

# **Export market effectiveness: the role of export commitment, innovativeness and marketing capabilities**

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## **Abstract**

The export marketing literature has demonstrated that marketing capabilities are key drivers of export market effectiveness. However, researchers highlight the need for better understands the antecedents that influence the development of marketing capabilities in export markets. Drawing on the resource-based view, this study investigates the way that export commitment and innovativeness contribute to marketing capabilities development, and the effect of all these factors on export market effectiveness. We use a survey data of 471 exporting manufacturing firms based in Portugal to test the relationships between the constructs analyzed in this study. The findings demonstrate that a high export commitment tends to cultivate a higher degree of innovativeness, which in turn allows firms to develop superior marketing capabilities. Both export commitment and some marketing capabilities, specifically new product development and marketing communication, have a direct impact on export market effectiveness. The results provide guidelines for managers and generate directions for future research.

**Keywords:** Export commitment; Innovativeness; Marketing capabilities; Export market effectiveness.

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## Introduction

Understanding the drivers of export market effectiveness is fundamental to explain firms' international competitiveness (Morgan *et al.*, 2012). According to the resource-based view (RBV), firms' internal resources and capabilities are critical to achieve a sustainable competitive advantage and thus a greater market performance (Barney, 1991; Newbert, 2007; Wernerfelt, 1984). This is a central issue for many theorists and managers that need to know what kind of resources and distinctive capabilities improve the firms' performance in export markets (Kaleka, 2012). These insights guide the theoretical foundation for the current study, which links export commitment, innovativeness and marketing capabilities to performance in export markets, based on the RBV.

## Theoretical Background And Hypotheses Development

In the exporting field, the RBV is one of the most widely accepted theories to explain why firms perform differently (e.g., Kaleka, 2012; Lages *et al.*, 2009). According to the RBV (e.g., Barney, 1991; Newbert, 2007; Wernerfelt, 1984), firms with valuable, rare, inimitable and non-substitutable resources and capabilities can generate sustainable competitive advantage by implementing strategies that improve their efficiency and effectiveness (Barney, 1991). Resources are stocks of tangible and intangible assets available to the export activity (Amit & Schoemaker, 1993). Capabilities are organizational processes by which firms combine and transform resources to create value outcomes for the export market (Amit & Schoemaker, 1993; Day, 1994). Both resources and capabilities represent the firm's ability to respond rapidly to environmental changes and achieve new and innovative ways of competitive advantage and thus superior performance (Teece, 2007).

The conceptual model (see Fig. 1) includes ten constructs, related as follows.

**Fig. 1. Hypothesized relationships.**

*Export commitment* is the degree to which a firm allocates managerial and organizational resources to the export venture (Lages *et al.*, 2008; Lages & Montgomery, 2004). This commitment is predominantly strong when it involves management and there are available more resources for export operations (Welch & Luostarinen, 1988). Firm's export commitment shapes attitudes and behaviors toward exporting (Navarro, Acedo, *et al.*, 2010). *Innovativeness* includes innovation as an aspect of organizational culture (e.g., Hult *et al.*, 2007; Hurley & Hult, 1998; Rhee *et al.*, 2010; Rubera & Kirca, 2012), the capacity to innovate internal processes (e.g., Neely *et al.*, 2001), and the ability to respond properly to environmental changes (e.g., Akman & Yilmaz, 2008). Innovativeness is as well viewed as an important component of entrepreneurial behavior and that can lead firms into new and different markets (e.g., Miller & Friesen, 1982).

### *Export commitment and innovativeness*

Export commitment is an ambition to meet the expectations of foreign customers (Beamish *et al.*, 1993). The consequently ongoing effort to improve products and services provided in export market, creates a new mindset or attitudes that stimulate the implementation of new and useful ideas as a part of an innovativeness culture (Hurley & Hult, 1998). The level of firm's resources and the way that managers successfully integrate and manage them strongly influence innovativeness (Neely, et al., 2001). Through increasing levels of managerial, financial and human resources committed to exporting, and the assignment of dedicated people, a firm demonstrates a greater receptivity to new ideas and concepts, which makes it more willing to engage in innovativeness (Jong & Hartog, 2007). According to this, we propose the following hypothesis:

#### **Hypothesis 1. The firm's export commitment positively influences innovativeness.**

*Marketing capabilities* are defined as the firm's ability to understand and forecast customer's needs and to effectively link its offerings to these needs (Katsikeas, 1994; Sousa & Lages, 2011). This implies the creation of long-term customer relationships and organizational processes, whereby a firm deciphers the trajectory of customer's specific needs to create superior customer value (Krasnikov & Jayachandran, 2008; Nath *et al.*, 2010).

### *Innovativeness and marketing capabilities*

Firms combine available resources, skills and knowledge to support innovative marketing activities that generate valuable and excellent products and services for their customers (Day, 1994; Ming-Tien & Chia-Mei, 2004; Vorhies & Morgan, 2005). From this point of view, innovativeness is the central mechanism by which firms develop superior capabilities (McGrath & Ming-Hone, 1996), such marketing capabilities. A firm with a higher degree of innovativeness demonstrates a greater ability to generate creative marketing skills and suitable products and services to reach the target market effectively (Nath, et al., 2010; O'Cass & Weerawardena, 2010). So, innovativeness contributes for the development of distinctive marketing capabilities, enabling a firm to improve price, product, communication and distribution capabilities, and adapt them to the particularities of each export market (Navarro, Losada, *et al.*, 2010). In line with the above, we propose the following hypotheses:

#### **Hypotheses 2. The firm's innovativeness positively influences:**

**H2a. pricing capability; H2b. new product development capability; H2c. marketing communication capability; H2d. distribution capability.**

*Export market effectiveness* is a measure of performance in export markets, and reflects the efforts of the export venture to improve customers' acquisition rate, sales revenue growth, and market share (e.g., Kaleka, 2012; Morgan *et al.*, 2006).

### *Export commitment and export market effectiveness*

Commitment is related to the allocation of greater resources to the venture, enabling a firm to achieve its exporting goals (Lages & Montgomery, 2004; O'Cass & Julian, 2003). The more committed the firm, the greater is its engagement in planning and the allocation of managerial, financial and human resources to the export venture, which in turn results in a better performance (e.g., Cavusgil & Zou, 1994; Lages, et al., 2008). Prior studies have demonstrated that export commitment directly influences export venture performance (e.g., Lado *et al.*, 2004; Navarro, et al., 2010). Thus, we propose the following hypothesis:

#### **Hypothesis 3. The firm's export commitment positively influences export market effectiveness.**

### *Innovativeness and export market effectiveness*

Innovativeness is a key element for innovation achievement (e.g., Akman & Yilmaz, 2008; Martínez-Román *et al.*, 2011) and industrial firms' success (e.g., Hult *et al.*, 2004). Innovativeness implies a company to be proactive in order to explore new opportunities rather

than simply exploiting current strengths (Elmquist & Le Masson, 2009; Menguc & Auh, 2006). Thereby, innovativeness is critical to achieve superior market effectiveness (e.g., Calantone *et al.*, 2002; Hult, et al., 2004; Rhee, et al., 2010). According to this, we propose the following hypothesis:

**Hypothesis 4. The firm's innovativeness positively influences export market effectiveness.**

*Marketing capabilities and export market effectiveness*

Exporting firms must develop and market the appropriate products and services that are valued by customers in export markets (Diamantopoulos *et al.*, 2000). Through their marketing capabilities, firms create and maintain strong bonds with customers and channel members (Nath, et al., 2010; Song *et al.*, 2007), increasing knowledge about foreign customers' needs, competitive behaviors and market trends (Day, 1994). This enable them to satisfy customers additionally, even more than their competitors (Weerawardena & O'Cass, 2004), and thus to obtain a greater performance in the export market (e.g., Murray *et al.*, 2011; Vorhies & Morgan, 2005). In line with the above, we propose the following hypotheses:

**Hypotheses 5. The export market effectiveness is positively influenced by:**

**H5a. pricing capability; H5b. new product development capability; H5c. marketing communication capability; H5d. distribution capability.**

## **Methodology**

This study was conducted in 2012, using a sample of Portuguese exporting manufacturers. An online questionnaire was the basis of the data used to test the model. The final sample size was 2740 firms. We obtained 471 valid questionnaires, which corresponds to a response rate of 17%. This is a very satisfactory response rate, given that the average top management survey response rates is in the range of 15% to 20% (Menon *et al.*, 1996). Our model includes 35 observable indicators, which determines a 13:1 ratio of sample size to number of free parameters (see Bentler, 1989 in Westland, 2010). All constructs were conceptualized as first-order factors and measured by scales with multiple items. The research instrument was created based on an extensive literature review on the major subjects pertaining to this study.

## **Results**

In this model, each item was restricted to load on its priori specified factor, with the factors themselves allowed to correlate with one another. The overall chi-square for the model is significant ( $\chi^2=1011.30$ ,  $df=515$ ,  $p<0.00$ ). Four measures of fit were examined: the comparative fit index (CFI=0.97), the incremental fit index (IFI=0.97), the Tucker-Lewis fit index (TLI=0.97), and the root mean square error of approximation (RMSEA=0.045). The results suggest that the scale measures are internally consistent, able to provide a good fit of the factor model to the data.

### **Structural Equation Model**

The conceptual framework depicted in Fig. 1 was tested using structural equation modeling. The results suggest a good fit of the model to the data ( $\chi^2=1284.61$ ,  $df=540$ ,  $p<0.00$ ,  $\chi^2/df=2.38$ , CFI=0.96, IFI=0.96, TLI=0.96, RMSEA=0.054).

Consistent with H1, export commitment positively influences innovativeness ( $\beta=0.31$ ,  $t\text{-value}=5.85$ ). In line with H2a, H2b, H2c and H2d, innovativeness has a significant positive impact on pricing capability ( $\beta=0.28$ ,  $t\text{-value}=4.92$ ), new product development capability ( $\beta=0.68$ ,  $t\text{-value}=10.18$ ), marketing communication capability ( $\beta=0.49$ ,  $t\text{-value}=9.33$ ), and distribution capability ( $\beta=0.42$ ,  $t\text{-value}=7.66$ ). In support of H3, export commitment has a significant positive impact on export market effectiveness ( $\beta=0.14$ ,  $t\text{-value}=2.74$ ). Contrary to expectations, no significant relation is found between innovativeness and export market

effectiveness ( $\beta=-0.13$ , n.s.), so H4 is rejected. Likewise, no significant association is found between pricing capability and export market effectiveness ( $\beta=0.05$ , n.s.), thus H5a is rejected. Consistent with H5b and H5c, new product development capability and marketing communication capability have a significant positive impact on export market effectiveness ( $\beta=0.37$ ,  $t\text{-value}=4.80$  and  $\beta=0.11$ ,  $t\text{-value}=2.15$ , respectively). Finally, no significant relation is found between distribution capability and export market effectiveness ( $\beta=0.06$ , n.s.), so H5d is rejected.

### **Discussion and implications**

As predicted, export commitment directly leads to a higher degree of innovativeness and indirectly to the development of superior marketing capabilities. The allocation of important resources to export venture encourages the development of innovative behaviors within firms, like frequently try out new ideas, seek new ways to do things, and being creative in operation methods. This, in turn, allows companies to develop innovative price, product, communication and distribution capabilities in order to better forecast customers' needs and competitors' actions (cf., McGrath & Ming-Hone, 1996). This way, we add understanding to marketing capabilities development, by demonstrating that such development indirectly depends on firms' resources committed to export activity and directly on their level of innovativeness. In consequence, we argue that managers need to invest ample time and effort, and also allocate the appropriate financial and human resources to export activity, to achieve a greater innovativeness, and thus to develop superior marketing capabilities (cf., Lado, et al., 2004).

We adopted the RBV to examine export commitment as a resource. We focused on export commitment as the level of resources committed to exporting, and we tested its impact on export market effectiveness. The results support the argument that export commitment enables firms to obtain superior export market effectiveness, whether directly or indirectly through innovativeness and marketing capabilities.

The analysis of the influence of marketing capabilities on export market effectiveness demonstrates that new product development capability and marketing communication capability have a significant and positive impact on export market effectiveness. The findings show that firms with new product development capability can successfully develop and launch new products for export markets, which allows them to meet the customers' needs in a more effective way (e.g., Eng & Spickett-Jones, 2009; Vorhies & Morgan, 2005). On the other hand, and in line with Murray et al. (2011), we confirm that firms skillfully using marketing communication capability are more able to persuade customers to have a good perception of their products, which contributes to superior export market performance.

Surprisingly, pricing and distribution capabilities have no effects on export market effectiveness. This can happen due to the not always significant influence of many marketing capabilities on export market effectiveness, as evidenced by the literature (e.g., Eng & Spickett-Jones, 2009; Zou *et al.*, 2003). Also surprisingly, we did not confirm the existence of a significant relation between innovativeness and export market effectiveness. This is probably because firms' innovativeness must be associated with the development of new products for export markets, as well as the ability to communicate and manage marketing programs to these markets. Innovativeness by itself does not translate in market share and sales revenue growth, in the acquisition of new customers, or in increased sales to existing customers. Instead, the effectiveness of innovativeness depends on how it operates in new product development and marketing communication capabilities. The possession of a high innovativeness without new product development and marketing communication capabilities is likely to be considerably less effective in allowing firms to achieve their performance goals. In order to enhance export market effectiveness, managers should cultivate a culture of

innovativeness that harnesses the benefits of new product development and marketing communication capabilities.

In sum, firms may improve export market effectiveness by increasing the level of managerial, financial and human resources committed to export activity, which in turn influence the degree of innovativeness used to develop superior new product development and marketing communication capabilities. Therefore, managers must continuously commit resources that can be translated into innovative ways to create superior customer value in the export markets.

From a governmental perspective, this study can help government agencies to understand and plan export promotion programs that are more effective if target firms possess a management team that is more committed to exporting and that are more innovative, and that has superior new product development and marketing communication capabilities. The national export support programs should focus particularly on the development of these resources and capabilities.

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