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Relationship of Export Market Orientation, Selected Export Strategy, and Export Performance: An Empirical Study

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Abstract- Since its introduction, market orientation (MO) has emerged as a major construct within the strategic management literature. Efforts have also been made to extend the concept into export operations. In contrast to MO, empirical studies of export market orientation (EMO) is relatively limited, and most of the studies tend focus on the direct causal relationship between EMO and performance. From a resource-based perspective, however, EMO may not influence performance directly, but only a mediating effect by facilitating strategic actions that direct affect performance. In this study, a structural equation modeling is employed to examine the role that export strategies play in the context of the relationship between EMO and export performance. The research results, based on 142 small export manufacturing firms suggest EMO influences performance directly as well as indirectly via export strategies. This partial mediating evidence provides a further understanding of how the EMO construct is related to performance.

Keywords: *export market orientation, export strategy, export performance, structural equation model.*

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I. INTRODUCTION

In recent years, an increasing number of research studies have focused on the concept of "market orientation" with the intention of understanding the effect of corporate culture and behaviors on business performance (Chin et al. 2013, Eris and Ozmen 2012, Faryabi et al. 2011, Goldman and Grinstein, 2010, Hoang and Chang 2000, Han et al. 1998, Kohli and Jaworski 1990, Narver and Slater 1990,). Market orientation, with its emphasis on customers' needs and their satisfaction, is a basic element in the formula for success (Houston 1986). It is an organization's disposition to deliver superior value to customers continuously, which entails an organization-wide commitment to continuous information gathering and coordination of customers' needs, competitors' capabilities, and the provisions of other market authorities (Slater and Narver 1995). The result is an integrated effort on the part of the employees across departments in an organization (Kohli and Jaworski 1990), which is vital to success (Song and Parry 1997).

Studies on market orientation in the domestic market context have typically operationalized the concept as the sum of an organization's emphasis on

three behavior components: customer orientation, competition orientation, and inter-functional orientation (Narver and Slater 1990). Internationally, the extant literature proposes several concepts including "international market orientation" and "export market orientation." Tung and Miller's (1990) define the former as "a new and powerful way for managers to cope with the complex set of market interrelationships, to understand clearly who the firm's competitors are, and to design a framework for responding effectively to the varied needs and demand of customers, regardless of where they are located" (p.15). In contrast, Cadogan et al. (1999) suggest an "export market orientation" to depict a firm's orientation toward overseas markets operations. The authors operationalize the construct on three behavior components: (1) export intelligence generation, (2) export intelligence dissemination, and (3) export intelligence responsiveness. Cadogan and Cui (2004) further delineate export market-oriented firms as those regularly generate export market intelligence, and use the information they generate to help select export markets, identify what customers in those export markets value, and deliver that value to them. In other words, high export market-oriented firms are able to generate more market intelligence about their export markets including the competitors' behavior and the customer needs and wants, and are able to respond to market changes more quickly (Akyol and Akehurst, 2003). This study will adopt Cadogan et al. (1999), Cadogan and Cui's (2004) definition of export market orientation.

While there is evidence suggesting that an export market orientation can lead to superior performance in export markets (Cadogan et al. 2002, Cadogan and Cui 2004, Dodd 2005), what remains less clear is whether market orientation influences performance directly or indirectly via some intermediate variables. From a resource-based perspective, however, export market orientation may not influence performance directly, but only mediating effect by facilitating some strategic actions that exert an impact on performance. In this vein, Newbert (2007) has observed that marketing capabilities rather than resources that make an impact on performance. Barney and Hesterly (2012) further suggest that resources are useful if they enable a firm to develop and implement strategies that effectively exploit

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business opportunities and improve operations. Lumpkin and Dess (1996) reiterate this viewpoint and suggest that strategic activity is an important part of corporate initiatives influenced by the firm's orientation, which scholars have regarded as an organizational embedded nontransferable firm-specific resource (Knight 1997; Lumpkin and Dess 1996). Accordingly, Strategies are likely the intermediate variables between market orientation and export performance, in a sense that firms with greater market orientation are likely to develop certain type of strategies, and such strategies will lead to different scales of performance. This contention frames the central research question of this study: To what extent a firm's export market orientation influences its export strategy and how this strategy relates to export performance. This study attempts to make a small contribution to current strategic management literature by examining the causal relationship of export market orientation, export strategy, and export performance of small export manufacturing firms located in a Confucius culture.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

A review of the literature suggests small manufacturing firms can adopt a wide range of strategies to compete in overseas markets. The present study will focus on the three relevant strategies: Export expansion strategy, export product strategy, and export production strategy. These strategies are selected because they are relevant to the study that focuses on small firms that involve both manufacturing and exporting.

a) Export Expansion Strategy

Internationalization theory argues that firms expand globally to realize the value of tangible and intangible assets such as equipment, marketing skills, technical capabilities, and organizational competence (Barlett and Ghoshal 1989, Casson 1990, Cadogan et al. 2002, Rose and Shoham 2002). It is a means to generate profit and growth (Moen et al. 2010). International expansion is particularly important for small firms whose business scope is geographically confined, and resources are not fully exploited (Barringer and Greening 1998, Lu and Beamish 2001). However, implementation of such strategy involves many unique challenges for small firms. For one, international operations are often associated with higher risks, entails more time and efforts, and drains more resources (Nelson and Winter 1985). The development of a market orientation is presumed to overcome such impediments and reinforce the firm's international involvement. In this regard, Lumpkin and Dess (1996) argue that strategic orientation is particularly important for small firms trying to organize resources efficiently and conceive an effective strategy. It helps businesses overcome the

psychic barriers and engage in strategies oriented toward innovation and expansion (Brown, Davidson, and Wiklund 2001). Furthermore, it helps to facilitate the development of strategies that effectually make use of market opportunities (Ireland, Hitt, and Sirmon 2003). Thus, the study hypothesize that:

H₁: A firm's export market orientation has a positive impact on its export market expansion strategy, which, in turn, will have a positive influence on export performance.

b) Export Product Strategy

Studies suggest that the choice of competitive strategies is one of the most important decisions for business success (Ward and Duray 2000). In general, small manufacturing companies have several strategic options to attain a competitive advantage in the market, such as product differentiation, cost leadership and focus strategy (Porter 1985). Small manufacturing firms are expected to favor differentiation and focus strategies since they are rarely able to realize the economies of scale and scope. Differentiation primarily affects performance through reducing directness of competition. The approach is appropriate where the target customers have particular needs that are possibly under-served. Small firms are also more likely to adopt a focused strategy that calls for concentrating marketing efforts on a few niches or small segments of the market to avoid direct competition with the dominant companies. Accordingly, they are likely adopt two product strategies to serve their overseas markets. The first approach is to provide new market demands with the company existing products developed for domestic or other markets. This strategy is considered to be low risk, depending on the nature of products and target markets served, firms may have to make some modifications of their products to meet the new market requirements. The major challenge of the market development strategy is to find the new suitable markets for the company existing products. Alternatively, small manufacturing companies may have to develop new products for new or existing markets. This is a relatively risky marketing practice, but often is necessary for corporate survival (Henard and Szymanski 2001), profitability (Copper 1998), and growth (Danneels and Kleinschmidt 2001).

Matsuno and associates (2002) maintain that strategic orientation promotes values such as being highly proactive toward market opportunities, tolerance of risk, and receptive to innovations. Lumpkin and Dess (1996) also suggest the construct necessitates firms to assume greater risk and engage in creative processes and pursuing new ideas, which lead to the development of new products. Similarly, Hult and Ketchen (2001) contend that high strategic-oriented firms are more willing to commit resources and engage in the "pursuit of new market opportunities and the renewal of existing

areas of operation" (p.190). Others assert that the proactive and flexible nature of the small firms allow them to exploit market opportunities more quickly (Narula 2002) and fill the overseas market needs with new or modified products ahead of competitors (Slater and Narver 1995). Their small size will also encourage them to pursue specific markets that are less attractive to large ones. Thus, creating opportunities for these companies to introduce new or modified products in undeveloped markets that enable them to gain substantial first-mover advantages. Therefore,

H₂: A firm's export market orientation has a positive impact on its export product strategy, which, in turn, will have a positive influence on export performance.

c) Export Manufacturing Strategy

Strategic management theory suggests that competitive advantages may be realized through economies of scale or experience curve and market power (Woo and Cooper 1982). Clearly, these sources of advantages are often available to large multinational corporations that possess abundant resources. For small firms, flexible production (or manufacturing) is an important means to attain or enhance competitiveness (Fiegenbaum and Karnani 1991). The approach allows the firm to respond swiftly and effectively to changing customer needs and competitive situations via readily adaptable product and production processes (Galbraith and De Noble 1992). It is particularly vital for industries that are impacted by unpredictable or rapidly changing technology, consumer tastes, and short product life cycles (Pine et al. 1993).

As Lumpkin and Dess (1996) observe, a firm's strategic orientation reflects its propensity to pursue new market opportunities and concerns with its posture of anticipating and acting on customer needs and wants. Small manufacturing firms with a high export market orientation are thus more willing to take risks, and commit resources to exploit overseas market opportunities. These firms are likely to focus their marketing effort on particular niche markets to avoid direct competition with large ones. They are also likely to adopt a product differentiation approach and provide their overseas customers with unique and customized products (Keh, Foo, and Lim 2002). This necessitates the adoption of flexible manufacturing strategy that enable the firms to produce products in various lot sizes and shapes. As a result, these firms will be able to sell more and attain a better export performance.

H₃: A firm's export market orientation has a positive impact on its export manufacturing strategy that, in turn, will have a positive influence on export performance.

III. METHODOLOGY

a) Instrument and Sample

The Taiwanese small and medium-size firms involved in both manufacturing and export operations

were chosen to test the hypotheses. The sampling frame was obtained from the Ministry of Economic Affairs' "Small and Medium-Size Enterprise Directory." Questionnaire protocol served as the primary means for data collection. The instrument was derived from the related literature and written in Chinese language. After several revisions, the completed questionnaires were sent to 525 small and medium-size export manufacturing firms. Others, such as pure domestic operations, foreign subsidiaries, service companies, and pure OEM manufacturers, were excluded from the survey because they are not relevant to the current study. Two weeks after the initial posting, follow-up telephone calls were made to the potential participants. As a result, 142 useful returned questionnaires were received (four incomplete questionnaires were discarded), yielding a valid response rate of 27 percent. The waves comparison method suggested by Armstrong and Overton (1977) was used to assess the effects of non-response.

b) Measurement

The export market orientation construct was assessed using ten measurement items derived from Cadogan et al. (1999), Cadogan and Cui (2004). Some minor semantic changes were made to make the questionnaire more compatible with the Chinese culture in Taiwan.

Export strategies: Three international strategies were appraised using 10 measurement items derived from Anand and Ward (2004), Cavusgil and Zou (1994), Hoang (1998), Lages and Montgomery (2004), and Pagell and Krause (2004). A firm's export expansion was captured by three measurement items reflecting the level of export activity the firm involved. The export product strategy was assessed using three measurement items intended to capture the degree of newness and uniqueness of products offered in export markets. Finally, export manufacturing was appraised by three measurement items reflecting the level of flexibility the firm was willing to engage in producing customized products in different sizes and shapes.

Export performance: is measured by (1) the average export sales growth in the past five years, (2) average export profit growth in the past five years, and (3) top managers' assessment of meeting export target. These multiple indicators are used to offer a complete picture of a firm's performance in export operations while avoiding the data sensitive issue. All questions were presented in 5-point Likert scales.

c) Analytic Approach

Consistent with the two-step approach suggested by Anderson and Gerbing (1988), the overall measurement model was examined before estimating the structural portions of the overall model. Confirmatory factor analysis was used to test the hypothesized factor structure as recommended by Byrne (2001), and AMOS

17 with the maximum likelihood (ML) method was adopted to assess the overall measurement model.

IV. RESULTS

a) Testing the Overall Measurement Model

As shown in Appendix A, the measurement model attains a good fit ($\chi^2=195$, $df=137$), with significant loadings for each of the items. A chi-square of less than two times the degrees of freedom is accepted as a good fit (Hughes, Price, and Marrs 1986). However, the χ^2 statistic could overestimate the fit for some samples and, for that reason, additional fit indicators were examined. As Appendix A shows, a Goodness of Fit Index = .88, Adjusted Goodness of Fit Index = .83, Comparative Fit Index = .93, and Root Mean Square Error of Approximation = .055.

b) Testing the Structural Model

To test the hypotheses, the study employed structural equation modeling with maximum likelihood estimation method. Table 1 presents the research results. As shown, the theorized structural equation model achieves a good fit. The Root Mean Square Error of Approximation (RMSEA = .065) is well below .08. The Goodness of Fit Index (GFI=.83) and Adjusted Goodness of Fit Index (AGFI = .80) is greater than or equal to .80. The normed Chi-Squared is 1.60, which falls within the recommended level of 1 to 3. The examination of the t-value associated with each of the factor loadings in the hypothetical model indicates they exceed the critical values for the 0.001 significant level (critical value = 3.30).

Table 1 : Assessment of Research Hypotheses

Normed $X^2 = 1.60$, $RMSA = .065$, $CFI = .83$, $AGFI = .80$				
	Constructs	Path Coef. (Stand)	t-val.	Assess. ($p < .001$)
H ₁	EMO → Export expan. Export expan → Export perform.	.71 .16	10.44 6.12	s
H ₂	EMO → Export product Export product → Export perform.	.39 .29	5.01 7.26	s
H ₃	EMO → Export manufact. Export manufact. → Export perform.	.31 .37	3.72 5.31	s
	EMO → Export performance	.11	9.17	s

V. FINDINGS AND DISCUSSION

The objective of this study is to examine the role of export strategies play in the context of the relationship between export market orientation and export performance. In general, the study empirically provides evidence that export market orientation facilitates the development of export strategies, which, in turn, positively influence the firm's export performance. The research result also suggests export market orientation exerts a direct effect on export performance though the coefficient between the two variables relatively weak. This partial mediational evidence provides a complete understanding of how export market orientation may be related to the firm's export performance.

Specifically, the research results indicate that export market orientation influences the development of export expansion strategy, which, in turn, affects the firm's export performance (H₁). The finding suggests that higher export market-oriented firms are more likely to adopt an aggressive export expansion approach. They are actively participated in export operations. They seek out constantly for new business opportunities include those considered to be more psychically distant, and are more willing to commit more resources to exploit new export opportunities. As a result, they attain a better market performance. The research outcome also suggests export market orientation influences a

firm's export product approach, which, in turn, affects its export performance (H₂). The result verifies the role of export product strategy as an intermediate variable between EMO and export performance. The result suggests firms with higher EO are more innovated, and more willing to take risks and commit resources to fill overseas markets with new or customized products. This marketing effort leads to a better performance in terms of profit and sales. The research results also substantiate the postulation that export market orientation influences the firm's export manufacturing approach, which, in turn, affects its export performance (H₃). The finding confirms the mediation role of export manufacturing strategy in the EO-performance relationship. The research outcome suggests that small manufacturing firms, with higher export market orientation, are more willing to adopt a flexible manufacturing approach and more yearning to accept customized production orders and adjust production facilities/schedules to meet customer demands. As such, they attain a better export performance. Finally, the research result also reveals a direct causal relationship between export market orientation and export performance. The finding suggests EO not only facilitating the development of export international strategies that have a positive impact on export performance, the construct also exerts a direct effect on the firms' export performance.

a) Limitations and Future Research

This study advances research on the mediating role of export strategies in the relationship of export market orientation and export performance in two aspects. First, the study develops a conceptual framework linking export market orientation, export strategy, and export performance. Second, it validates the conceptualization using data collected from 138 small export manufacturing firms. The study offers several implications in several areas. First is the mediating role of export strategies in the export market orientation-export performance relationship. The research result verifies the indirect nature of the said relationship. However, the research outcome also indicates a direct causal relationship between export market orientation and export performance, albeit the standard coefficient is relatively small. This partial mediation evidence provides a complete understanding of how export market orientation may be related to the firm's export performance. The research result lays the groundwork for further research on this issue. Future inquiries should expand to include other variables and industries. The longitudinal design spanning over a

number of years will certainly enrich the understanding of the dynamic relationship of export market orientation, export strategy, and export performance.

The second area relates to the dimensions of export market orientation and measurement scales suggested by Cadogan and colleagues (1999). Though the factor analysis indicates they are also applicable to the different cultural environment, future studies should reexamine the three dimensions of export market orientation, and their measurement scales can further improve to meet the new international market environment.

Finally, the study evaluates the export market orientation construct at a firm level, suggesting the concept permeates an organization uniformly across all hierarchical levels. This is fine with small export firms. However, it may not be the case with large corporations as Wales et al. (2011) contend, the pervasiveness of a strategic orientation can be manifested in the organization in a heterogeneous manner. Future research should examine a firm's export market orientation at the business unit level.

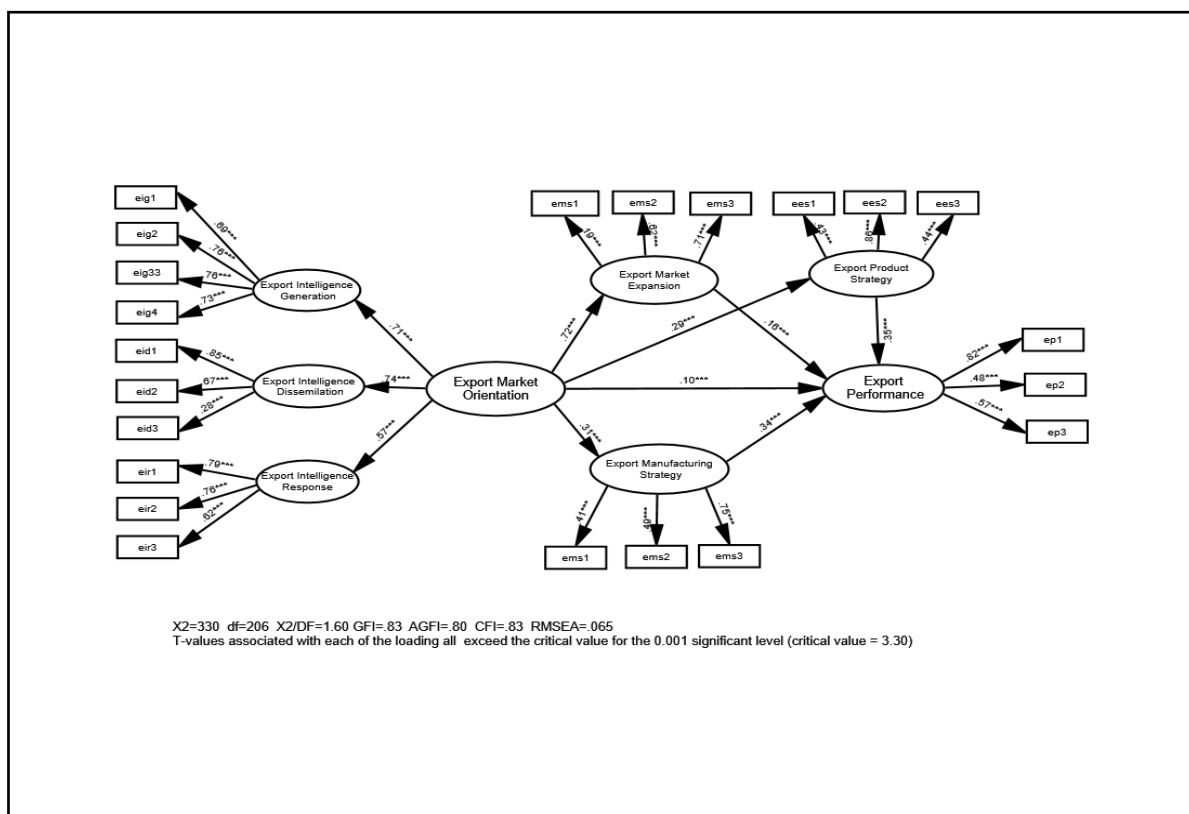


Fig. 1 : Causal Relationship of EMO, Export Strategy, and Export Performance

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Appendix A : CFA Measurement Model

Constructs	Loading	t-value	Significant
EXPORT MARKET ORIENTED			
Export Intelligence Generation (eig)			
Egi1: We periodically review the likely effect of changes in our export environment	.768	8.61	***
Egi2: We regularly generate information concerning trends (regulation, technological developments, and economy) in key export markets	.757	9.05	***
Egi3: We generate a lot of information in order to understand the forces that influence our overseas customers' need and preferences.	.848	8.14	***
Egi4: We constantly monitor our level of commitment and orientation to serving export customer needs.	.727	7.64	***
Export Intelligence Dissemination (eid)			
Eid1: Important information concerning export market trends (regulatory, technology) often reaches decision makers punctually.	.766	6.08	***
Eid2: Information about our export competitors' activities is distributed to relevant personnel promptly.	.753	7.64	***
Eid3: Information which can influence the way we serve our export customers is delivered to export personnel immediately.	.567	5.97	***
Export Intelligence Responsiveness (eir)			
Eir1: We would promptly respond to competitive actions that might threaten our key export markets.	.758	5.89	***
Eir2: We would respond swiftly to significant changes in our competitors' price structures	.690	6.06	***
Eir3: If a major competitor were to launch an intensive campaign targeted at our foreign customers, we would implement a response immediately.	.653	5.93	***
Export Expansion Strategy (ems)			
Ems1: We constantly explore for new export opportunities	.675	6.12	***
Ems2: We regularly enter new/unfamiliar markets	.803	6.43	***
Ems3: Export is a major part of our business operations and we will devote more resources to export activities	.523	5.01	***
Export Product Strategy (eps)			
Eps1: We Typically serve our key foreign customers with new or customized products	.310	5.90	***
Eps2: We always try to satisfy our customers with the products they want	.466	6.30	***
Eps3: Our products generally encounter few competitors in the key overseas markets	.478	6.39	***
Export Manufacturing Strategy (ems)			
Ems1: We typically adopt a flexible manufacturing approach	.613	5.02	***
Ems2: We often receive small customized production orders	.734	4.30	***
Ems3: We are willing to adjust production facilities/schedules to meet demands	.553	4.39	***
Export Performance (ep)			
Ep1: Average export sales growth in the recent 5-year period	.71	5.73	***
Ep2: Average export profit growth in the recent 5-year period	.72	5.38	***
Ep3: Overall export performance has met the company's target	.68	6.20	***
X ² /df = 1.43	GFI = .88	AGFI = .83	CFI = .93
RMR = .045	RMSEA = .055		