

Developing Innovation Capability Among SME Exporters: The Role of Absorptive Capacity and Relationship Conflicts

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Acknowledgment: This research was funded by the Universiti Kebangsaan Malaysia under research grant code GUP-2020-001

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This study investigates how international inter-organizational relationship conflicts and absorptive capacity influence the development of innovativeness among small and medium enterprises in emerging markets. The sample comprised small and medium enterprise exporters in the manufacturing sector. Quantitative data were collected via survey method, with analysis conducted on responses from 124 participants. Hypothesised relationships were tested using Smart-PLS software. Results indicate that absorptive capacity is a strong determinant of innovativeness and partially mediates the influence of functional conflict on export innovativeness. The positive effect of functional conflict on absorptive capacity is pronounced in the presence of dysfunctional conflict. The impact of absorptive capacity is weak and negative under the condition of dysfunctional conflict. The paper ends with a discussion, including the study's theoretical and managerial implications and limitations. In addition, areas for future research are proposed.

Track 14. Inter-Organizational Collaboration: Partnerships, Alliances and Networks

Word count (excluding tables and references): 6299.

Keywords: Absorptive Capability, Adaptive Capability, Export Performance, SMEs, DC, Innovativeness,

Introduction

Innovativeness is a critical capability of small and medium enterprises (SMEs) to achieve superior export performance (Safari et al., 2022). Hult, Hurley, and Knight (2004, p. 430) define innovativeness as “...the capacity to introduce of some new process, product, or idea in the organization”. It relates to the cultural trait of openness to novel ideas (Hurley & Hult, 1998) and tendency to act in a way that continuously leads the firm to develop innovation (Makri et al., 2017). Previous studies examine SMEs’ innovativeness within the lens of the firm capability to respond to market changes (Chang & Webster, 2019; Faroque et al., 2017) that attracted growing research interest in recent years (Corrêa et al., 2022; Jun et al., 2021; Nassani & Aldakhil, 2023; Vanderstraeten et al., 2020). Some research investigates the antecedents of SMEs’ innovativeness in the export context grounded on the framework of interfirm knowledge sharing (Makri et al., 2017; Matanda et al., 2016; Tehseen et al., 2023). This knowledge relates to the customer and market allowing the firm to draw its international strategy, make better decisions (Tuominen et al., 2022), and achieve economic rent (Mejri et al., 2018).

The ability to generate new knowledge is essential for innovativeness (Nassani & Aldakhil, 2023). SMEs largely depend on external sources for export knowledge, and the customer is the most common source (Mejri et al., 2018). Leveraging partnerships can enhance competitiveness (Matanda et al., 2016) through interfirm knowledge transfer (Corral de Zubielqui et al., 2019) and knowledge acquisition (Siachou et al., 2022). In knowledge acquisition, the absorptive capacity is a key (Zhang et al., 2022) as it helps identify relevant knowledge and transform the knowledge into customer value. But, when partners engage in a relationship, the different viewpoints and incompatibility may cause conflict (Simons & Peterson, 2000) and knowledge exchange. While conflict is common in inter-organizational relationships (IOR) (Luiz et al., 2023), especially in export settings (Leonidou et al., 2019), our understanding of inter-organizational conflict (IOC) remains limited (Wang & Liu, 2022). This phenomenon has not been adequately addressed in export innovativeness research and this study seeks to answer the following question:

To what extent does the IOC influence external knowledge acquisition and export innovativeness among SMEs?

The literature highlights the importance of learning (Chen, 2019) in cross-border interfirm knowledge sharing (Pérez-Nordtvedt et al., 2008; Zhang & Zhou, 2013). Learning enables interfirm knowledge acquisition (Yao et al., 2013) of which absorptive capability is the critical constituent (Dung et al., 2021). Two critical dimensions of absorptive capacity are the ability to identify valuable knowledge and the ability to apply the knowledge into commercial ends that allows the cross border knowledge acquisition (Moura et al., 2024). The valuable outputs congruent to the variation of business environment (Rakthin et al., 2024) hence helps deter knowledge overloading and allows productive usage of resources. Absorptive capacity naturally

leads to innovation outcomes (Cohen & Levinthal, 1990). Despite being extensively studied through the lens of SME exporting (Aliasghar et al., 2020; Chabowski et al., 2018; Ferreras-Mendez et al., 2019; Gkypali et al., 2018), absorptive capacity rarely examined in export innovativeness.

IOC is a natural phenomenon and an important research focus in IOR (Wu et al., 2023). Although conflict is synonymous with negative valence (Bundy et al., 2018), the literature also recognized the multicomponent feature of IOC consisting of both constructive and destructive (Pfajfar et al., 2019) as well as functional and dysfunctional. Both types of conflict are viewed as not on the opposite end of a continuum because task-related conflict generally enables partners in a relationship to achieve effective engagement and business solutions. IOC naturally develops over time during interaction and their coexistence has not been understood. One possible event is that both types of conflicts may have interacted during exchanges which causes IOR effectiveness and knowledge acquisition. The conundrum of conflict paradox is empirically addressed in this paper.

This research is critical as the area of concern has received scant attention among researchers. First, the creation and development of innovativeness in SME exporting. Second, the specific antecedent of the international IOC, destructive and constructive, to export the innovativeness of SMEs, in terms of the individuals' impact and the interaction between them. Finally, a comprehensive model of SME innovativeness depicting specific levels of fitness between international IOR, absorptive capacity and innovativeness.

As for the structure of this article, in the next section, the theoretical framework is discussed. More small and medium enterprises (SMEs) in emerging economies expand overseas using export mode (Bai et al., 2021). While the global market provides opportunities for greater sales and profit (Miocevic & Morgan, 2018), export strategy on the other hand allows better use of production capacity and realizes the potential to develop competitive advantage through acquaintance with foreign know-how (Chang & Webster, 2019). However, the international market is complex, complicated, difficult to predict and risky therefore developing SMEs' competitive export ability is challenging (Jafari-Sadeghi et al., 2021) but strategically important to achieve export performance objectives.

Theoretical Background

Research on innovativeness resonates well with the strategic framing of dynamic capability theory. Innovativeness is about the ability of SMEs to respond to market change through novel exploration (Cho & Pucik, 2005, p. 556) and the introduction of new outputs (Hult et al., 2004) that align with the prevailing circumstances (Ashiru et al., 2022). When the market is volatile, uncertain, complex, and ambiguous continuous adaptation and innovation are key to a firm's

survival (Schoemaker et al., 2018). Wealth creation in a dynamic market environment is a function of the competitive advantage derived from a difficult-to-replicate and inimitable firm's asset position such as knowledge (Teece et al., 1997). This perspective is anchored in a dynamic capability theory. Furthermore, the dynamic capability view asserts that the firm responds to market change by altering existing knowledge (Eisenhardt & Martin, 2000) through integration, combination, and configuration that creates difficult to imitate capabilities and enhances rapid innovation (Teece, 2007).

Research on the antecedent of SMEs' innovativeness in export markets (Faroque et al., 2017; Makri et al., 2017) entails two paradoxical common schemes; the lack of resources and the mechanism to overcome resource scarcity. SMEs' innovativeness is developed through a pathway with embedded access to external knowledge actors (Chang & Webster, 2019). The relational framework maintains that the critical knowledge resources may reside beyond the firm boundary, and an IOR is a mechanism that allows inter-organizational knowledge exchange (Dyer & Singh, 1998). Foreign partners are local firms that possess knowledge about export markets (Mejri et al., 2018). The exploitation of knowledge to produce innovation is the result of the integration between existing knowledge with newly acquired non-overlapping complementary external knowledge (Cohen & Levinthal, 1990).

Since innovative firms devise specific types of knowledge and capability, the firm's core capability is the unique competences which are knowledge-intensive organizational activities (Knight & Cavusgil, 2004) such as learning. Learning is about the acquisition of new knowledge. Regarding the idiosyncratic knowledge assets, SMEs' competences are about the acquisition and reconfiguration of knowledge resources (Siachou et al., 2022). From the lens of knowledge management, the two critical research streams were IOR coordination and effective acquisition of external knowledge resources (Lee et al., 2012). This theoretical lens unwinds the tension in SMEs' internationalization as IOR is instrumental to SMEs exporting (Matanda & Freeman, 2009) and helpful in overcoming resource limitations (Bianchi & Saleh, 2020), reducing risks (Miocevic, 2016), and sharing of knowledge (Skarmeas et al., 2019).

Not all external knowledge is relevant. Effective acquisition of relevant and non-overlapping knowledge pre-empts information overloading and allows valuable outputs. In this regard, absorptive capacity is an important capability for knowledge acquisition (Siachou et al., 2022) hence extensively studied in the export context (Aliasghar et al., 2020; Chabowski et al., 2018; Ferreras-Mendez et al., 2019; Gkypali et al., 2018). Cohen and Levinthal (1990, p. 39) assert that the ability to "...recognize the value of new information, assimilate it, and apply it to commercial ends" refers to the absorptive capacity and the identification of relevant knowledge and the exploitation of this knowledge are key to innovativeness.

Meanwhile, IOR coordination facilitates knowledge transfer and acquisition, which commonly enticed by the incidence of conflict (Luiz et al., 2023). Conflict emerges when

interacting parties encounter differences and misfits, a common phenomenon in cross-border IOR (Leonidou et al., 2019). IOC consists of task or functional conflict and relationship or dysfunctional conflict (Pesch & Bouncken, 2018). Each conflict has different effects on strategic decisions (Amason, 1996). Task conflict occurs when partners disagree or have different opinions about the application of work-related tasks (Lu & Guo, 2019) which leads to better communication and effective decision-making (Wu et al., 2023). However, too much task conflict may decrease relationship strength and information exchange (Lu & Guo, 2019). On the other hand, cultural differences are prone to create interpersonal disagreement that leads to relationship conflict and the negative effect (Pesch & Bouncken, 2018) as relationship conflict is based on personal animosity and incompatibility that leads to tension (Simons & Peterson, 2000). Depending on the type and scale, conflict may increase the coordination of IOR which helps the effectiveness of knowledge exchange or functions as an impediment to knowledge exchange.

Conflict in IOR refers to the disagreements that occur in the cooperation relationship or the incompatibility of activities, shared resources, and goals between partners (Anderson & Narus, 1990). Functional conflict is a constructive challenge of ideas, beliefs, and assumptions, and respect for others' viewpoints even when parties disagree (Massey & Dwes, 2007).

Effective IOC management increases the ability to gain the benefits of IOR (Luiz et al., 2023). Despite the different outcomes caused by different types of conflict, both task and relationship conflicts coexist in IOR and interact in a way that they influence each other (Mooney et al., 2007) which in turn affects the IOR learning and innovation capability of SMEs. The literature asserts that encouraging task conflict leads to relationship conflict (Mooney et al., 2007). However, the logical causal effect entails a specific relationship trajectory of task conflict on information exchange, IOR learning, and knowledge acquisition under the presence of relationship conflict. The relationship conflict implicates relational risk causing lower cooperation, quality of strategic planning, and information sharing (Cheng, 2011). This reduces the likelihood of the partner voicing their perspective and understanding the issue being discussed by the partners. Therefore, in the presence of relationship conflict the role of task conflict and absorptive capacity are affected.

Literature Review and Hypotheses Development

Absorptive capacity

Absorptive capacity relates to the ability to understand the usefulness of new knowledge (Mahdiraji et al., 2021) as well as the breadth of external knowledge search which positively influences process innovation (Aliasghar et al., 2020). It provides insight into and understanding of effective knowledge acquisition within the framework of interfirm mode and export context. Previous studies examined the direct effect of absorptive capacity on export performance (Gkypali et al., 2018; Rua et al., 2018), innovation capability (Liao et al., 2007; Zhang et al.,

2024) and innovativeness (Aggarwal & Kapoor, 2021; Chang et al., 2012). However, none of these studies examine SMEs despite the concept that absorptive capacity is intimately related to innovativeness which is common among SMEs.

Previous studies examined the influence of absorptive capability on innovativeness (Robertson et al., 2012) as absorptive capacity is strategically important to a firm competitive ability (Matthyssens et al., 2005). Liao et al (2003, p. 65) posit absorptive capacity helps identify and utilize external knowledge, which is critical to innovativeness and SMEs' competitive advantage in the export market. Cohen and Levinthal (1990) assumes absorptive capacity assists in the identification of relevant knowledge that it wants to exploit and apply, and at the same time complements the existing and embodied knowledge that it currently has. The authors insist innovativeness is imbued with critical elements of exploitation of external knowledge, complementariness and non-overlapping assets, therefore is the outcome of absorptive capacity. Zahra and George (2002) and Todorova and Durisin (2007) propose a framework depicting the positive effect of absorptive capacity on innovative output, and has been reported as very strong relationship by existing empirical study (Cepeda-Carrion et al., 2012).

Although external knowledge helps in developing innovation in the firm (Cuervo-Cazurra & Rui, 2017), deep knowledge from outside sources can't be effectively used unless it is combined and integrated via an absorptive capacity mechanism which in turn influences process innovation (Aliasghar et al., 2020). Fostering absorptive capacity allows SMEs to continuously acquire and assimilate external knowledge and therefore gain innovation benefits from the knowledge (Ferreras-Mendez et al., 2019). This can be done by translating the knowledge into innovations (Kolbe et al., 2022). The knowledge that the firm learned in international markets enables the firm to develop new skills for business activities such as R&D and innovative capability (Jun et al., 2021). Therefore, absorptive capacity has a significant impact on innovativeness. This study proposes the following:

H1. Absorptive capacity positively influences innovativeness.

Functional conflict

Although conflict is a major characteristic of the IOR relationship, to date, there is no evidence related to the influence of functional conflict on absorptive capacity and innovativeness. Functional conflict deals with task-oriented disagreement and focuses on judgmental disputes and viewpoints to achieve a shared goal (Pfajfar et al., 2019; Skarmeas, 2006). It is about beneficial effects as a group "...encourages greater cognitive understanding of the issue being discussed" (Simons & Peterson, 2000, p. 102). Interorganizational task conflict stands for disagreements between the buyer and the seller concerning how to perform the task (Lu & Guo, 2019). Partners settle the disagreement amicably and work jointly to achieve mutually beneficial relationships (Skarmeas, 2006). During consultative interactions and negotiations, partners sense open

discussion, give opinions freely and question other parties' beliefs (Massey & Dawes, 2007). In such an atmosphere, functional conflict allows exchanges of knowledge, skills and know-how, and facilitates the identification of relevant information and effective exchange of resources between partners. It also enables efficient integration of the new knowledge into the organization.

Functional conflict relates to the diversity of the groups in terms of skills, experience, and technical background in which greater cognitive conflict causes higher member turnover (Mooney et al., 2007). The conflict's cognitive facet links to the partner's diversity in using cognitive ability in processes such as information and decisions. Conflict arises when each party in IOR differs regarding the manner in the task to be implemented (Mooney et al., 2007). In a complex situation, diverse cognitive capabilities lead to quality decisions (Amason, 1996). It is a perception of disagreements among group members about the content of their decisions and involves differences in viewpoints, ideas, and opinions (Simons & Peterson, 2000). In such a situation, the partner behaves open-mindedly and accepts new ideas, leading to innovative output. High levels of functional conflict may stimulate specific structuring ties that can improve the pattern and quality of interactions between the network of employees who engage in and coordinate activities in the relationship (Pfajfar et al., 2019). So, in the case of exporters, functional conflicts allow and encourage exporters to behave innovatively. Thus, the following is hypothesized:

H2. Functional conflict positively influences absorptive capacity.

H3. Functional conflict positively influences innovativeness.

Mediating function of absorptive capacity

There have been many studies on the direct influence of IOR characteristics on innovativeness (Chen, 2019; Faroque et al., 2017; Inemek & Matthyssens, 2013; Matanda et al., 2016) and the mediating role of absorptive capacity on the impact of knowledge transfer/sharing/network on innovativeness has been widely researched (Aggarwal & Kapoor, 2021; Liao et al., 2007). However, to date, there is no study examining the mediating effect of absorptive capacity on the relationship between functional conflict and innovativeness (Jun et al., 2021).

As per our review, functional conflict helps ease resource sharing and knowledge transfer between export and importer. Cohen and Levinthal (1990) proposed that absorptive capability entails the ability to identify opportunities and relevant external knowledge about the target market that is complementary to existing internal information and leads to the ability to adapt to the dynamic environment of the international market. Hence, functional conflict can influence innovativeness indirectly via absorptive capacity.

Functional conflict is the outcome of unique skills and knowledge interaction between partners. Differences in technical expertise and knowledge idiosyncrasy lead to open

communication and effective integration of the expertise that results in greater knowledge outcomes. Functional conflict allows members to freely express perspectives that create diverse views to achieve mutual benefits hence the results of greater decision quality (Amason, 1996). Absorptive capacity recognizes the knowledge that is most relevant to the environment and the firm's objective and strategic needs. The identification of the knowledge that suits and complements the knowledge base enhances the innovative capability of SMEs. Therefore, this study proposes the following.

H3. Absorptive capacity mediates the effect of functional conflict on innovativeness.

The moderating effect of dysfunctional conflict.

Researchers distinguish between functional conflict and dysfunctional conflict that may cause mixed effects on strategic decisions (Pondy, 1967). The two dimensions of conflicts are not at the opposite end of a continuum, and both may coexist and to an extent they interact dynamically. The coexistence of both conflicts during the interaction process can lead to hostility as the cognitive capability of partners' diversity may also create tension when differences and dissimilates are enforced (Amason, 1996). For example, information and capital asymmetry link to the controlling power of one party over the other. The diversity and interaction that lead to the decision quality might delay the consensus and outcome (Amason, 1996).

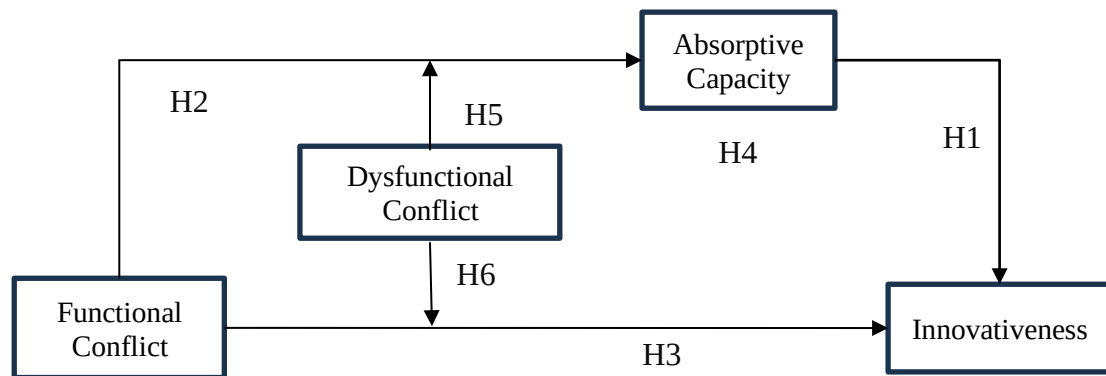
Dysfunctional conflict also relates to relationship conflict. The interpersonal conflict makes members less receptive to the ideas of other group members, some of whom they may not like or who may not like them (Jehn, 1995). A dysfunctional conflict negatively affects effective decision-making and the processes that inform it, i.e. it is an impediment to effective inter-organizational information sharing. This suggests that dysfunctional conflict between organizations in information sharing might be unavoidable despite strong connectedness (Cheng, 2011).

Relationship conflict is described as 'the shadow of task conflict' that negatively influences group satisfaction and commitment and limits the cognitive functioning (Simons & Peterson, 2000). Relationship conflicts due to Type II diversity can impede task conflict resolution, as parties may conflate behavioural factors with differences around task accomplishment, perceive the task conflict as a personal rejection, or take the potentially harsh language of task conflict personally (Pesch & Bouncken, 2018). In international IOR, role conflict occurs when one is forced to play a role that has a conflict with their value system and creates behavioural problems and organizational inefficiency due to incompatible cultural expectations and irreconcilable norms (Liu et al., 2014). These disagreements are generally dysfunctional as they distract the team from the tasks at hand (Mooney et al., 2007).

H4. Dysfunctional conflict negatively moderates the effect of functional conflict on absorptive capacity.

H5. Dysfunctional conflict negatively moderates the relationship between functional conflict and innovativeness.

Figure 1. Conceptual Framework



Methodology

Study context and sampling.

The population of this study is SME exporters in the manufacturing sector. The sampling frame was 1060 cross-industry that are based in Malaysia, active exporters during the data collection, have employees between 10 to 200 and are not subsidiaries of any company. The sample was selected from the data bases of Federation of Malaysian Manufacturer (FMM) and Malaysia External Trade Development Corporation (MATRADE). The choice of cross industries manufacturing SMEs is consistent with other (Zhu et al., 2017). The manufacturing sector contributes more than 50 % of the total Malaysia export value. Cross industry was chosen because Malaysia is a small economy, and the number of exporting SMEs is relatively small hence understanding the broad industrial perspective of such a country helps spur the economy (Hoque et al., 2022).

Instrument

This study uses established measurements validated in the previous research to operationalize the model. Except for export performance, all measures used a 5-point Likert Scale ranging from 1 “Strongly Disagree” to 5 “Strongly Agree”. The scale for export performance ranges from 1 “strongly dissatisfied” to 5 “strongly satisfied”.

The measure of innovative capability was originally proposed by [Akman and Yilmaz \(2008\)](#), indicating five items reflecting innovative capability. The measure of absorptive capability was proposed by [Chen et al. \(2009\)](#) consisting of three items measuring a firm's absorptive capability to acquire, assimilate, transform, and exploit knowledge. Another item was originated from [Lichtenthaler \(2009\)](#). Relationship conflict consists of two dimensions, functional conflict, and dysfunctional conflict. The measurement of functional and dysfunctional conflicts was adapted based on the studies by [Pfajfar et al. \(2019\)](#). These measurements was originated from [Song et al. \(2006\)](#). An item was added later based on the feedback received by the expert during the content validity process.

Data Analysis

Reliability and validity

Factor analysis was conducted for item reduction before the test of reliability and validity. In doing so, this study uses Smart PLS. Items were deleted due to either low loading (AC 1) ([Hair et al., 2010](#)) or cross-loading (IV 3, IV 4, DC 3 and DC 4). The results in Table 1 show the value of factor loading well above 0.7 for all remaining measurement items.

The measurement model was then evaluated. First, we start with assessing potential multicollinearity which was conducted using variance inflation factors (VIF). The value of VIF was less than 0.40 indicating the nonexistence of multicollinearity. The model fit was tested using SRMR and the value was above 0.80, supporting the model fitness.

Table 1: Factor loading and Average Variance Extracted

	Standardized Factor Loading	Average Variance Extracted (AVE)
Innovativeness		0.67
IN 1	0.74	
IN 2	0.88	
IN 3**	0.78	
IN 4**	0.81	
IN 5	0.86	
Absorptive Capacity		0.75
AC 1*	-	
AC 2	0.86	
AC 3	0.86	
AC 4	0.87	
Functional Conflict		0.73
FC 1	0.82	
FC 3	0.85	
FC 4	0.88	
FC 5	0.85	
Dysfunctional Conflict		0.89
DC 1	0.95	
DC 2	0.93	

*Item absorptive capability 1 deleted due to lower loading. **Items innovativeness 3 and 4 were deleted due to cross-loading. SRMR = 0.82

Source: Authors' own creation

The convergence validity was assessed via average variance extracted (AVE). The AVE of all constructs (Table 2) were above 0.50 indicating the existent of convergence validity. For the discriminant validity this study uses the heterotrait-monotrait (HTMT) approach as it is said to be more reliable than AVE (Henseler et al., 2015; Voorhees et al., 2016). The results in Table 2 exhibit that all values were less than 0.85, meeting the condition of discriminant validity.

Table 2. Heterotrait-Monotrait Ratio (HTMT).

	1	2	3
1. Innovativeness			
2. Absorptive capacity	0.73		
3. Functional Conflict	0.53	0.60	
4. Dysfunctional Conflict	0.17	0.11	0.40

Source: Authors' own creation

This study uses two measures for reliability namely Cronbach alpha and composite reliability. The results in Table 3 show all values were above 0.80, well higher than the threshold level of 0.70 (Fornell & Larcker, 1981), confirming the existence of reliability.

Table 3. Correlation, Mean, Standard Deviation and Square Root AVE.

	Cronbach	Composite reliability	1	2	3	4
1. Innovativeness	0.87	0.91				
2. Absorptive capacity	0.83	0.90	0.63			
3. Functional Conflict	0.87	0.91	0.46	0.52		
4. Dysfunctional Conflict	0.88	0.94	0.07	0.09	0.35	

Square root of the AVE is shown in diagonal

Source: Authors' own creation

Common method bias

The cross-sectional nature of this research may create common method bias. Following the method suggested by Podsakoff et al. (2003) and tested empirically (Ismail et al., 2024; Liang et al., 2007; Miroshnychenko et al., 2021), this study compares the item loadings substantively explained by the principle latent variables with item loadings on the method factors (Appendix 1). While the average substantive item loading was significantly high (0.858), the average item loading on the method factor was low (-0.001), resulting in a ratio of 572:1. These results reject the existence of common method bias.

Results

The hypotheses were tested using the structural model in Smart PLS 4.0 which relies on bootstrapping technique using 5000 samples. We estimated the path coefficient, T-statistic, VIF and f^2 effect size. The f^2 specifies the extent of individual variable contribution to the R^2 of the

endogenous construct. The VIF values were between 1.05 and 2.51, rejecting potential multicollinearity problems.

Two models were developed (Table 4). Model 1 shows the relationship between control variables and endogenous construct. Control variables have minimal power in explaining the variance in absorptive capability ($R^2 = 0.03$) and innovativeness ($R^2 = 0.03$). Of all control variables, only the year of establishment demonstrates a significant relationship with innovativeness ($\beta = -0.26$, T-statistic = 2.07, $p < 0.05$).

In Model 2 the hypothesized relationships were included, and the explained variance increased substantially for absorptive capability ($R^2 = 0.44$) and innovativeness ($R^2 = 0.45$). The relationships explain 44% of the variance in absorptive capability and 45% of the variance in innovativeness.

Regarding hypothesis testing, the first hypothesis (H1) predicts a positive effect of absorptive capacity on innovativeness. The results ($\beta = 0.47$, T-statistic = 4.74, $p < 0.001$) indicate a significant and positive effect, supporting H1, with a moderate effect size ($f^2 = 0.19$). The second hypothesis (H2) proposes a positive influence of functional conflict on absorptive capacity. The results ($\beta = 0.62$; T-statistic = 9.46; $p < 0.001$) reveal a significant and positive relationship, supporting H2, with a large effect size ($f^2 = 0.65$). The third hypothesis (H3) suggests a positive effect of functional conflict on innovativeness. The results ($\beta = 0.33$; T-statistic = 3.19; $p < 0.01$) support this relationship, with a small effect size ($f^2 = 0.10$). The fourth hypothesis (H4) predicts a mediating effect of absorptive capacity on the relationship between functional conflict and innovativeness. The observed mediating effect ($\beta = 0.29$; T-statistic = 4.59; $p < 0.001$) demonstrates a significant and positive mediating effect.

As for the moderating effects, two hypotheses were developed. Hypothesis 5 (H5) predicts a negative and significant moderating effect of dysfunctional conflict on the relationship between functional conflict and absorptive capacity. Surprisingly, the moderating effect of dysfunctional conflict is significant but positive ($\beta = 0.27$; T-statistic = 4.26; $p < 0.001$) with a moderate effect size ($f^2 = 0.17$), leading to the rejection of H5. Hypothesis 6 (H6) foresees the negative moderating effect of dysfunctional conflict in the effect of functional conflict on innovativeness. However, the moderating effect is positive and significant ($\beta = 0.27$; T-statistic = 4.26; $p < 0.001$) with small effect size ($f^2 = 0.04$), rejecting H6.

We plot the graph for the moderating effects to further understand the insight of the relations. Appendix 2 shows that functional conflict positively influences absorptive capability at different levels of dysfunctional conflict, namely, low, medium and high. High dysfunction conflict amplified the influence of dysfunction conflict on absorptive effectiveness. Appendix 3 illustrates the effect of functional conflict on innovativeness at different levels of dysfunctional conflict. In both cases, dysfunctional conflict increases the influence of functional conflict on both absorptive capacity and innovativeness.

Table 4. Results of the Structural Model.

Path	Model 1				Model 2			
	Estimate	T-Statistic	f ²	VIF	Estimate	T-Statistic	f ²	VIF
<i>Main effect</i>								
FC → AC					0.62	9.46***	0.65	1.19
AC → IN					0.47	4.74***	0.19	1.90
FC → IN					0.33	3.19**	0.10	2.26
<i>Mediating effect</i>								
FC → AC → IN					0.29	4.59***		
<i>Moderating Effect</i>								
FC x DC → AC					0.27	4.26***	0.17	1.09
FC x DC → IN					0.33	3.47**	0.04	2.51
<i>Control variable</i>								
YoE → AC	-0.14	1.17	0.01	1.64	-0.16	1.70	0.02	1.74
NoE → AC	0.15	0.47	0.00	1.56	0.13	0.57	0.00	1.57
TOV → AC	-0.04	0.38	0.00	1.68	-0.04	0.48	0.00	1.71
NEC → AC	-0.16	0.71	0.02	1.31	-0.21	1.56	0.06	1.32
YoE → IN	-0.26	2.07*	0.04	1.64	-0.27	2.37*	0.04	1.80
NoE → IN	0.19	0.63	0.00	1.56	0.23	0.88	0.00	1.45
TOV → IN	-0.09	0.67	0.00	1.68	-0.02	0.19	0.00	1.71
NEC → IN	0.07	0.71	0.00	1.31	0.00	0.11	0.01	1.45
<i>Model evaluation</i>								
R ² AC		0.06				0.47		
Adj R ² AC		0.03				0.44		
R ² IN		0.07				0.49		
Adj R ² IN		0.03				0.45		

Note: FC = functional conflict; AC = absorptive capacity; IN = innovativeness; DC = dysfunctional conflict; YoE = year of establishment; NoE = number of employee; TOV = turnover; NEC = number of export country; VIF = variance inflation factor; * indicates significant at 0.05 (two tailed), ** indicates significant at 0.01 (two tailed), *** indicates significant at 0.001 (two tailed)

Source: Authors' own creation

Inner Model Evaluation

This study assessed the inner model evaluation by looking into Q² effect size for predictive ability using the PLSpredict procedure (Shmueli et al., 2016). This method is appropriate to show the predicting power of variables on the endogenous construct. The results show Q² greater than 0 indicating our model offers predictive relevance.

Table 5. Q² effect size for absorptive capacity.

Factor	Q ² (10-fold)
Absorptive Capacity	0.37
Model without functional conflict	-0.04
Model without dysfunctional	0.30
Model without year of establishment	0.37
Model without number of employees	0.39
Model without turnover	0.38
Model without number of export country	0.37

Source: Authors own creation

Table 6. Q² effect size for innovativeness.

Factor	Q ² (10-fold)
Innovativeness	0.27
Model without absorptive capacity	0.29
Model without functional conflict	-0.02
Model without dysfunctional conflict	0.25
Model without year of establishment	0.26
Model without number of employees	0.29
Model without turnover	0.29
Model without number of export country	0.28

Source: Authors own creation

Discussion

Previous studies demonstrate the detrimental role of inter-organizational characteristics and knowledge exchange/transfer on innovativeness. This study, for the first time, found a very strong and positive mediating role of absorptive capacity on the effect of interorganizational functional conflict on innovativeness. Functional conflict allows difference perspectives in an open communication which in turn produces better solution and helps SMEs to absorb relevant external knowledge. In addition, absorptive capacity enables the identification of relevant external knowledge that enhances innovative capability (Cohen & Levinthal, 1990).

However, contrary to the literature, in the condition of dysfunctional conflict the effect of functional conflict on absorptive capacity and innovativeness was strong and positive. In other words, when there is conflict and animosity pertaining to the relationship between SME's export and foreign importer, difference perspective and open communication of personal view amplified the ability to absorb relevance knowledge and the ability to continuously innovate and respond to market changes.

Implication for theory and practice

The findings of this study shed light on the role of IOR conflicts in external knowledge acquisition and innovativeness. This is enlightening since our knowledge about the influence of different types of IOR conflicts and their interaction on absorptive capacity and SME innovativeness within the export realm is very limited. The results confirm that functional conflict increases the capability of SMEs to absorb external knowledge from foreign importers and enhances SMEs' capability to respond to market changes and continuously innovate.

In addition, the literature insists on the lack of understanding of the interaction between functional and dysfunctional conflict (Amason, 1996). The results demonstrate that dysfunctional conflict positively influence the impact of functional conflict on absorptive capacity and innovativeness. This is contrary to the previous notion about the negative outcomes of

dysfunctional conflict. The findings seem to resonate with the perspective that environmental pressures and organizational culture may be possible reasons for the positive relationship between dysfunctional conflict and information sharing (Cheng, 2011).

Moreover, the result of this study contributes to the literature by confirming the mediating role of absorptive capacity in the relationship between functional conflict and innovativeness. This means that the ability to identify relevant external knowledge, integrate the knowledge into the organizational system and transform it into commercial ends greatly helps the decision quality of functional conflict on SME's ability to continuously innovate.

Limitations and future study

Notwithstanding this study finds support for the influence of different types of conflicts and their interaction on absorptive capability and innovativeness, this study has some limitations which open venue for future study.

First, this study considers absorptive capability a unidimensional construct (Cohen & Levinthal, 1990). Another perspective views absorptive capability as a multidimensional construct. Perhaps different dimensions (acquisition vs exploitation) may have different degrees of effect on innovativeness.

Second, this study employs cross sectional research that explain the relationship at a particular time which does not allow the evaluation of dynamic nature of external environment and the constructs that it influence. Longitudinal study explains the change in the dynamic strategic factors and their influence over time hence a more profound understanding of the issue.

Third, most importantly, conflict's outcomes depend on the degree of the conflict which is not investigated in this study. The literature postulates that the higher degree of task conflict and too much disagreement may cause animosity between partners. Hence, future studies may look into the interaction between the two types of conflict at different degrees, high and low.

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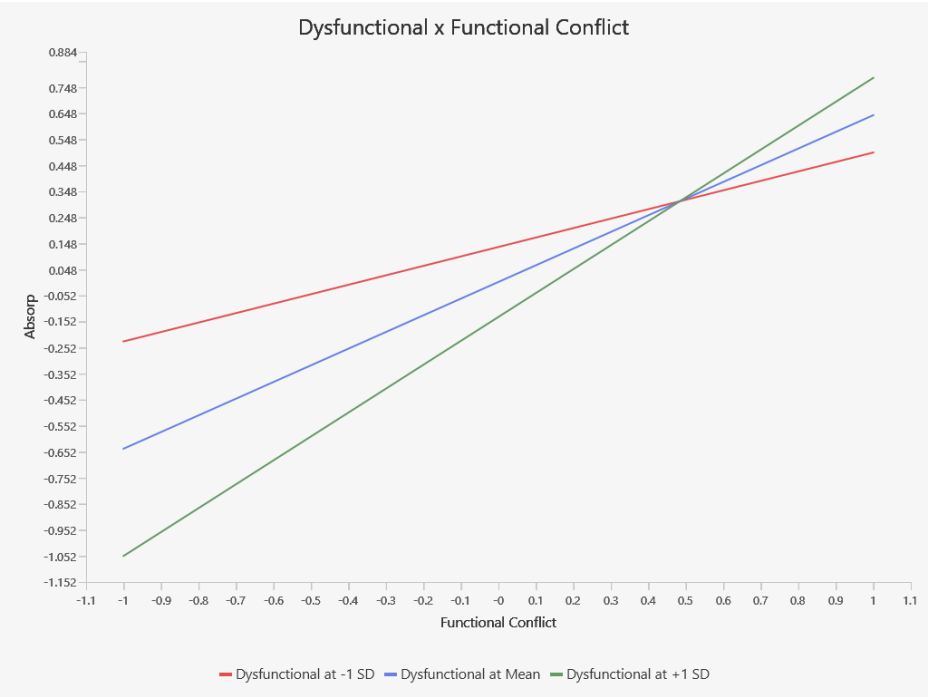
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Appendix.

Appendix 1: Substantive items loading and items loading on method factor

Construct	Indicator	Substantive FL	Method FL
Innovativeness	IN 1	0.779	-0.094
	IN 2	0.865	0.019
	IN 3	0.783	-0.036
	IN 4	0.844	-0.025
	IN 5	0.827	0.118
Absorptive Capacity	AC 2	0.869	-0.009
	AC 3	0.873	-0.016
	AC 4	0.864	0.025
Functional Conflict	FC 1	0.820	0.008
	FC 2	0.863	-0.069
	FC 3	0.872	-0.009
	FC 4	0.865	0.067
Dysfunctional Conflict	DC 6	0.948	0.022
	DC 7	0.944	-0.022

Appendix 2: The effect of functional conflict on absorptive capacity at different levels of dysfunctional conflict.



Appendix 3: The effect of functional conflict on innovativeness at different levels of dysfunctional conflict.

