The Relationship Between Export Market Orientation and International Performance in the Context of SMEs

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The Relationship Between Export Market Orientation and International Performance in the Context of SMEs

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Abstract

The purpose of this study is to provide new insights into the relationship between “export market orientation” and “export performance”, by using empirical data from a sample of Italian coffee roasting companies, that are mostly small and medium sized firms. Coffee bean roasting is one of the most representative industries of the Made in Italy sector abroad and it controls a significant international market share.

In a more and more competitive and turbulent market context (such as the international coffee market) having the capability to acquire market information and use it more effectively than the competitors do becomes fundamental for survival. Firms can use this information to adapt to market changes and deliver superior value in order to satisfy customers’ needs. In other words, it can be inferred that market orientation is a critical to a firm’s success.

In the literature there are two major conceptualizations of market orientation; the first is the MKTOR model (Narver and Slater, 1990) which embraces a cultural perspective, and the second is the MARKOR model (Kohli and Jaworsky, 1990) which embraces a behavioral perspective. The performance implications of market orientation has received considerable empirical attention, but few studies examine this relationship in the international context. These few studies have shown that market orientation is a significant determinant of export performance.

Given the aim of this study, which is to explore firms’ behavior in foreign markets, we follow the behavioral perspective and we adapt the measurement model of export market orientation developed by Cadogan et al. (2001); this is based on the following three components:

1) export market intelligence generation;
2) export market intelligence dissemination;
3) export market responsiveness.

Each one of these components was examined and linked to export performance. Overall, the contribution of the study is twofold: to validate a measurement model of export market orientation in the Italian context of SMEs and to confirm/disconfirm the findings of the extant literature.

Keywords: export market orientation, SME, export performance.
Introduction

Exporting has become an increasingly important driver for the survival and growth of manufacturing firms in most economies, particularly in Italy during the recent economic crisis. A firm’s success depends on its exporting capability and so, it is fundamental to understand how to enhance this capability. In response to this question, international marketing literature indicates that one path to export success is to be market oriented (Rose and Shoham, 2002). The concept of market orientation (MO) stems from the theoretical development of the marketing concept and generally refers to a firm’s ability to generate market intelligence pertaining to customer needs and to competitors, to share this intelligence within the firm, and to use it to respond to market changes. Market orientation is a critical marketing capability that potentially provides firms with positional advantage and thus enhances export performance.

Taking into account the complexity and uncertainty of foreign markets, some researchers have called for the conceptualization of a specific Export Market Orientation (EMO). Cadogan and Diamantopoulos (1995) were the first to introducing this construct.

However, a review of the literature suggests that a relatively small number of empirical studies have expanded market orientation research to the international business environment (Chi and Su, 2013) and to small and medium sized firms, in particular (Singh and Mahmood, 2013).

Our study contributes to filling this gap in two major ways. First, it attempts to examine the applicability of the Cadogan et al. (1999) export market orientation (EMO) scale within Italy; the issue of export market orientation among Italian companies has not been addressed in any study, to date. Second, it aims to provide empirical evidence of some antecedents of EMO and its contribution to export performance in the context of SMEs.

In the next section, we present a review of the relevant literature as well as the theoretical foundations of our conceptual model and research hypotheses. Then, the research methodology and the findings of the empirical analysis are presented. Finally, the implications, limitations and directions for future research are discussed.

Literature Review

A resource-based view of the firm (RBV) represents the theoretical framework of our work (Berney, 1991); this theory has been widely used to explain the firm’s internationalization and exporting in particular. We consider market orientation to be a marketing capability that helps firms achieve a competitive advantage and consequently, superior business performance, because it is firm-specific, rare, and inimitable.

There exist the following two conceptualizations of market orientation:
1. *market orientation as part of organizational culture*, permanently orientating the company toward the creation and delivery of superior value for its customers (Narver and Slater, 1990);

2. *market orientation as specific behaviors* of the organization linked to the generation, dissemination, and use of information (Kohli and Jaworski, 1990).

The two perspectives – cultural and behavioral – are complementary. MO implies the development of an organizational culture that generates organizational capabilities, which manifest themselves in specific market-oriented behaviors.

A firm’s market orientation is a distinctive competence that supports the firm’s activities and contributes to its performance. A lot of research studies have been devoted to studying the relationship between MO and innovation (Zhang and Duan, 2010; Lukas and Ferrell, 2000; Atuahene-Gima, 1996), MO and business performance (Chao et al., 2010; Kara et al., 2005; Matsuno et al., 2002; Pitt et al., 1996), in different industrial, national, and competitive contexts and with reference to different types of firm (for example, family businesses - Zachary et al., 2001; or SMEs – Raju et al., 2011).

A lesser amount of research has been directed towards investigating MO in an international business environment (Chi and Su, 2013). In these studies, MO was represented as an antecedent of the internationalization process because it fosters and facilitates the learning process in foreign markets and the designing of proper market responses (Armario et al., 2008). MO is particularly important in an international context, because foreign markets are far more complex than domestic ones, and this complexity increases demand for market intelligence generation, dissemination, and responsiveness.

Cadogan and Diamantopoulos (1995) were the first to offer a combination of the two conceptualizations of MO and to add an international dimension, introducing the construct of Export Market Orientation (EMO). As Cadogan et al. (2001, 263) stated:

*Firms that are market-oriented in their export operations also generate, disseminate, and respond to market intelligence. However, the focus of this EMO behavior is towards export customers’ current and future needs, competition within the firm’s export markets, and other exogenous factors influencing the firm’s export performance. In other words, the nomological net of the concept of market orientation does not differ, whether a firm operates solely in its domestic market, or whether it (also) operates in international markets; only the qualitative focus of the activities comprising EMO behavior will differ from those market-oriented activities conducted only in domestic markets.*

So, EMO consists of the following three information processing-relating components:
1. **Export intelligence generation** (EIG) – includes all activities involved in creating export market information;

2. **Export intelligence dissemination** (EID) – includes sharing of market intelligence within the firm;

3. **Export intelligence responsiveness** (EIR) – includes activities aimed at designing and implementing responses to changes occurring in the firm’s environment.

A review of prior research on the relationship between export market orientation and export performance reveals a positive link, both direct and indirect (Racela and Thoumrungroje, 2014; Chung, 2012; Miocevic and Crnjak-Karanovic, 2012; Singh and Mahmood, 2013; Akyol and Akehurst, 2003).

Several researchers call for a disaggregated approach to examine the relationship between EMO and export performance, considering individual EMO components, in addition to EMO as a composite (Chung, 2012; Sorensen, 2009). As Murray et al. (2007) showed, different EMO components have differential effects on export performance. In particular, it is suggested that responsiveness influences export performance, while market intelligence generation and dissemination are fundamental drivers of responsiveness. Our work follows this approach.

Another stream of research pertains to the antecedents of EMO. The level of export market orientation is derived from the capabilities a firm possesses. Based on the literature review, we focus on two key export-related variables as antecedents of export market orientation:

1. **export experience**; it can be supposed that the more experienced exporter will have greater access to information sources from which greater knowledge concerning customer needs can be gained and appropriate responses can be formulated; but empirical research studies have shown mixed findings (Cadogan et al., 2006; Cadogan et al., 2002; Moen and Servais, 2002; Cadogan et al., 2001; Kwon and Hu, 2000);

2. **establishment of an export department**; it can be supposed that firms with an export department can be in a better position to develop market oriented behaviors (Kwon and Hu, 2000). The use of an export department can be an indicator of the firm’s export commitment (Koh, 1991).

Previous studies developed and tested the EMO construct principally on large firms and so, the applicability of this construct to SMEs was questioned. Because of the differences between SMEs and larger organizations, it can be supposed that EMO plays a different role in SMEs (Raju et al., 2011). However, the empirical research on the EMO of SMEs has been scanty (Singh and Mahmood, 2013; Miocevic and Crnjak-Karanovic, 2012) and so, further investigation is needed. Our work tries to fill this gap, investigating the influence of each EMO component on the export performance of a sample of
SMEs. Furthermore, we want to explore some EMO antecedents, in order to verify the conditions that can favor the development of an export oriented behavior.

The conceptual framework is illustrated in Figure 1 and the following research hypotheses are addressed:

H1. Export experience is positively related to EIG and to EID.
H2. Export department is positively related to EIG and to EID.
H3. EIG and EID are positively related to EIR.
H4. EIR is positively related to export performance.

**Figure 1. Conceptual model and research hypotheses**

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**Research Methodology and Design**

*Sample and Data Collection*

The empirical research consists of a survey, conducted by using cross-sectional data of a sample of Italian small and medium-sized coffee roasting firms. We chose the roasting industry because it is one of the most representative industries of the Made in Italy sector abroad and it controls a significant international market share (Pascucci, 2014). Exporting through foreign distributors is their prevailing entry strategy.

Cross-sectional design was selected because the objective of our study is to explore and describe the relationship between EMO and Export Performance, without examining causality.

The data was collected over a two-month period during 2013-2014. The sample was drawn from a listing of the Italian roasting companies ranging in size from 10 to 250 employees (excluding micro-enterprises, according to the European Commission definition); a random sample of 300 roasting firms were contacted by e-mail to inform them of the study and to identify appropriate key informants. To enhance the quality and the reliability of the responses, respondents were guaranteed anonymity and confidentiality in the analysis and in the reporting of the results. From the initial mailing, 64 complete questionnaires were returned, for a response rate of 21.3%.

Non-response bias was tested using a t-test to compare early (the first 75% of the returned questionnaires) and late (the last 25% of the responses) respondents on all the variables of the model (Armstrong and Overton, 1977;
Weiss and Heide, 1993). The test did not reveal significant differences (at the 0.10 level) and so, the sample can be considered reasonably representative. Furthermore, the sample composition is quite similar to the target population, in terms of firm size and geographic range. In fact, most of the Italian roasting companies are small and they are distributed all over Italy.

**Measurement of Research Constructs and Analysis Method**

Existing measures were adapted for this study. In particular, for EMO we used the measures proposed by Cadogan et al. (1999; 2001; 2006). The questionnaire was pre-tested by five managers, thus ensuring that the questions were relevant and phrased in a meaningful manner; on the basis of their comments, some modifications were necessary according to particular characteristics of the Italian roasting companies. This provided evidence of content validity of the scale. The revised set of measures for the three dimensions of EMO includes 17 items. These items were measured on a seven-point scale (1=strongly disagree; 7 =strongly agree). Table 1 shows the internal consistency for each of the three dimensions (Cronbach alpha >0.70) and for the combined 17-item scale.

Table 1. Internal Consistency of EMO Measures

| Export Market Orientation | 17 | 0.842 |
| Export intelligence generation | 6 | 0.755 |
| Export intelligence dissemination | 6 | 0.773 |
| Export intelligence responsiveness | 5 | 0.804 |

As regards export performance, the data was collected for the entire export function, because the purpose of the study is the analysis of the overall degree of export performance and not of a single/multiple export venture (Olivera et al., 2012). The small size of the firms in the sample made it difficult to identify the export ventures and their economic results. A sales-related measure of export performance was employed, such as Export Intensity (export sales/total sales). It is a widely used objective measure of export performance in the literature (Katsikeas et al., 2000; Sousa, 2004; Fernández-Mesa and Alegre, 2015).

The firm’s capabilities are indirectly measured through the following two items: the firm’s international business experience - that is operationalized as the number of years in international business (NUM_YEARS) and the number of countries to which the firm exports (FOREIGN_MARKETS) - and the establishment of an export department (DEPT), Yes/No.

The relationships are examined using regression. The following four equations were estimated to test the hypotheses:

a) \[ EIG = a + b_1 \text{FOREIGN_MARKETS} + b_2 \text{NUM_YEARS} + b_3 \text{DEPT} + e \]
b) \[ EID = a + b_1 \text{FOREIGN_MARKETS} + b_2 \text{NUM_YEARS} + b_3 \text{DEPT} + e \]
c) \[ EIR = a + b_1 \text{EIG} + b_2 \text{EID} + e \]
d) \[ \text{EXP\_INT} = a + b_1\text{EIR} + e \]

### Main Findings

The descriptive statistics are presented in Table 2. The sample of 64 roasting companies has, on average, 16.1 years of experience in exporting, 37\% of export intensity, and 63.8\% of the companies have a separate export department. The average number of foreign markets to which the firms export is 20. However, for these variables there is a significant variability in the sample. The majority of the firms followed a traditional and gradual internationalization process; only 18 firms began to export after 0-4 years from their foundation and they are the younger ones. The most important export market is Western Europe, followed by Eastern Europe.

Overall, the average EMO score of the analyzed firms is 4.44, with EIR more elevated (5.12) than EID (4.35) and EIG (4.23). So, roasting firms seem to be more inclined to respond to market changes than to generate and share market information. This fact can be due to decision and organizational flexibility that is typical of SMEs. On the contrary, they shown some difficulties in the systematic market information collection and processing. As regards this variable, there is a greater homogeneity among the firms of the sample.

### Table 2. Descriptive Statistics of the Variables

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Coeff. of variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXP_INT</td>
<td>37.0426</td>
<td>0.715287</td>
</tr>
<tr>
<td>NUM_YEARS</td>
<td>16.1064</td>
<td>0.640174</td>
</tr>
<tr>
<td>FOREIGN_MARKETS</td>
<td>20.3404</td>
<td>0.826053</td>
</tr>
<tr>
<td>DEPT</td>
<td>0.638298</td>
<td>0.760911</td>
</tr>
<tr>
<td>EIG</td>
<td>4.23106</td>
<td>0.285202</td>
</tr>
<tr>
<td>EID</td>
<td>4.35106</td>
<td>0.294846</td>
</tr>
<tr>
<td>EIR</td>
<td>5.12064</td>
<td>0.260633</td>
</tr>
<tr>
<td>EMO</td>
<td>4.44064</td>
<td>0.232762</td>
</tr>
</tbody>
</table>

The results of regression analysis are reported in Table 3. The number of foreign markets and whether or not there is a separate export department are variables that are significantly and positively related to the two components of Export Market Orientation (EIG and EID). On the contrary, the number of years has no impact on them. So, H1 is only partially supported and H2 is supported. EIG and EID are positively and significantly related to EIR, which positively influences the firm’s export intensity. So, H3 and H4 are both supported.
Table 3. Summary of the Results of Regression Analysis

<table>
<thead>
<tr>
<th></th>
<th>EIG</th>
<th>EID</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>coefficient</td>
<td>p-value</td>
</tr>
<tr>
<td>constant</td>
<td>3.77995</td>
<td>0.000575**</td>
</tr>
<tr>
<td>FOREIGN_</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MARKETS</td>
<td>0.551369</td>
<td>0.0713*</td>
</tr>
<tr>
<td>NUM_YEARS</td>
<td>-0.000585035</td>
<td>0.9738</td>
</tr>
<tr>
<td>DEPT</td>
<td>0.752190</td>
<td>0.0812*</td>
</tr>
<tr>
<td>R-square</td>
<td>0.385959</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>0.0851</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>EIG</th>
<th>EID</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>coefficient</td>
<td>p-value</td>
</tr>
<tr>
<td>constant</td>
<td>2.68487</td>
<td>0.0005***</td>
</tr>
<tr>
<td>EIG</td>
<td>0.342082</td>
<td>0.0608*</td>
</tr>
<tr>
<td>EID</td>
<td>0.227162</td>
<td>0.0821*</td>
</tr>
<tr>
<td>R-square</td>
<td>0.418865</td>
<td></td>
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<tr>
<td>F</td>
<td>0.004365</td>
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<table>
<thead>
<tr>
<th></th>
<th>EXP_INT</th>
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<tr>
<td></td>
<td>coefficient</td>
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<tr>
<td>constant</td>
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<tr>
<td>EIR</td>
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<tr>
<td>R-square</td>
<td>0.54369</td>
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<tr>
<td>F</td>
<td>0.003578</td>
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</tbody>
</table>

*p≤0.10; **p≤0.05

Implications, Limitations, and Future Research

Some managerial and theoretical implications can be drawn from this study. Our work confirms previous research findings about the positive relationship between EMO and export performance, adopting the disaggregated approach. Empirical research suggests that firms exhibiting market-oriented behavior in their export activity are more successful in foreign markets than their less market-oriented competitors. Firms wishing to improve their export performance should invest in generating and sharing market information with the relevant decision makers and then using it to take the most appropriate actions in the foreign market. Therefore, our results confirm the importance of information-related capabilities also in the context of SMEs; these capabilities foster the firm’s responsiveness, i.e., the capacity to respond to foreign market changes in an efficient and effective way, in order to gain a competitive advantage and obtain superior export performance.

As regards the antecedents of EMO, the presence of an export department can facilitate the generation and dissemination of information, whereas the firm’s international experience is significant only for the geographical scope of the firm’s export activity. The length of time a firm has been exporting is not a relevant factor; this is probably due to the fact that many firms in the sample...
have a consolidated presence in a few, culturally similar markets, and so, their informational needs are reduced. As the number of foreign markets increase, the firms have a greater need to collect and use information; hence, their EIG and EID increase.

From a theoretical point of view, we provide two mains contributions to the literature: 1) we have extended previous empirical studies on export market orientation in the Italian context and in particular in a mature industry, such as coffee bean roasting; 2) we have demonstrated the applicability of the concept on small and medium sized enterprises and the positive influence of EMO on the export performance of SMEs; 3) we confirm the effectiveness of the disaggregated approach to the analysis of the relationship between EMO and export performance. In other words, the three components of EMO cannot all be put on the same level, because they have different implications.

There are several limitations of this study. First of all, the self-reporting nature of the survey can introduce the possibility of the respondents providing desired and not actual responses. Second, the relationship between export market orientation and export performance was measured in a single time period; a longitudinal study can provide a richer understanding of the phenomenon. This study is, out of necessity, limited to the national boundaries of Italy and thus, the results can be culture-specific and hardly generalizable. Therefore, the findings have a certain restricted external validity. Moreover, the findings of this study are limited by the industry-specific focus of the research. Nevertheless, previous studies have shown that there were no significant differences among industries in any of the market orientation scales or in any of the performance scales (Deshpande et al., 1993; Kohli et al., 1993). However, future studies can consider other industries, with a different competitive and technological landscape.

A further restriction of the generalizability of results is caused by the relatively small size of the sample, even if the minimum ratio of observations to independent variables is respected (Hair et al., 2006).

Some additional limitations pertain to the analysis of the EMO antecedent factors. We have identified only two possible antecedent factors; so, future researches could investigate additional factors. Considering the fundamental role of entrepreneur in an SME’s strategy formulation and organization, his personal/cultural characteristics (for example, risk-taking attitude, global mindset, age and educational background, previous international experiences) could be an interesting area of study.

References


