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# Assessing Value Co-Creation and New Product Success from Cultural Orientations and Relationship Marketing Perspectives

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## ABSTRACT

This study's main objective was to assess value co-creation and new product success among small and medium enterprises (SMEs) in Indonesia by incorporating cultural orientations and relationship marketing perspectives. The samples were purposely selected in two sectors: handcraft and food and drink. They were approached through a door-to-door distribution of the questionnaires. The findings indicated that relationship quality can enhance value co-creation and new product success when SMEs have a favorable combination of learning, market, and entrepreneurial orientations. However, this study suggests that SMEs do not utilize their relationships as arenas for learning and learning orientation can affect relationship quality only when it is supported by the other orientations.



## KEYWORDS

entrepreneurial orientation; learning orientation; market orientation; new product success; relationship quality; value co-creation

## Introduction

Recent developments in relationship marketing literature suggest that partners are not viewed as passive actors in value creation; instead, they are actively involved in the process (Palmer & Koenig-Lewis, 2009; Ngugi et al., 2010). Nonetheless, previous research on value creation has focused on intra-firm rather than inter-organizational contexts (Wang et al., 2008). A firm gains not only profits but also new ideas for product innovation from its close relationships with customers. Interdependency and cooperation between a firm and its main customers stimulate value co-creation (VcC) in these relationships. This requires high relationship quality (RQ) to ensure that VcC occurs. To develop RQ, it is first necessary to develop a corporate culture that is able to stimulate it (Iglesias et al., 2011; Sulhaini, 2012). Cultural orientations have been found to energize communication, knowledge sharing, and innovative cooperation with customers (Jarrat, 2008).

The effects of learning and market and entrepreneurial orientations on performance have been studied from the perspectives of organizational culture and organizational behavior (Wang & Wei, 2005; Hult et al., 2005; Hughes & Morgan,

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2007; Gonzáles-Benito et al., 2009). However, Kropp et al. (2006), Grinstein (2008), Huang and Wang (2011), and Hakala and Kohtamaki (2011) note that little research has investigated the combination of those orientations. Nonetheless, these authors believe that these orientations and RQ have a considerable impact on firms' success. Moreover, Iglesias et al. (2011) argue that very few empirical works investigate the combination of corporate culture and relationship marketing. This comment suggests that the relationship marketing literature has not adequately provided understanding of the role of cultural orientations on customer RQ and its outcomes, such as NPS and VcC. The objective of this study is therefore to examine the effect of cultural orientations towards RQ, VcC, and NPS. This article provides empirical evidence regarding the suitability of these cultural orientations. The article is based on a study of small and medium enterprises (SMEs) in Indonesia. Previous studies have tended to investigate NPS in industries characterized by advanced technology and highly innovative industries in developed countries, whereas studies on lower-innovation industries in developing countries remain limited (Suwannaporn & Speece, 2010), and the interrelations among the orientations in SMEs are rarely reported (Huang & Wang, 2011).

## **Literature review and hypotheses development**

### ***Cultural orientations: Learning, market, and entrepreneurial orientations***

Learning orientation (LO) refers to an organizational learning culture that requires collective learning by all members of the organization, demonstrating the organization's commitment to valuing and promoting learning and encouraging and motivating individuals to learn (Santos-Vijande et al., 2005). LO is also the manifestation of an organization's propensity to learn and adapt to many aspects of market dynamics (Mavondo et al., 2005). Thus, LO emphasizes the creation of knowledge to strengthen a firm's competitiveness. This orientation is particularly important because it enables a firm to successfully combine and apply various orientations, such as MO and EO, to generate performance-enhancing behavior. This means that a highly learning-oriented firm will be able to successfully combine various orientations (Hakala & Kohtamaki, 2011). A high LO firm may have a greater combination of market orientation (MO) and entrepreneurial orientation (EO), both of which have the common feature of emphasizing learning. Learning about consumers and markets may be the main prerequisite to developing strong MO and EO. These orientations need an organizational culture that stimulates the learning process; they require learning in order to be operational (Baker & Sinkula, 2009).

Sulhaini (2011) found that LO is related to MO because weaknesses in one or more dimensions inhibit MO. In contrast, better combinations of all dimensions of LO promote MO. LO is reflected in a firm's knowledge-questioning values and is thereby implied in a firm's propensity for generative learning, which encompasses more than a purely market focus (Panayides, 2007). Thus, a learning-oriented firm

may indicate an ability to challenge its old assumptions about the market and to shift from incremental changes (adaptations) to radical changes.

Santos-Vijande et al. (2005) found that MO is an important orientation that stimulates a firm to truly learn market dynamics, especially when the firm operates in a highly uncertain environment and *double loop* or *generative learning* is needed. A learning-oriented firm has the ability to evaluate and examine its old assumptions about its market and to promote radical changes according to market dynamics. The firm will not only actively gather market knowledge but also use it to develop better strategies to serve its customers and continuously investigate market dynamics (Lee & Tsai, 2005).

In contrast to the link between LO and MO, the relation between LO and EO remains unclear. Nonetheless, Sulhaini (2011) suggests that LO affects organizations' risk-taking propensity, which is a dimension of EO. A learning-oriented company that has a healthy combination of the dimensions of LO is likely to be a risk taker, and vice versa. A risk-taking company may maintain the availability of learning mechanisms to continuously learn about the market and focus on its customers. Learning is the heart of entrepreneurship, and an effective entrepreneur is an exceptional learner who learns from everything (Sardana & Scott-Kemmis, 2010). An entrepreneur learns from the market, customers, competitors, and his experience of doing business with partners. Sardana and Scott-Kemmis (2010) suggested that entrepreneurs learn through a variety of mechanisms, but the most important mechanisms are education, training, and experience. Entrepreneurs may draw upon these mechanisms as they emphasize learning. LO influences firms' innovativeness in developing new systems and processes (Panayides, 2007). The commitment to learning tends to generate higher levels of entrepreneurship (Morris et al., 2007). LO is manifested in an organization's commitment to learn and adapt and involves various aspects of organizational innovativeness (Mavondo et al., 2005). Similarly, Opper and Nee (2015) explain that entrepreneurs learn from others to detect and identify market opportunities and that learning is greatly emphasized in their interactions. Entrepreneurs learn the factors for success and failure in a specific market by carefully managing their external interactions with market players. They may also learn through direct observation and informal meetings with other players about how to create new ideas. In sum, a learning-oriented firm will have a strong combination of MO and EO. Hence, the first and second hypotheses can be formulated as follows:

H1: Learning orientation influences the market orientation of SMEs.

H2: Learning orientation influences the entrepreneurial orientation of SMEs.

### **Cultural orientations: Relationship quality**

Relationship quality (RQ) refers to the quality of attributes that make a relationship valuable in the eyes of the firms involved (Rasila, 2010). Trust, satisfaction, and commitment are interrelated and are the core attributes or dimensions of RQ (Macintosh, 2007). The attributes change over time, depending on how the

relationship is managed and developed. Sulhaini (2012) explained that learning processes are embedded in relationship development because interactions become an arena for learning activities. A learning-oriented firm will actively create partnership and proactively develop customer relationships through which individuals can learn from their customers (and even from market competitors) through iterative interactions. A firm's policy in managing customer relationships reflects its orientation towards learning. The greater the commitment to learning, the more satisfying the relationship is.

When firms operate in a dynamic market environment, they maintain close business relationships through which they can learn and address unexpected environmental changes (Kropp et al., 2006). Learning becomes the foundation for internal and external integrative efforts while the firm focuses on the continually changing nature of the business environment. Therefore, learning is at the heart of a firm's ability to adapt to a highly volatile market environment (Jones et al., 2003). Sulhaini (2012) argued that LO affects the ability of an organization to learn about the new reality of a turbulent environment. In such an environment, organizations need to engage in generative learning rather than adaptive learning. A generative learning organization can respond better to market change. The open-minded dimension in which generative learning is emphasized allows firms to learn about the new reality of the market and to understand that constant adjustment is required to cope with the uncertainty. A firm with high capability for generative learning tends to have stable business relationships because the firm has a better ability to respond to a turbulent market environment and to retain its customers/partners. The firm has a greater ability to meet customers' latent and expressed needs and thus promotes the further development of satisfaction, which strengthens relationships.

Accordingly, Santos-Vijande et al. (2005) suggested that learning processes in firms' relationships generate valuable customer knowledge that influences the level of trust and affective commitment. Learning stimulates firms' trust and affective commitment to their customers and thus strengthens relationships. Willingness to learn about partners can be viewed as commitment to the relationship. Therefore, the learning process influences the level of trust and commitment in the relationship. The way that firms perform the learning process depends on how they are oriented towards learning. Panayides (2007) showed that the orientation also influences RQ. A learning-oriented culture entails a greater propensity to learn about customers, which drives the development of communication, empathy, and trust in the relationship. The culture is viewed as a potential contributor to relationship RQ because it consists of values that influence behavior towards relationship development (Slater, 1996). Thus, it can be expected that the culture will lead to affective relationships (Tan et al., 2011), indicating the effect of LO on RQ.

H3: Learning orientation affects the relationship quality of SMEs.

Market orientation (MO) is the organizational culture that creates necessary behaviors for the creation of superior customer value and the firm's superior performance. It includes customer orientation, competitor orientation, and

interfunctional coordination (Slater and Narver, 1995). The culture gives priority to meeting consumers' needs and wants better than competitors by developing internal mechanisms to integrate all efforts towards achieving the focus. Therefore, a market-oriented firm is characterized by an organizational culture that promotes customer and competitor orientations and effective interfunctional coordination of the firm's responsiveness towards customers' requirements and competitors' strategic actions. Liyun et al. (2008) and Tan et al. (2011) maintained that MO encourages firms to search for valuable market information and develop their ability to manage relationships. Simply, the orientation energises trust, commitment, and satisfaction in the relationships and leads to higher RQ. Therefore, the following hypothesis is proposed.

H4: Market orientation affects the relationship quality of SMEs.

Entrepreneurship refers to the development of creative, innovative projects that are superior to those of competitors. It can be viewed as a characteristic of individual business managers and owners in facing market challenges by creatively developing an innovative response (González-Benito et al., 2009). Entrepreneurs have a strong capability to identify market opportunities and new ways to satisfy customer needs. They realize the importance of external interactions and develop their capability to build relationships and cooperate with those around them (Clark & Holt, 2010). These interactions facilitate the development of entrepreneurial learning. Entrepreneurs tend towards external relationships/networks in their learning strategies (Thorpe et al., 2005).

Successful knowledge transfer and learning through networks require RQ, which is believed to be crucial for managing the growth of small enterprises. Relationships offer entrepreneurs an arena for experiential learning and provide an alternative source of knowledge that is missing from their firm (Macpherson & Holt, 2007). Consequently, the capability to develop business relationships and networking is particularly paramount for entrepreneurs (Macpherson & Wilson, 2003). They tend to use their relationships to create greater customer satisfaction and loyalty and are oriented towards customer relationships. When entrepreneurs face business constraints, they use networking to overcome problems. They can obtain ideas, information, knowledge, opportunities, or even free advice from their business partners. Entrepreneurial-oriented people actively seek opportunities for knowledge acquisition to stimulate growth by leading change and innovation; they demonstrate strong RQ (Thorpe et al., 2005). They focus their entrepreneurial activities to enhance their RQ and widen opportunities for access to important knowledge.

H5: Entrepreneurial orientation influences the relationship quality of SMEs.

### **The outcomes**

New product success (NPS) refers to the transformation of firms' innovative ideas into products. It is measured in terms of financial performance and relative to competitors (Wong & Tong, 2012). In a highly dynamic market environment,

consumers' needs and wants change dynamically, which requires SMEs to monitor trends and ensure their ability to offer products that meet these trends. To remain competitive, they must have the capability to continuously produce new and innovative products. MO is an orientation that emphasizes the search for market opportunities and responsive strategies for better marketing success (González-Benito et al., 2009). From a cultural perspective, MO emphasizes values, norms, and routines oriented towards customers, competitors, and internal cooperation (Morris et al., 2007).

Despite growing attention to NPS, its relationship with MO is still unclear (Wong & Tong, 2012). Nasution and Mavondo (2008) believed that MO can lead firms to create maximum value and success. This is due to the first dimension of MO, customer orientation, which stimulates firms to understand customers' needs in greater depth, leading to a better ability to create the best value for customers. From these relationships, firms can acquire new product ideas and can be more competitive than their competitors can. The orientation helps firms to identify consumers' latent needs and develop internal systems to smooth the progress of new product development. MO directs firms to be more innovative. The orientation guides firms to combine the processes of creation and dissemination and to respond to market intelligence for greater NPS (Pentina & Strutton, 2007). Simply put, all of the MO dimensions are found to affect NPS (Wong & Tong, 2012; Hong et al., 2013). Previous studies on MO from both cultural and behavioral perspectives have found a substantial impact of MO on NPS. Firms need to develop their resources to strengthen their MO in order to enhance NPS (Kandemir et al., 2006). Therefore, the following hypothesis is developed:

H6: Market orientation affects the new product success of SMEs.

Opper and Nee (2015) argued that entrepreneurs learn through direct observation and informal meetings with other players about how to create new ideas. They rely on their formal and informal business relationships to gain financial and non-financial benefits. Entrepreneurial learning emphasizes the ability of small enterprises to learn informally through their business relationships. Learning from partners appears to be the main advantage, as entrepreneurs can obtain knowledge about a wide range of real business issues. Nonetheless, this advantage cannot be cultivated unless appropriate RQ is well-developed (Macpherson & Wilson, 2003). Thus, companies with a higher EO will use proactive behavior to pursue the advantage of learning from their network and will have a greater emphasis on the development of their relationships.

Kropp et al. (2006) argued that a firm with high EO will have a greater ability to adapt and will be more creative and innovative through internal integrations and external collaborations in new product developments. Entrepreneurs have a vision and actively search for new market opportunities and new ways to satisfy their customers and conduct business. They attain these opportunities through business relationships. Therefore, the following hypothesis can be formulated.

H7: Entrepreneurial orientation influences the value co-creation of SMEs.

Consumers have been recognized as the source of ideas for product innovation. They can actively participate in the innovation process by being the initiators of innovation while simultaneously being the target of the outcome (Berthon et al., 2007). The relationship marketing literature has emphasized value creation on the customer side only and the firm as the only creator; customers are seen as passive actors in this process (Forsström, 2004). However, recent studies in this field have shown that building strong relationships generates greater opportunities for all actors to become involved in VcC because they have an interest in gaining certain values from the relationship. The literature suggests that the main objective of a business relationship is to ensure that mutual value creation occurs in the relationship. VcC has been explained as the mutual creation of values within a close customer relationship in which each party cultivates higher values than its sacrifices. This is only possible when the parties involved possess complementary resources (Bröring & Cloutier, 2008).

According to Geigenmüller (2010), a relationship develops in stages. The final stage is value creation, which is possible when RQ is characterized by mutual trust and collaborative commitment with partners that are involved in the entire process of new product development. A high-quality relationship is essential in VcC and requires mutual adaptation and commitment (Bröring & Cloutier, 2008). As indicated by Ramaswamy (2008), there is a fundamental change in the basis and the process of value creation; namely, from product/commodity to co-creation and from a one-way process describing the direction from a firm to its customers to co-creation with customers. Through interactive and creative interactions with customers, the VcC results in various values, including experiential values for the customers and strategic values for the firm. Customer involvement in the VcC depends on the interactions throughout the product development processes. To endorse VcC, firms should first develop strong and profitable external collaborations with parties that have complementary resources and competencies (Bröring & Cloutier, 2008; Opper & Nee, 2015). Therefore, the next hypothesis is:

H8: The higher relationship quality is, the higher value co-creation is.

The linkage between VcC and NPS remains unclear. This has become an important issue in the relationship marketing literature but has not been widely investigated (Bröring & Cloutier, 2008). The literature suggests that customer involvement or customer interaction influences the speed of innovation and enhances customers' value perception. Close interactions with customers offer a firm access to customers' knowledge and help the firm avoid unnecessary product features, leading to better sales and marketing success (Carbonell et al., 2009). Firms with strong relationships have greater opportunities to analyze customers' evolving needs and identify the best ideas for new product development. To gain NPS, a firm should have the capability to maintain RQ. New product development involves risks and high costs, but these can be reduced by strong external linkages. Partners' involvement leads to quality



improvements, cost-effectiveness, and increasing project speed. These benefits can be cultivated by firms (Suwannaporn & Speece, 2010). High RQ with customers results in a greater success. Continuous product development is essential for SMEs' competitiveness, and this process requires external cooperation. Thus, RQ determines NPS and other relational benefits, such as VcC.

Values are created through continuous interactions in firms' external relationships. Hence, value creation requires firms to enhance their capability to manage relationships (Ngugi et al., 2010). Relationships with customers offer SMEs greater access to interesting ideas and enhance their innovativeness. New product development can be initiated by consumers in the early part of the process so that products meet consumers' needs and wants. This results in a higher NPS, meaning that SMEs' involvement in these relationships is essential to maximize value for SMEs and their customers.

In the process of VcC, each party needs its partners' resources and competences and must combine them with their own. The relationship is characterized by inter-related activities and the interdependency of resources to generate value for each party. Interrelations develop depending on how the interactions are managed and directed towards VcC. The most important issue in relationship management is how relationships lead to sustainable success by generating greater value than sacrifices (Forsström, 2004). VcC in the relationship should result in synergy. It can also result in cost saving, more profits, risk sharing, and new competencies for all parties involved in the relationship (Ngugi et al., 2010). Each party should provide a valuable contribution to its partners. This goal can be achieved when the parties engage in strong business relationships. Bröring and Cloutier (2008) argued that the greatest challenge in new product development is the development of strong business relationships with the right partners at the right time. RQ determines NPS. VcC in a high-quality business relationship can improve sales because the relationship stimulates sustainable innovation. A high-quality business relationship drives VcC, greater NPS, and firm competitiveness (Ngugi et al., 2010). Product innovation from VcC generates greater success for new products. Put simply, NPS is the aim of VcC, and the attainment of this aim depends on RQ. Therefore, two hypotheses can be formulated as follows:

H9: Relationship quality affects the new product development success of SMEs.

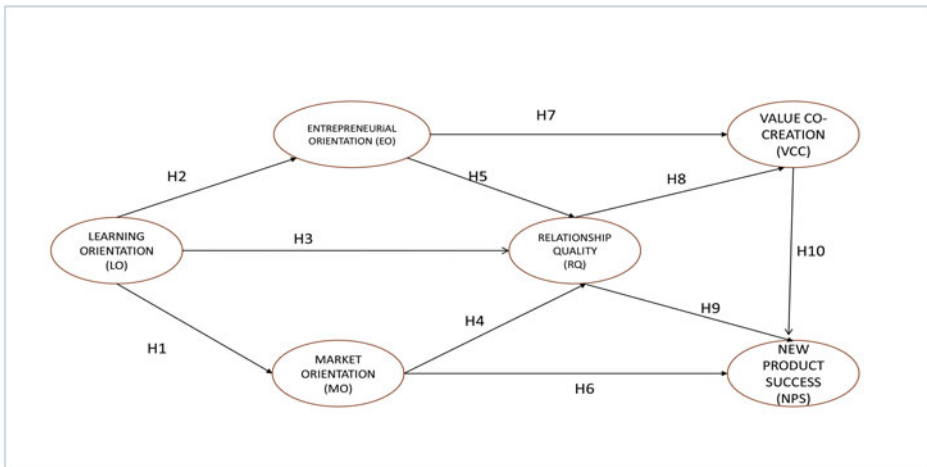
H10: Value co-creation affects the new product development success of SMEs.

Figure 1 illustrates these hypotheses. The examination of these hypotheses is the main contribution of this article.

## Method

### *The samples*

All of the samples were purposively selected. The sample firms were required to come from SMEs with at least five employees to ensure that the respondents could



**Figure 1.** Conceptual framework.

answer all of the questions regarding shared vision and inter-functional coordination, which are dimensions of LO and MO, respectively. The sample firms were approached with a door-to-door distribution of the questionnaires. Therefore, the sample was purposively chosen on the basis of the criteria and accessibility. For the purpose of the study, the data came from two sectors: food and drink and hand-craft. Firms were chosen as they tended to produce customized products. This study may provide useful recommendations for further research, business practitioners, and governments in their attempts to support SMEs' competitiveness, especially in developing countries.

There were 300 questionnaires for each group of samples. Thus, a total of 600 questionnaires were distributed and collected with the help of 25 research assistants in six districts on Lombok Island in Indonesia. This approach was used to achieve a high response rate. A total of 505 completed questionnaires were collected; thus, the response rate was quite high (84.2%), of which 499 questionnaires were usable. [Table 1](#) displays the samples' characteristics.

### **The instrument**

Given the focus of the study, the development of the instrument to measure SMEs' cultural orientations, a large number of items were identified through a careful literature review. The items were used in an early study through qualitative interviews with five owners/managers. The information obtained allowed us to make necessary adaptations to the preliminary instrument, which was then tested on 10 SMEs located in Mataram city. As a result, some items were deleted because they were considered irrelevant, and some were modified in accordance with the actual conditions of local SMEs. This process was followed by the development of the final instrument. LO referred to the research of Wang and Wei (2005) and contained three indicators: commitment to learning, shared vision, and open-mindedness. MO was viewed as a cultural orientation and was measured based on an adaptation of the work of

**Table 1.** The samples' characteristics.

	<i>N</i>	%
<i>Number of employees</i>		
5–10	411	82,3
11–30	61	12,2
>31	27	5,4
<i>Ownership</i>		
Self-owned	423	85,0
Family	57	11,3
Joint ownership	19	3,8
<i>Sectors</i>		
Handcraft	267	53,5
Food and drink	232	46,5
<i>Age of firm</i>		
<5 years	179	35,9
6–15 years	152	30,5
16–25 years	105	21,0
>25 years	63	12,6
<i>Age of the respondent</i>		
20–30 years	82	16,4
31–40 years	163	32,7
41–50 years	168	33,7
>51 years	86	17,2
<i>Sales value/year</i>		
<Rp 100 million	283	56,7
Rp 101 million – Rp. 250 million	133	26,7
Rp 251 million – Rp. 500 million	42	8,4
Rp 501 million – Rp 1 billion	28	5,6
>Rp 1 billion	13	2,6

Sanzo et al. (2003). RQ combined and adapted the work of Voss et al. (2006) and included benevolence and credibility, trust, calculative and affective commitment, and Chung et al.'s (2011) approach to economic and social satisfaction. To measure EO, three dimensions developed by Hughes and Morgan (2007) were utilized: risk taking, proactiveness, and innovation. These dimensions are the most commonly used in EO research (Kropp et al., 2006). NPS was measured by using and combining indicators proposed by Sivadas and Dwyer (2000) and Im and Workman (2004). Finally, VcC was evaluated by employing dimensions from the work of Ngugi et al. (2010). All constructs were based on seven-point Likert scales from 1 = strongly disagree to 7 = strongly disagree.

## Analysis and results

### Measure validation

To assess the measures, we conducted confirmatory factor analysis of all measures for each group of samples. The measurement results are displayed in the Appendix. All items had factor loadings greater than the threshold of .50 (Hair et al., 2006), all were significant at  $p < .05$ , and all were positive. The Cronbach's alpha values and composite reliability were greater than the common cut-off value of .70 (Hair et al., 2006). Furthermore, we calculated the Average Variance Extracted (AVE) for each construct. The results showed that the values were above the common threshold of .50 (Hair et al., 2006), indicating the reliability and convergent validity of the

**Table 2.** Discriminant validity of handcraft sector.

	Mean	St. Dev	RQ	NPS	VCC	EO	MO	LO
RQ	5.355	.746	<i>.785</i>					
NPS	6.234	.803	.385	<i>.816</i>				
VCC	5.749	.813	.628	.377	<i>.784</i>			
EO	5.176	1.002	.728	.318	.538	<i>.898</i>		
MO	4.798	1.249	.436	.219	.390	.370	<i>.874</i>	
LO	4.215	1.665	.369	.263	.166	.322	.631	<i>.856</i>

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

scales. To conduct the discriminant validity test, we first compared the square root of the AVE of each construct to its correlation with the other constructs (Fornell & Larcker, 1981). The results are displayed in Tables 2 and 3 for the handcraft and food and drink sectors, respectively. The results indicate that discriminant validity is established for each group of samples. Further evidence of discriminant validity emerged from the finding that no item loaded significantly on a factor for which it was not intended.

The model's  $\chi^2$  for each group of samples was significant (handcraft = 389.346; food and drink = 399.127 with 215 degrees of freedom and  $p < .0001$ ). This is not surprising, as the study had a large sample size. The other model fit statistics achieved a good fit of the measurement model to the data. In the handcraft sector, for example, CMIN/DF: 1.811; GFI: .896; AGFI: .867; TLI: .959; CFI: .946; RMSEA: .055; for food and drink, CMIN/DF: 1.865; GFI: .875; AGFI: .839; TLI: .954; CFI: .946; RMSEA: .061).

### Hypotheses testing

To test all hypotheses, we used a structural equation modelling technique with AMOS 20. The structural model of each group of samples reached a good level of fit: handcraft sector, CMIN/DF: 1.904; GFI: .889; AGFI: .861; TLI: .946; CFI: .953; RMSEA: .058; food and drink sector, CMIN/DF: 1.941; GFI: .870; AGFI: .835; TLI: .941; CFI: .950; RMSEA: .064). The results of the hypotheses tests are displayed in Table 4.

The results suggest that the paths from LO to RQ and from MO on NPS were not statistically significant for both sectors. Furthermore, the effect of EO to VcC was

**Table 3.** Discriminant validity of food and drink sector.

	Mean	St. Dev	RQ	NPS	VCC	EO	MO	LO
RQ	5.333	.838	<i>.768</i>					
NPS	6.132	.791	.287	<i>.736</i>				
VCC	5.717	.775	.238	.431	<i>.731</i>			
EO	4.927	.917	.401	.051	.184	<i>.764</i>		
MO	4.936	1.295	.521	.180	.207	.322	<i>.929</i>	
LO	4.461	1.733	.357	.036	.014	.284	.596	<i>.859</i>

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

**Table 4.** The results of hypotheses tests.

Hypothesis	<i>Handcraft sector</i>		<i>Food and drink sector</i>		Conclusion
	$\beta$	<i>t</i> value	$\beta$	<i>t</i> value	
H1. LO → MO	.509	10.300	.401	8.931	Supported
H2. LO → EO	.209	5.215	.099	3.758	Supported
H3. LO → RQ	.014	.712	.004	.133	<i>Unsupported</i>
H4. MO → RQ	.064	2.604	.257	5.729	Supported
H5. EO → RQ	.292	7.527	.274	3.731	Supported
H6. MO → NPS	.024	2.613	.001	.018	<i>Unsupported</i>
H7. EO → VcC	.108	1.964	.084	1.219	Partly supported
H8. RQ → VcC	.752	4.934	.157	2.548	Supported
H9. RQ → NPS	.346	2.613	.211	2.646	Supported
H10. VcC → NPS	.214	2.529	.522	4.947	Supported

Note: Significant at \* $p < .05$ ; \*\* $p < .01$  and \*\*\* $p < .0001$ .

not confirmed in the food and drink sector. However, these were only directionally supported by our data.

## Discussion and implications

### ***Cultural orientations: Relationship quality (hypotheses 1–5)***

The results suggest that LO strengthens the other orientations (i.e., MO and EO). LO energizes SMEs to learn about their customers and to proactively build strategic responses to remain competitive. The establishment of strong LO is the starting point for strong MO and EO because knowledge is essential for the latter orientations, and knowledge can only be obtained when learning processes are highly emphasized. Both orientations require knowledge creation and thus LO. LO enhances the quality of MO because SMEs with a strong learning culture can focus on more than just customers (Hakala & Kohtamaki, 2011); LO leads SMEs to continuously investigate the dynamic nature of the market environment (Lee & Tsai, 2005).

A learning culture encourages firms to learn within their relationship framework, in which communication, iterative interactions, and cooperation are the available learning mechanisms. The results indicate that LO does not have a strong impact on RQ, suggesting that SMEs in both sectors do not utilize their relationships as arenas to learn and that relationship-building routines are not seen as learning mechanisms. Neither sector is aware of the potential. They use their relationships in terms of selling only, and their customers are not perceived as sources of knowledge.

The current study provides, however, evidence that high-quality relationships enable firms to understand customers' requirements and problems and to provide the best solutions. A market-oriented firm will have high-quality relationships. MO equips firms with an external orientation, especially with main customers through the customer relationship framework. The orientation stimulates firms' commitment to satisfy their customers, leading to higher trust in relationships. Firms' relational capability must be supported by an understanding of customers and

competitors in which customers are seen as the main source of market knowledge. MO is an important factor in firms' ability to develop high-quality relationships.

Similar to the effect of MO on RQ, EO has a considerable impact on RQ. EO motivates SMEs to be proactive and innovative and to use their resources to enhance their performance (Hakala & Kohtamaki, 2011). The orientation leads SMEs to search for new ideas through their business relationships. High-quality relationships provide opportunities; therefore, SMEs rely on these high-quality relationships (Hakala & Kohtamaki, 2011). High-quality relationships are viewed as the main tools for entrepreneurs who realize the importance of a strong relational capability because customers provide interesting ideas to enhance their innovativeness (Renko et al., 2009). This study finds an indirect effect of LO on RQ through EO. This means that SMEs with a higher EO will be proactive in pursuing the advantage of learning from their customer relationships and thus will have a greater emphasis on the development of their capability to create high-quality relationships. The study suggests that LO can affect RQ only when it is supported by the other orientations.

#### ***Market orientation: New product success (hypothesis 6)***

Hypothesis 6 is only directionally supported by our data in both sectors. This finding is inconsistent with the findings of Kandemir et al. (2006) and Wong and Tong (2012). However, the result supports the findings of Baker and Sinkula (2009), who argued that previous studies provided the opposite result, as those studies did not incorporate EO into the analysis. Ignoring EO in the analysis may lead to the conclusion that strong MO will guarantee strong NPS. Indeed, strong MO without strong EO will encourage SMEs to satisfy customers' current needs but not to aggressively exploit opportunities. In other words, without strong EO, SMEs focus on satisfying customers but are unable to take advantage of being market oriented due to their passive approach to doing business. This is because the characteristics of EO stress both innovativeness and proactiveness in searching and tapping opportunities regardless of competitors' behavior and approach. Therefore, MO requires strong EO to have a significant impact on high NPS. This understanding is underlined by Hong et al. (2013), who found that firms with high MO and EO tend to have greater NPS than firms with low levels of both constructs. SMEs with a strong combination of MO and EO can achieve higher NPS. SMEs need to develop their EO to support their MO because EO rejuvenates SMEs' ability to obtain market opportunities.

#### ***Entrepreneurial orientation: Value co-creation (hypothesis 7)***

Hypothesis 7 was partly supported because EO has a weak relation to VcC in the food and drink sector. One possible explanation for this result was that the majority of the respondents in the sector produce traditional food and drink, and their customers expect the products to be a certain way. They do not require innovations or changes in taste, packaging, size, or color; thus, there is no need to change the ways they produce food, and there is no pressure to enhance competencies and skills in relation

to the production process. VcC in this sector seems to be limited by customers. This is in contrast to customers in the high technology product sector, who require constant improvements and innovations to product quality and performance. Firms in this sector should continuously adjust and enhance their competencies and skills to meet these requirements (Opper & Nee, 2015).

### ***Relationship quality: The outcomes: Value co-creation and new product success (hypotheses 8–10)***

This study found that RQ strongly affects VcC. Values that are co-created will be enjoyed by both sides when high-quality relationships are maintained. High-quality relationships are characterized by knowledge-sharing routines through iterative interactions that stimulate each side to tap benefits such as the sharing of risks, responsibility, information, knowledge, and enhanced capabilities (Wang et al., 2008; Opper & Nee, 2015). Combinations of resources create synergy, enabling both sides to achieve benefits that may be difficult to achieve without cooperation (Ngugi et al., 2010).

The current study confirms that VcC determines NPS. This finding is consistent with the findings of Ngugi et al. (2010), who show that SMEs can achieve greater success in selling through the process of VcC in relationships. High-quality relationships enable SMEs to develop their competencies in new product development and marketing. These are indications of existing VcC. There is no unnecessary new product development, as the process involves both parties in planning and developing as required by customers, and cost efficiency can be guaranteed. VcC can occur in the form of competency enhancement for quality improvement, cost efficiency, and the speed of new product development, with the end result of meeting customers' needs and wants to ensure the success of new products.

A high-quality relationship possesses high frequencies of knowledge sharing, helping to identify and exploit market opportunities, innovation, and product launching. High-quality relationships lead to high NPS because high-quality relationships provide access to important ideas to enhance innovation and competitiveness for the parties involved (Ngugi et al., 2011).

This study proposes guidelines for managing SMEs. First, high RQ can generate greater VcC and NPS. Managers need to develop the capability for high-quality relationships so that they can obtain greater value and maximize customer value, which, in turn, results in the greater success of new products. Second, as suggested by the finding that RQ requires the support of organizational culture development, managers can develop their organizational culture with a focus on market knowledge creation through the proactive development of relationships. High-quality relationships allow firms to maximize the value created and NPS. The main contribution of this study is that VcC and NPS can be achieved when high-quality relationships are attained through the development of favorable cultural orientations. Managers need to understand the fundamental role of the orientations and utilize their relationships to learn and obtain strategic values for success.

## Limitations and future research directions

The study has provided evidence of the chain of effect among cultural orientations, RQ, and their outcomes. Nonetheless, like most previous empirical studies, this study has several limitations that could provide future research opportunities. First, the study only evaluated the surface of the cultural orientations of the responding firms. The cross-sectional approach of the study limits our ability to develop a stronger conclusion about the linkages. We encourage further studies to utilize qualitative approaches to obtain a deeper understanding of the phenomena. We also recommend that future studies should investigate SMEs in the service industry because none of our responding firms were from this industry.

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## Appendix: Measurement results

### Learning Orientation

<i>Food and Drink:</i>	$\lambda$ : .786 – .914	<i>Cronbach's <math>\alpha</math></i> : .932	<i>CR</i> : .897	<i>AVE</i> : .745
<i>Handcraft:</i>	$\lambda$ : .792 – .894	<i>Cronbach's <math>\alpha</math></i> : .918	<i>CR</i> : .891	<i>AVE</i> : .732

Our ability to learn is the key to our competitive advantage  
 Learning is the key to improvement  
 Learning is important to our business survival  
 There is a commonality of purpose within our firm  
 All employees are committed to the goals of this firm  
 All employees view themselves as partners in changing the direction of the firm  
 We are not afraid to reflect critically on the shared assumptions we make about our customers  
 We continually evaluate our perceptions of market dynamics

### Relationship Quality

<i>Food and Drink:</i>	$\lambda$ : .711 – .985	<i>Cronbach's <math>\alpha</math></i> : .873	<i>CR</i> : .932	<i>AVE</i> : .698
<i>Handcraft:</i>	$\lambda$ : .591 – .947	<i>Cronbach's <math>\alpha</math></i> : .828	<i>CR</i> : .904	<i>AVE</i> : .616

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 about 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 to our customers  
 Our relationship provides us with a profitable market position  
 We are happy with the relationships, as they increase our sales  
 Our interactions are characterized by mutual respect  
 We are satisfied with the overall working relationships

### Entrepreneurial Orientation

<i>Food and drink:</i>	$\lambda$ : .620 – .906	<i>Cronbach's <math>\alpha</math></i> : .780	<i>CR</i> : .797	<i>AVE</i> : .573
<i>Handcraft:</i>	$\lambda$ : .842 – .966	<i>Cronbach's <math>\alpha</math></i> : .793	<i>CR</i> : .926	<i>AVE</i> : .807

We emphasize innovativeness  
 We actively introduce improvement and innovation  
 We are creative in our operations  
 Our business seeks new ways to do things  
 Individuals are encouraged to take calculated risks  
 We emphasize explorations and experiments  
 We excel at identifying opportunities  
 We always take initiative  
 We initiate actions to which competitors respond

(Continued on next page)

Continued

**Market Orientation**

<i>Food and Drink:</i>	$\lambda$ : .867 – .984	<i>Cronbach's <math>\alpha</math></i> : .865	<i>CR</i> : .949	<i>AVE</i> : .747
<i>Handcraft:</i>	$\lambda$ : .863 – .885	<i>Cronbach's <math>\alpha</math></i> : .860	<i>CR</i> : .906	<i>AVE</i> : .763

Customer satisfaction is our main strategic objective

We believe that it is necessary to be aware of environmental changes to assess their influence on customer needs

We continuously seek and identify market needs

We develop our advantage based on our understanding of consumers' needs

Our aim is to satisfy consumers' needs and desires better than competitors

We monitor environmental tendencies to develop our firm's competitive strategy

We work closely together to serve our customers

Information on customers, firm success, and failure is internally communicated well

**Value Co-Creation**

<i>Food and Drink:</i>	$\lambda$ : .591 – .879	<i>Cronbach's <math>\alpha</math></i> : .746	<i>CR</i> : .822	<i>AVE</i> : .540
<i>Handcraft:</i>	$\lambda$ : .751 – .883	<i>Cronbach's <math>\alpha</math></i> : .722	<i>CR</i> : .863	<i>AVE</i> : .613

We cultivate cost savings from the relationship

We receive revenue benefits from our relationship

We obtain new competencies from the relationship

We can share the risks in our cooperation

**New Product Success**

<i>Food and Drink:</i>	$\lambda$ : .619 – .984	<i>Cronbach's <math>\alpha</math></i> : .818	<i>CR</i> : .877	<i>AVE</i> : .648
<i>Handcraft:</i>	$\lambda$ : .689 – .985	<i>Cronbach's <math>\alpha</math></i> : .714	<i>CR</i> : .887	<i>AVE</i> : .667

Our product has superior quality and reliability

Our new product is released on time

Our new product is very successful in term of sales

Compared to our competitors, our new product is more successful