



External environment and the moderating role of export market orientation[☆]



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ABSTRACT

This research has two main objectives. The first is to fill the knowledge gap on the role which the external environment plays in the strategic behavior of exporting companies, taking into account the psychological distances between the domestic and foreign markets. The second aim is to clarify the role that market orientation plays in export activity, since the literature review shows conflicting results. The study provides insight into these issues through hypothesis testing of a conceptual model using a sample of 212 Spanish exporting companies. The results lead to two major conclusions: (a) in turbulent environments, exporting firms adapting the marketing mix program to the needs of foreign markets obtain a better export performance in highly competitive and psychologically distant markets; (b) although market orientation has a direct and positive effect on export performance, its main role is to support strategic decision making in exporting companies. In addition, market orientation moderates the relationship between marketing mix adaptation and export performance.

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1. Introduction

Exports provide the traditional means of access to foreign markets. Three approaches receive the most attention in the theory on the determinants and consequences of export activity. First, the resource-based view focuses on firm-specific assets such as firm experience, size, and competencies that restrain strategic options (Morgan, Kaleka, & Katsikeas, 2004). Second, the structure–conduct–performance paradigm postulates that, essentially, two significant sets of antecedents affect export performance (EP): (a) the structural characteristics of the export firm's markets (Zou & Cavusgil, 2002); and (b) the firm's ability to achieve and sustain positional advantages in foreign markets through the efficient and effective implementation of competitive strategy planning (Morgan & Strong, 2003).

Third, the relational paradigm inspects the network of business interactions and views of export expansion as the sequential development of relationships with foreign buyers (Leonidou, 2003). These three approaches, however, assume that the success of export activity depends on contingent factors such as those associated with the external environment of the organization. Nevertheless, to progress in export activity research, a broadening of its scope is still necessary because of the significant research gap (Cadogan, Sundqvist, Puumalainen, & Salminen, 2012). Filling this gap is one of the aims of this paper. Thus, the authors analyze the effect that the external environment

exerts on the strategic behavior (adaptation vs. standardization) of exporting companies. In addition, the study takes into account the psychological distance export managers perceive between the domestic and foreign markets.

The success of firms operating in a given environment depends on the strategic orientation of the organization, and this success has to do with the degree of market orientation (Navarro, Acedo, Losada, & Ruzo, 2011). In the context of export activity, many authors assume that export market orientation (EMO) plays a key role in export activity because EMO controls the strategic behavior of organizations, the achievement of sustainable competitive advantages in foreign markets, and EP (Cadogan, Kuivalainen, & Sundqvist, 2009). In recent years, however, certain scholars have questioned the veracity of the extant knowledge of EMO's true role. This view owes to contradictory results from a strategic point of view and from an EP standpoint (Chung, Wang, & Huang, 2012). This situation gives rise to an important debate in the scientific community; a research gap arising concerning the true role of market orientation with regard to export activity. In this context, the following questions reflect the second objective of this research: what role does EMO truly play in export activity; and what is its influence on strategic behavior and EP?

This paper has five further sections. Following this introduction, the second section lays out the theoretical framework of the research, proposing the conceptual model and hypotheses. The third section expounds the research methodology, details of the sample, and data analysis tools for the empirical analysis. The fourth section presents the results, and the fifth deals with the main conclusions and managerial implications of these results. Finally, the sixth section provides an outline of the main limitations of the study and openings for future research.

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2. Theoretical background and research hypotheses

2.1. External environment of exporting firms

Three components of the external environment are particularly pertinent to export activity (Kaleka & Berthon, 2006). Market turbulence refers to the level of insecurity in the external environment, which obliges companies to change their strategies keep abreast of changing customer needs (Gaur, Vaudevan, & Gaur, 2011). In this context, some studies confirm the existence of a positive relationship between the level of turbulence of the country-markets and the degree of adaptation of the marketing mix program that exporters develop (Qureshi & Mian, 2012).

Technological turbulence represents the high rates of technological change in the manufacture of products and the technology intrinsic to the product itself. Businesses competing in industries with high levels of technological turbulence have a greater inclination toward adaptive marketing and operational strategies than businesses in more static industries (Powers & Loyka, 2010). (c) *Competitive intensity* refers to the extent of rivalry among different players in an industry. As the number of participants in a market increases, the volume and unpredictability of strategic changes may increase dramatically (e.g., Porter, 1985). Therefore, a greater need exists for firms to track and react to these moves. In the field of export activity, some authors find a positive relationship between the level of competitive intensity of a country-market and the degree of adaptation in the marketing mix program (Powers & Loyka, 2010).

The preceding arguments support the following hypothesis.

H1. Turbulence (market and technology) and the competitive intensity of foreign markets positively influence the degree of adaptation of the marketing mix program in export activity.

2.2. Psychological distance

The concept of psychological distance (PD) is essential to assess the differences between cultures and markets and to drive international market selection. According to Sousa and Lages (2011), the definition of PD is the individual's perceived differences between the home market and that of the foreign country. PD includes two dimensions: (1) "country" refers to the features of the modernization of a country; and (2) people relates to the degree of separation between people from different countries. In this context, Sousa and Lages (2011) find a positive and significant effect of PD on marketing strategy adaptation. In addition, Sousa and Lengler (2009) show that the manager's PD toward the foreign market positively influences the degree of product, price, promotion, and distribution adaptation. Also, Chung et al. (2012) confirm that a suggestion exists of adaptation strategies being more suitable when a great cultural distance exists.

The next hypothesis is in accordance with these ideas.

H2. PD positively affects the marketing mix adaptation of the international strategy of firms.

2.3. Export strategic behavior: Adaptation vs. standardization of marketing mix

Some authors (e.g., Morgan et al., 2004; O'Cass & Julian, 2003) maintain that developing a differentiated marketing strategy in foreign markets requires the firm to adapt to the needs and desires of the target markets. The adaptation of export marketing tactics brings about several benefits: (1) they allow the firm to adjust its offer to the specific characteristics of each market, which decreases foreign consumers' uncertainty, or PD (Morgan et al., 2004); (2) they improve relationships with local intermediaries (O'Cass & Julian, 2003); and (3) the firm can attain a greater profitability, as a better product-market match can

result in greater customer satisfaction, which may give better pricing freedom vis-à-vis competitors (Leonidou, Katsikeas, & Samiee, 2002). As a consequence, the adaptation of export marketing tactics improves EP (Navarro, Losada, Ruzo, & Diez, 2010; Phattarawan, Kiran, Anil, & Anusorn, 2010).

The following research hypothesis captures this idea.

H3. Adapting elements of the export marketing mix has a positive effect on EP.

2.4. Market orientation and its role as a moderator in export activity

EMO permits the analysis of the ability of an organization to predict, respond to, and capitalize changes in the export environment. Firms with a solid EMO will be more dynamic in their search for—and better able to identify and take advantage of—opportunities emerging in external markets than firms lacking this capability. In this context, firms that have appropriate information about their foreign markets are likely to be more willing to make variations to their marketing mix, and so on, than other firms that lack such information and that make their decisions on the basis of instinct (Navarro, Acedo, Robson, Ruzo, & Losada, 2010).

These arguments lead to the fourth research hypothesis.

H4. EMO has a positive effect on the adaptation of the marketing mix strategy in foreign markets.

On the other hand, Rose and Shoham (2002) recognize that EMO provides an integrative insight for evaluating EP. Thus, the gathering of relevant market information is critical for effective decision making, and has a direct influence on the design of the marketing strategies and the firm's success in its foreign markets (Cadogan et al., 2009). In this respect, firms that try to identify their customers in order to develop products and services that satisfy their desires and needs hope to be superior to their competitors by creating and delivering superior value (Cadogan, Diamantopoulos, & Siguaw, 2002). In this sense, EMO may contribute to improving EP from the quantitative and qualitative points of view (Navarro et al., 2011; Rose & Shoham, 2002).

In accordance with this idea, the fifth research hypothesis states the following.

H5. EMO relates positively to EP.

Although the environment in which firms operate may require them to adapt their export marketing mix elements, however, internal restrictions (e.g., deficient market intelligence) may prevent firms from making adaptations. In this context, although adaptations by export managers to the components of the marketing mix and its attributes may be a necessary condition to succeed in foreign markets, such action may be insufficient. A key reason for this shortcoming is an oversight of the success stemming from making such adaptations according to the idiosyncrasies of each country-market. The retaining of relevant information of markets is necessary in this situation. This information should be available at all levels at which this element is necessary for the decision-making process associated with export activity cross-functional coordination. For example, with regard to the export marketing mix adaptation strategy, the idea that market-oriented export firms are more likely to appropriately adapt their marketing mix elements to the needs of foreign markets is debatable. EMO should make the export firm more proactive as this orientation responds to customer needs (Calantone, Kim, Schmidt, & Cavusgil, 2006). Therefore, EMO is likely to play a moderating role regarding the strategic adaptation of EP (Phattarawan et al., 2010).

The following hypothesis builds on the basis of these arguments.

H6. EMO moderates the relationship between export marketing mix adaptation strategy and EP.

Fig. 1 shows the conceptual model.

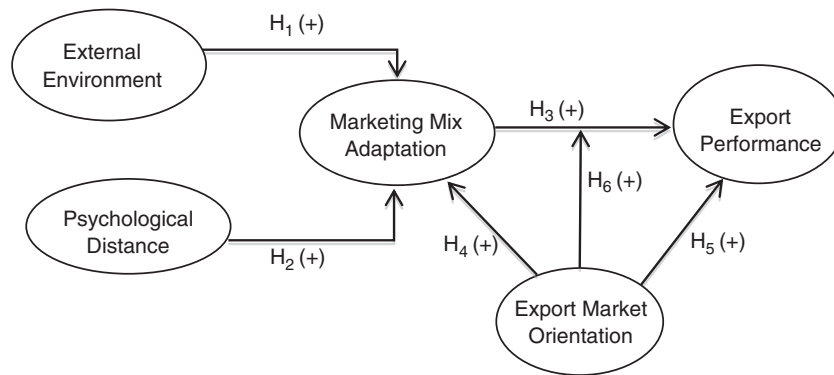


Fig. 1. Graphical description of the model.

3. Method

3.1. Sample and data analysis

The basis of this research is an empirical study of Spanish export firms. A multi-industry sample enlarges the observed variance and emphasizes the generalization of the findings (Morgan et al., 2004). The sample of firms comes from the Spanish Institute for Foreign Trade (ICEX) database of exporters. Maintaining sectorial proportionality, 1200 managers in charge of exports received questionnaires, mainly via e-mail, returning 212 valid questionnaires, which represents a response rate of 17.7%. This result is within the acceptable range of 15 to 20% (Menon, Bharadwaj, & Howell, 1996).

The majority of firms in the sample are small (66% have fewer than 50 employees) and the majority (81%) have specialist export managers, though only a minority (33%) have export departments. Most firms have great experience in international business (61% have more than 15 years of export activity) and concentrate their export sales in a small number of markets (71% export to five countries or fewer).

Structural equation modeling via PLS (partial least squares) is the choice of method for data analysis and for assessing the relationships between constructs, taking into account the characteristics of the model (predictive) and the sample (fewer than 250 subjects) (Reinartz, Haenlein, & Henseler, 2009). The empirical analysis uses the statistics package SmartPLS 2.0 M3.

3.2. Measurement scales

The analysis adheres to the recommendations of Mackenzie, Podsakoff, and Jarvis (2005) to distinguish between formative and reflective variables in the study's multi-item measures. The definition of the external environment is a second-order formative construct consisting of three dimensions: market turbulence, technological turbulence, and competition intensity (Kaleka & Berthon, 2006). The PD scale is a second-order reflective construct, depending on country-characteristics distance and people-characteristics distance (Sousa & Lages, 2011). The definition of EMO is a second-order reflective construct consisting of three dimensions: customer orientation, competition orientation, and cross-functional coordination (Cadogan, Diamantopoulos, & de Mortanges, 1999). The adaptation of marketing strategy is a second-order reflective construct comprising four dimensions: product, price, promotion and distribution (Theodosiou & Leonidou, 2003). Finally, the consideration of EP is a second-order formative construct, with two formative dimensions: qualitative—managers' global satisfaction with the EP—(Cadogan et al., 2002); and quantitative EP—export sales growth and export propensity in the last three years—(Morgan et al., 2004). The measurement of all scales relies on a five-point Likert-type scale, allowing the gathering of managerial perceptions.

4. Results

The results (Table 1) support the convergent validity of the reflective scales: loadings ≥ 0.7 ; composite reliability ≥ 0.7 ; average variance extracted (AVE) ≥ 0.5 (Fornell & Larcker, 1981). To ensure the discriminant validity, results confirm that the squared correlations between each pair of constructs do not exceed the AVE (Barclay, Higgins, & Thompson, 1995) (Table 2).

After ensuring the convergent and discriminant validity of the measurement model, the next step is to perform a test of the relationships between the different variables. The calculation of the statistical parameters employs the bootstrap method (1000 subsamples) (Table 3). The hypothesis tests consider the sign and significance of the t-statistic in each relation (β coefficient). The results verify five of the six hypotheses from the second section (Fig. 2).

5. Discussion and implications

5.1. Academic implications

Focusing on the relationships between the variables and taking the overall model as a reference, the following implications emerge. First, the results show the existence of a positive relationship between the external environment of the exporting company and the strategic behavior aiming at adapting the marketing mix program to the requirements of foreign markets. This result confirms H₁, in line with the premises of the contingency approach (Cadogan et al., 2012; Calantone et al., 2006). Both turbulences along with competitive intensity of foreign markets make the adjusting of the marketing mix program necessary to respond to the needs of foreign consumers (Cavusgil & Zou, 1994; Powers & Loyka, 2010). Furthermore, this turbulent environment forces firms to propose an adequate offer in each country-market and to continue competing against the domestic competitors with certain guarantees in international markets (Qureshi & Mian, 2012).

Second, the results confirm that PD has a positive and significant impact on marketing strategy adaptation, validating H₂. This idea is consistent with previous studies (e.g., Katsikeas, Samie, & Theodosiou, 2006; O'Cass & Julian, 2003; Sousa & Lages, 2011). Therefore, managers ought to be aware of the impact that PD has on their strategic decisions, since the most critical and challenging decisions they face in an export setting relate to the selection of appropriate marketing strategies.

Third, the development of a strategic behavior of exporting companies that aims at adapting the elements of the marketing mix to the needs of foreign markets positively influences EP, confirming H₃. This result owes to a reduction in the psychological barriers of foreign consumers and an increase in the likelihood that they perceive the company's offer with a higher value in comparison to competitors (Theodosiou & Leonidou, 2003), by adjusting marketing mix elements to the idiosyncrasies of different country-markets. This idea suggests that exporters who adjust to the needs of their foreign customers achieve

Table 1
Evaluation of measurement model.

Construct/dimension/indicator	Variance inflation factor	Weight	Factor loading	Composite reliability (ρ_c)	Average variance extracted
External environment (second-order formative construct)				<i>n.a.</i>	<i>n.a.</i>
Market turbulence (first-order reflective construct)	1.113	0.672		0.846	0.652
MARKT1			0.815		
MARKT2			0.823		
MARKT3			0.785		
Competitive intensity (first-order reflective construct)	1.016	0.047		0.841	0.641
COMPINT1			0.784		
COMPINT2			0.905		
COMPINT3			0.700		
Technological turbulence (first-order reflective construct)	1.096	0.560		0.855	0.664
TECHTUR1			0.796		
TECHTUR2			0.874		
TECHTUR3			0.773		
Psychic distance (second order reflective construct)				0.940	0.888
Country (first-order reflective construct)			0.946	0.895	0.592
ECODEVEL			0.805		
COMMUNIC			0.852		
MKTINFRA			0.856		
TECREQUI			0.768		
MKTCOMPE			0.705		
LEGALREG			0.602		
People (first-order reflective construct)			0.939	0.887	0.613
PERCAPIT			0.791		
PURCHASI			0.753		
LIFESTYL			0.870		
CONSUMER			0.801		
LITERACY			0.690		
Adaptation marketing-mix (second order reflective construct)				0.855	0.596
Product (first-order reflective construct)			0.765	0.900	0.601
PRODUCT1			0.713		
PRODUCT2			0.771		
PRODUCT3			0.731		
PRODUCT4			0.813		
PRODUCT5			0.801		
PRODUCT6			0.818		
Price (first-order reflective construct)			0.746	0.874	0.584
PRICE1			0.809		
PRICE2			0.846		
PRICE3			0.812		
PRICE4			0.719		
PRICE5			0.612		
Distribution (first-order reflective construct)			0.772	0.931	0.772
DISTRIB1			0.883		
DISTRIB2			0.917		
DISTRIB3			0.849		
DISTRIB4			0.866		
Promotion (first-order reflective construct)			0.805	0.963	0.815
PROMO1			0.905		
PROMO2			0.938		
PROMO3			0.952		
PROMO4			0.902		
PROMO5			0.905		
PROMO6			0.811		
Export market orientation (second order reflective construct)				0.872	0.695
Customer orientation (first-order reflective construct)			0.879	0.894	0.549
CUSTOR1			0.749		
CUSTOR2			0.816		
CUSTOR3			0.812		
CUSTOR4			0.655		
CUSTOR5			0.710		
CUSTOR6			0.734		
CUSTOR7			0.701		
Competence orientation (first-order reflective construct)			0.803	0.882	0.714
COMPOR1			0.877		
COMPOR2			0.850		
COMPOR3			0.806		
Inter-functional coord. (first-order reflective construct)			0.819	0.871	0.630
INTER1			0.691		
INTER2			0.858		
INTER3			0.830		
INTER4			0.786		
Export performance (second-order formative construct)				<i>n.a.</i>	<i>n.a.</i>
Quantitative export performance (reflective construct)	1.188	0.316		0.880	0.710
Crev_2009			0.881		
Crev_2010			0.888		

(continued on next page)

Table 1 (continued)

Construct/dimension/indicator	Variance inflation factor	Weight	Factor loading	Composite reliability (ρ_c)	Average variance extracted
<i>Crev_2011</i>			0.753		
<i>Export propensity (reflective construct)</i>	1.058	0.755		0.990	0.972
<i>PropExport_2009</i>			0.983		
<i>PropExport_2010</i>			0.992		
<i>PropExport_2011</i>			0.983		
<i>Global satisfaction with exports</i>	1.238	0.302	n.a.	n.a.	n.a.

n.a.: not applicable.

Table 2

Correlations between constructs.

Construct	1	2	3	4	5
1. External environment	n.a.				
2. Psychic distance	0.06	0.94			
3. Marketing mix adaptation	0.16	0.37	0.77		
4. Export market orientation	−0.02	−0.03	0.05	0.83	
5. Export performance	−0.01	0.18	0.29	0.10	n.a.

The square root of AVE are shown in the main diagonal; n.a. not applicable.

better EP than exporters who employ more standardized marketing strategies. The explained variance from the marketing mix adaptation is 16.1%.

Fourth, EMO plays a key role in the success of foreign trade operations. Thus, if the exporting company: (1) orients itself toward foreign clients; (2) monitors competitors' practices in each country-market; and (3) uses a strong cross-functional coordination on the basis of export market intelligence; the company then improves exporter performance. This result hence confirms H5. However, the main role of EMO in export activity is as a moderator, as previous studies point out (Calantone et al., 2006; Chung et al., 2012; Phattarawan et al., 2010). In this case, EMO is a vital support element for the company to make appropriate decisions with regard to strategic adaptation to improve its EP, moderating this interrelation. This situation arises because, although the external environment of firms may require adaptations to their export marketing mix elements, internal constraints to do with market intelligence could prevent making such decisions (Chung et al., 2012). At times, export firms may even be unaware of the need for adaptation because of faulty market intelligence or adjustments that are out of sync with the idiosyncrasies of each country-market, and fall short of the results for which they strive. These findings confirm H6, and may explain the absence of a direct and significant relationship between EMO and the development of adaptive marketing strategies in export firms, which negates H4.

Fifth, the dimensions and scales to assess the EP are appropriate, and they act as a multidimensional construct (second-order formative construct). EP has an explained variance of 14.6%. As the above discussion addresses, EP receives a positive and direct influence from the marketing mix adaptation in foreign markets and EMO. Of note, however, are the indirect effects that the external environment and the PD exert on EP. Thus, if firms develop practices of monitoring the environment, and make appropriate strategic marketing decisions, uncertainty and turbulence of the environment need not adversely affect EP. Therefore,

Table 3

Parameters from hypothesis tests.

Hypothesis	β	t-Value	Supported
H1: Turbulence and competitive intensity of export market environment—marketing mix adaptation	0.140	1.941*	Yes
H2: Psychic distance—Marketing-mix adaptation	0.363	4.678***	Yes
H3: Marketing mix adaptation—Export performance	0.283	3.931***	Yes
H4: EMO—Marketing mix adaptation	−0.042	0.452 ^{ns}	No
H5: EMO—Export performance	0.146	1.728*	Yes
H6: EMO * Marketing mix adaptation—Export performance	0.238	2.968***	Yes

Note: ns = no significant (one-tailed t(999) test).

*** p < 0.001.

** p < 0.01.

* p < 0.05.

in this research, the external environment has a positive, albeit indirect, impact on EP. A similar conclusion holds for PD, though its impact on EP is greater in this case.

In summary, this paper contributes significantly to filling an important gap in the research field of exporting. Taking the contingency approach as a reference, the study specifically demonstrates the inter-relationships between external environment, PD, strategic behavior and EP. Furthermore, this work shows how these relationships may vary depending on EMO.

5.2. Managerial implications

Managers can use the above findings to systematize decisions and actions regarding their firms' export activity. The following implications of the study are noteworthy.

First, external environment and PD of foreign markets are not damaging elements for export activity per se. They will only be harmful when the company refuses to mobilize information systems to study and comprehend their behavior. In this regard, developing systems for monitoring the environment that allows firms to gain insight into the level of turbulence (market and technology) and competitive intensity in foreign markets is advisable. The information that this continuous monitoring yields is crucial for making successful strategic decisions.

Second, the generation and exchange of knowledge can play a key role in responding appropriately to foreign market requirements. Thus, the authors recommend export managers to promote strategic behaviors to adapt the marketing mix program to the needs of the different country-markets in which they operate. The consequences are that exporting firms improve their EP.

Finally, export managers should promote behaviors within their companies with a view to foreign markets. EMO plays a moderating role in the relationship between the strategic decision making of the marketing mix program and EP. Thus, EMO is a key factor for the success of export activity.

6. Limitations and future lines of research

This study offers important and novel contributions to the export marketing literature, but has a number of limitations that could serve as a starting point for future lines of research. The first limitation concerns the type of study, since the basis for the study comes from information from a single point in time. A longitudinal study is advisable for future work to analyze how the relationships between the external

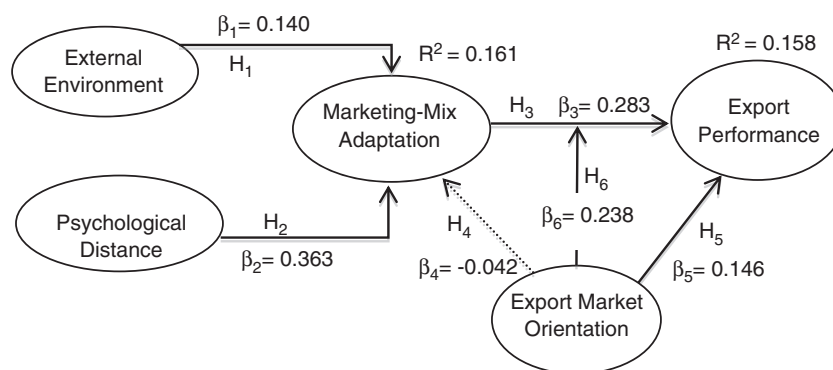


Fig. 2. Graphical structural model.

environment, PD, EMO, strategic behavior and EP evolve. The second limitation concerns the fact that the sample comes from a single country. In order to generalize the conclusions, the analysis should include firms from a wider geographic area. The final limitation has to do with the potential effect of other factors this study overlooks. Thus, in future works researchers could consider, for example, characteristics of the export product, the sector of activity, the quality of the relationships with the international distributors, or the organization's dynamic capabilities (Leonidou et al., 2002).

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