfaction and trust can diminish or develop (Sulhaini, 2012). It is then critical for firms to develop favourable EHRP that assure employees have a strong capability for managing customer relationships and thus ensure that high satisfaction and trust exist. However, in the case of food/drink products, the practices did not lead to relational capability enhancement. One possible explanation for this contrary result is that the practices are very simple methods in which recruitment, training, and reward systems are not directed towards RC-building. This also means that the responding firms do not view such capability as important for their businesses.

The results for both sample groups indicate that EHRP has a very strong impact on MO. This confirms the findings of Conduit & Mavondo

Table 2. Hypotheses test results

Hypothesis	<i>Handicrafts</i>		<i>Food/Drink</i>		Conclusion
	B	t value	β	t value	
H1. EHRP → RC	.113	2.023*	.041	1.140	Partly Supported
H2.EHRP → MO	.653	16.489***	.488	11.360***	Supported
H3.EHRP →BP	.028	.575	.012	.426	Unsupported
H4.MO →RC	.168	2.157*	.164	3.030**	Supported
H5. MO →BP	.144	1.998*	.085	2.051*	Supported
H6.RC →BP	.278	3.512***	.216	3.654***	Supported

Note: Significant at * $p < .05$; ** $p < .005$ and *** $p < .0001$

(2001). Favourable EHRP lead to favourable behaviour towards the market. This demonstrates that EHRP can guide small firms to behave favourably and build effective responses to the changing nature of their markets. Because human resources are the most valuable, owing to their ability to adapt, learn, and acquire new skills (Nasution & Mavondo, 2008), the practices should be designed to create a favourable climate within the firms that encourages employees to deliver superior customer values.

The study, however, revealed that EHRP have a weak direct impact on BP in both sample groups, but it is nonetheless worthwhile to examine the indirect effects of EHRP on BP through MO and RC. The indirect effects are as follows: handicraft products (EHRP – MO – BP: $.653 \times .168 = .1097$; and EHRP – RC – BP: $.113 \times .278 = .031$ all significant at $p < .0000$), and food/drink products (EHRP – MO – BP: $.488 \times .164 = .080$ and EHRP – RC – BP: $.041 \times .216 = .009$, all significant at $p < .0000$). Despite having insignificant direct effects on BP, EHRP have significant indirect effects through those constructs. This means that EHRP affect BP when the practices are supported by RC and MO. EHRP are thus only a start for high BP, because their effects on BP are moderated. First, EHRP improve BP through the practices' impacts on small firms 'market orientation. MO drives inter-organisational information and knowledge exchanges based on both sides' participation in joint product

development to gain better sales growth. Second, the practices provide employees with the skills and capabilities necessary for creating customer satisfaction in managing relationships, through which firms perform market learning and seize market opportunities. The practices stimulate employees' mind-sets, shaping their behaviour and willingness to find new ways of doing business and satisfying their external customers. This means that designing EHRP to improve BP can only be successful when the practices are directed at strengthening MO behaviour and RC. In other words, HRP entailing elements of entrepreneurial orientation can provide a basis for employees being market oriented and motivated to develop customer relationships; from this, high BP can be achieved.

The findings of this study are consistent with the work of Smirnova & Kushch (2006), Smirnova, Naude, Mouzas, Kouchth, (2011) and Chung, Huang & Sternquist, (2011). MO is an organisation's commitment to integrate all efforts and resources to develop individuals' capabilities to fulfil their relationship management tasks. MO provides strong norms which affect all members of small business organisations that are actively involved in the process of customer value creation. The orientation triggers small firms' propensity to develop RC for their members. MO enables employees to maintain satisfying interactions and transactions with main customers, through which mutual commit-

ment and trust develop over time. Firms with high MO develop a capability to manage relationships characterised by high satisfaction, commitment, and trust. Their commitment to their relationships with their main customers should be seen as their commitment to the market. They devote their resources and activities to managing relationships to obtain critical market knowledge and stay competitive. Interactions and transactions in the relationships require MO to enervise their RC.

Regarding the relationship between MO – BP, the findings of this study are consistent with previous research (Kropp, Lindsay & Shoham, 2006; Li, Zhao, Tan, & Liu, 2008; González-Benito, González-Benito, & Gallego, 2009). The orientation motivates individuals within firms to act and behave for the creation of superior customer value, through which superior BP is assured. The findings of this study confirm that MO facilitates small firms' efforts to reach high BP. A majority of the samples in the study were still very small in size, with 5–20 employees. However, this can be an advantage for firms, because all members can work closely in small teams, enabling internal communications to be more frequent and open and thereby stimulating a shared understanding within the organisation. The orientation directs firms to focus on market information acquisition, which enables them to review their existing marketing strategies or develop new ones as necessary. Market knowledge may also direct firms to develop their creativity for product innovation, for stimulating customer satisfaction, and for sales growth. It sets the basis for performance improvement. A firm with stronger MO will have a greater ability to reach higher profitability than a firm with weaker MO.

Similar results were found among both groups regarding the link between RC and BP. RC has a very strong effect on BP. It stimulates small firms' ability to obtain sustainable competitive advantages through business relationship development (Rodríguez-Díaz & Espino-Rodríguez, 2006b). This

is due to the relationship atmosphere being the result of a combination of economic and social satisfaction, credibility, reliability, trust, and affective and calculative commitments, all of which are accumulated through iterative cooperation and coordination, conflict resolution, and information and knowledge exchange. This creates a favourable relationship atmosphere that offers broader opportunities for firms to customise their offerings and attempt joint new product development. This results in higher BP.

MANAGERIAL IMPLICATIONS

Some important management implications can be drawn from our findings. The implementation of EHRP should be directed towards motivating employees to be market-oriented and perform their relationship tasks. Practically, this calls for managerial commitment to enhancing employees' skills and capability for gathering customer and competitor knowledge and cooperating effectively to enhance mutual trust, commitment, and thus satisfaction in the relationship with main customers. It is also imperative that the practices emphasise employees' satisfaction so that they are committed to customers and fulfil relationship requirements. The findings here suggest that, when EHRP are well planned and designed to stimulate employees' satisfaction, employees will behave favourably towards customers and competitors by actively working together and developing strategic responses. When employees are satisfied, they are likely to be committed to obtaining and disseminating market information as well as transforming it into ideas for product and marketing innovations. Favourable EHRP enable employees to be more responsive to customers' requirements and to commit themselves to the achievement of their firm's goal. They are highly motivated to develop their capabilities and competencies in satisfying external customers and maintaining relationships. Since the practices are characterised by innovativeness and proactiveness, EHRP can improve employees' innovativeness and proactiveness in responding to the market.

CONCLUSION

Our study provides empirical evidence of how EHRP affects small firms' behaviour, ability, and performance. The main contribution of our study is that it was conducted by incorporating literature on relationship marketing and human resource management entailing entrepreneurial orientation. Our findings have the potential to enrich the literature and future research directions. First, as suggested by the findings, EHRP needs to be supported by a firm's MO. We encourage further research to investigate the links between EHRP

practices and other organisational orientations i.e learning orientation and how it impact firms, as well as RC and marketing success. Second, because the study only assesses orientation on the surface, further studies need to employ other approaches to explore the phenomenon in greater depth. Third, the practices were investigated in an Asian developing country where high context culture is strong, so investigating how it relates to small firms' practices and cultural orientations will also be valuable. ■

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 Appendices

VALIDITY AND RELIABILITY OF THE SCALE

Entrepreneurial Human Resource Practices

Handicraft	:	λ : .903- .925	Cronbach's α : .924	CR : .910	AVE : .836
Food and Drink	:	λ : .910 - .948	Cronbach's α : .929	CR : .927	AVE : .863

Our employee recruitment is based on future specific job requirements

We try new ways to train our employees

We provide training programmes to develop employees' creativity

We believe that poor employee performance means poor selection and training

We emphasise the attainment of organisational and personal desires

We are proactive in evaluation and provide benefits to employees according to their performance

Relational Capability

Handicraft	:	λ : .568- .788	Cronbach's α : .828	CR : .818	AVE : .432
Food and Drink	:	λ : .641 - .973	Cronbach's α : .873	CR : .933	AVE : .702

We can always rely on our customers

Our customers are always frank and truthful

Our customers always make sure that our firm is not harmed in the relationship

Our customers always care what happens to us

It would be too costly for our firm to leave the relationship right now

We stay in the relationship because it provides us with many rewards and benefits

In our firm, we feel our customers' problems are our own

In our firm, we are emotionally attached with our customers

Our relationships provide us with a profitable market position

We are happy with the relationships as they increase our sales

Our interactions are characterised by mutual respect

We are satisfied with the overall working relationships

Business Performance

Handicraft	:	λ : .638- .884	Cronbach's α : .819	CR : .843	AVE : .577
Food and Drink	:	λ : .628 - .873	Cronbach's α : .858	CR : .865	AVE : .620

We are satisfied with our performance

Our business is more profitable than our competitors

Our business grows faster than our competitors

We are more successful in keeping customers than our competitors

Appendices

Market Orientation

Handicraft	:	λ: .842-.864	Cronbach's α: .860	CR: .891	AVE: .731
Food and Drink	:	λ: .822 -.908	Cronbach's α: .865	CR: .903	AVE:.756

We continuously gather information about the trends in our target market

We continuously gather information about our competitors' strategies

We collect information about our customer satisfaction

We are promptly informed about any complaints or suggestions from our customers

Our strategies are based on market knowledge rather than on productive capabilities

Our premise for new product development is customer satisfaction, instead of taking advantage of our productive capabilities

We have frequent internal meetings in order to anticipate a response to the changing environment

We develop our strategic responses by working closely
