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Determining the Effect of Export Market Orientation on Export Performance of Small and Medium Enterprises in Malaysia: An Exploratory Study

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Abstract

The objective of this research is to determine if there is significant relationship between export market orientation (EMO) and export performance of small and medium enterprises (SMEs) in Malaysia. Quantitative survey method was employed and data were collected from 201 exporting SMEs registered with the Federation of Malaysian Manufacturers. Regression analysis was used to test the relationship between export performance as a dependent variable and export market orientation as an independent variable. The result shows that significant positive relationship exists between EMO and export performance of SMEs. The finding emphasizes the importance of developing EMO among the owner/managers of SMEs for their success. Those owner/managers that adopt EMO activities in their firms would gain in terms of competitive advantage over their rivals and reap higher export performance. SME owner/managers could also anticipate future threats and seek out opportunities for further expansions in the international markets. The study limitations and implications are discussed as well as a number of directions for further research.

JEL classification numbers: L1, L53
Keywords: Export market orientation, export performance, small and medium enterprises

1 Introduction

There is a growing interest in the concept of market orientation as empirical evidence shows that firms with higher market orientation have positive effects on performance (Kohli & Jaworski, 1990; Narver & Slater, 1990). However, research on the international market context is still limited, and studies have not adequately accounted for the effect of

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market orientation on the firm's export performance. The rapid growth of international trade have made it imperative for firms, especially for small and medium sized enterprises (SMEs) to seek expansion opportunities, and the application of market orientation in the export context has become increasingly crucial for the firms' survival and success in international markets (Diamantopoulos et al, 2000; Murray et al, 2007). Moreover, it is critical for these firms to develop and market their goods and services that are valued by customers in export markets (Narver & Slater, 1990; Murray, Gao & Kotabe, 2011). Nevertheless, empirical research on the export market orientation and export performance relationship within the SMEs has been scanty. This is surprising in view of the fact that SMEs account for the majority of the business establishment, employing huge number of working force, and contribute significantly to nations' gross domestic product (GDP) (Idar & Mahmood, 2011). Most SMEs are also facing a lot of challenges in accomplishing superior growth in performance especially in the international markets (Muhammad et al, 2010; Hilmi & Ramayah, 2008). Given the importance of this sector, it is the aim of this study to determine the effect of export market orientation on export performance of SMEs in Malaysia.

2 Literature Review

Market orientation generally consists of market intelligence generation, market intelligence dissemination, and market information responsiveness (Kohli & Jaworski, 1990). Market intelligence generation involves generation of information pertaining to the customers' needs and preferences which is inclusive of exogenous analysis that changes those needs and preferences. Market intelligence dissemination refers to sharing the market intelligence gathered about the current and future customers needs within an organization while market information responsiveness involves action taken in response of the information generated and disseminated. Cadogan, Diamantopoulos and De Mortanges (1999) used the Kohli and Jaworski's (1990) market orientation concept into the export settings and named it export market orientation (EMO). Cadogan et al. (2002) explained that EMO activities can be termed as firms collection of information pertaining their export operation, disseminating that information within firm especially to the decision makers, and implementing and making responses that persuade the export customers, develop competitive advantage against their competitors, taking advantage or avoiding extraneous export market factors limiting the firm's ability to provide superior value for the export customers. It is posited that firms that exercise export market orientation in their business settings will more likely generate information about their customer's needs and preferences. A better understanding of the customer needs and preferences for firms could substantiate their export performances by manipulating the information gathered and from various strategies to attract their potential customers in the international markets (Cadogan, Kuivalainen, & Sundqvist, 2009).

The adoption of export market orientation behavior in the export operations would facilitate firms to attain superior export performance (Akyol & Akehurst, 2003; Cadogan et al., 2002; Dodd, 2005; French, 2006; Cadogan et al., 2009; Miocevic & Crnjak-Karanovic, 2012). Therefore these firms should put in more effort to adopt EMO behavior in order to remain competitive and perform better than their competitors. The firms could also predict the current and future needs and wants of the customers and match solutions to it thereby putting their firms in a better position against their competitors and achieve

better export performances (Cadogan, et al., 2002; Dickinson, Herbst, & O'Shaughnessy, 1986). While studies have found a positive link between the gathering of marketing information (export market orientation activity) and firms' export performances (Hart, Smith, Sparks & Tzokas, 1999; Rose & Shoham, 2000; Yeoh, 2000), there are also debates that in certain situation and the types of firms, market orientation is not so important especially for the exporters (Cadogan, Cui & Li, 2003; Rose & Shoham, 2002). Market oriented behavior might not be beneficial in the domestic perspective and could result in bad performance (Appiah-Adu, 1998; Lukas & Ferell, 2000; Gray, Greenley, Matear & Matheson, 1999). Similarly, in the exporting perspective if too much emphasis is given on the EMO activities, this could lead to increase of the firms' costs and sometimes it may overweigh the benefits received by the firms (Dodd, 2005). In addition there are also studies that found no direct relationship between export market orientation and firms export performance (Kwon & Hu, 2000; Kropp, Lindsay, & Shoham, 2006).
Nonetheless, export market orientation could help firms to achieve higher export performance, and therefore it is important to determine the relationship between EMO activities and export performance. There is also a call for more research on how EMO influences firms export performance (Murray et al., 2007) and that there are many challenges and opportunities in developing and understanding the consequences EMO in the exporting firms that need further exploration (Cadogan et al, 2009). Thus more studies are needed to measure the competitiveness of SMEs in Malaysia in facing the global challenges in terms of export performance (Muhammad, Char, Yasoa' & Hassan 2010). Based on the arguments above the following hypothesis is proposed.

H1: There is a significant relationship between export market orientation and export performance of SMEs.

3 Theoretical Framework

Figure 1 below illustrates the proposed model that hypothesized the relationships between export market orientation and export performance.

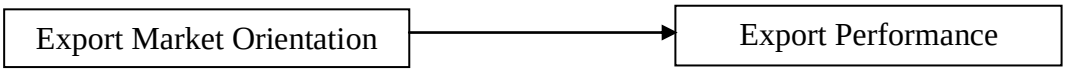

Figure 1: EMO-export performance relationship

The proposed framework is supported by the resource-based theory which provides a foundation for the exploration of export market orientation and the relative effect on export performance. The theory seeks to identify factors that explain why firms are able to gain and sustain a competitive advantage. The theory asserts that a firm's performance is mainly driven by a unique set of firm resources that are difficult to imitate, rare and valuable. As long as competitors are unable to buy or imitate or substitute the resources controlled by a firm, these resources will continue to be a source of competitive advantage (Barney, 1997). Export market orientation activities are considered as rare and inimitable marketing capabilities that are built by the firms over time and these cannot be bought or obtained easily. If these tangible and intangible resources are managed efficiently and effectively, this could result of them enjoying superior export performance. Firms that

apply EMO behavior in their firms will generate more information about their surrounding, and hence deploy appropriate export market strategies to suit certain target market in contrast with their competitors. Consequently, a better implementation of the export market orientation means that firms can derive more benefits from these strategies.

4 Research Methodology

4.1 Sample and Data Collection

This study employed a quantitative research design using a survey method. The target population was drawn from the Federation of Malaysian Manufacturers (FMM) directory of manufacturing SMEs. From the listing, only firms which fulfilled the following criteria; (a) manufacturing firms with an annual sales turnover of between RM250,000 and less than RM25 million, or (b) manufacturing firms with fulltime employees ranging from 5 to less than 150, and (c) engaged in the exporting activity, were chosen. A total of 779 SMEs made up the target population. Based on Krejcie and Morgan (1970), a sample size of 260 was determined, and due to response rates of between 20 to 25 percent for a mail survey, the number of questionnaires sent should be four or five times than the intended sample size (Abd Aziz & Mahmood, 2011). The questionnaire was mailed with a cover letter and a postage-paid return envelope to the owner/manager of each firm. Owner/managers were targeted in this study because they were involved in the overall running of the businesses, and their views often represent the views of the entire firm. Of the 779 questionnaires originally mailed, a total of 233 were received, giving a response rate of 29 percent. However, 11 questionnaires were removed because they were incomplete and 21 more questionnaires were deleted during the outlier detection process, giving an overall 201 usable questionnaires for further analysis. There is also an issue of non-response bias which usually exists in data collection based on survey method. Non response bias may occur because of an inability to obtain response from some members of the targeted sample. There is a possibility that those who did not respond differ significantly with the answers of those who responded. To test for non response bias, the early respondents were compared with late respondents as suggested by Armstrong and Everton (1977). The authors argued that non respondents shared similar characteristics to those of late respondents. T-tests were carried and no significant differences were found in the mean responses for any of the constructs suggesting that the issue of non response bias was not present in this study.

4.2 Measures

The scales for export market orientation and performance measures were adapted from past studies which had been tested in multiple research settings. The export market orientation consisting of thirteen items and developed by Cadogan et al., (1999) was measured using the seven-point Likert type scale. The seven-point scale was used because it has been confirmed to be more reliable and decreased the measurement error (Krosnick & Fabrigar, 1997). The scales also offered strong psychometric properties in terms of reliability and validity in assessing export market activities. This study employed subjective measures for export performance with four items namely sales volume, profitability, market share, and new markets. Specifically, the owner/managers were

asked to rate their export performance on a seven point Likert type rating scale. The subjective measures of export performance were used because most small firms are often unwilling to provide full objective data, and that the subjective, self report measures of performance have also been widely used in previous research on market orientation and export market orientation (Slater & Naver, 1994; Jaworski & Kohli, 1993; Cadogan et al, 1999; 2002). Furthermore, subjective measures of performance are found to be highly consistent with how firms actually performed as indicated by objective measures (Dess & Robinson, 1984).

4.3 Reliability and Validity

A reliability test was conducted to examine the internal consistency of the measures used. Cronbach Alpha was used to indicate how well the items measuring the measures hang together and correlate positively to one another. Table 1 below shows the two measures have Cronbach Alpha values of more than 0.7 indicating that all constructs used in this study have achieved the acceptable level of reliability (Hair et al., 2011).

Table 1: Reliability scores for variables

Variable	No. of items	Alpha value
Export market orientation	13	.87
Export performance	4	.74

The variables in this study were validated through factor analysis. Factor analysis was carried out using a Principal Component Analysis (PCA) with varimax rotation analyzing the structure of interrelationship among the variables. Before performing the analysis, the suitability of the data was assessed. The Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) was between 0.755 and 0.848 for the two constructs exceeding the threshold of 0.50 (See Tables 2 & 3), and Bartlett's Test of Sphericity was statistically significant at $p < 0.001$. Thus, the results support the factorability of the data. For factor analyses, the varimax rotated principle component analysis applied has resulted in single factor loading in each of the two constructs; export market orientation and export performance that explained 79.286 percent and 58.118 percent of the variance, respectively. Only factors with a loading value of 0.50 and above were considered (Hair et al, 2011), and therefore no items were deleted.

Table 2: Factor Analysis - Export Market Orientation

No	Item	Loadings
1.	We generate a lot of information concerning trends e.g. regulations, technological development, political economic in our export markets.	0.929
2.	We constantly monitor our level of commitment and orientation to serving export customer needs.	0.874
3.	We are slow to detect fundamental shifts in our export environment (Eg. Regulation, technology, economy).	0.947
4.	We periodically review the likely effect of changes in our export environment (e.g. regulation and technology).	0.828
5.	We generate a lot of information in order to understand the forces which influence our overseas customers' needs and preferences.	0.912
6.	Too much information concerning our export competitor is discarded before it reaches decision makers.	0.919
7.	Information which can influence the way we serve our export customers takes forever to reach export personnel.	0.910
8.	Important information about our export customers is often "lost in the system.	0.887
9.	Information about our export competitors' activities often reaches relevant personnel too late to be of any use.	0.901
10.	Important information concerning export market trends (regulation. Technology) is often discarded as it makes its way along the communication chain.	0.820
11.	If a major competitor were to launch an intensive campaign targeted at our foreign customers we would implement a response immediately.	0.880
12.	We are quick to respond to competitive action that threatens us in our export markets.	0.875
13.	We rapidly respond to competitive actions that threaten us in our export markets.	0.885
Eigenvalues		10.307
Percentage of variance explained		79.286
KMO		0.848
Bartlett Test of Sphericity:		
	Approx. Chi Square	5024.990
	Df	78.000
	Sig.	0.000
Cronbach Alpha		0.978

Table 3: Factor Analysis - Export Performance

No	Item	Loadings
	The level of our export sales volume.	0.747
	The profitability of our export operation.	0.709
	Our share of export market sales.	0.828
	The rate at which we are able to enter new markets.	0.759
Eigenvalues		2.325
Percentage of variance explained		58.118
KMO		0.755
Bartlett Test of Sphericity:		
Approx. Chi Square		189.328
Df		6.000
Sig.		0.000
Cronbach Alpha		0.757

5 Findings and Discussions

H1 stated that there is a significant relationship between export market orientation and export performance of SMEs. Table 4 displays the result of the analysis, the t-value is 13.368 at $p < 0.000$, indicating that there is a positive and significant relationship between export market orientation and SMEs export performance. Based on this result hypothesis H1 is supported. It can be inferred that the more the SME owner/managers adopt the export market orientation in their firm, the higher the export performance is yielded. In addition, the strength of the relationship is measured by ($\beta = 0.687$), meaning that export market orientation is a crucial predictor of export performance.

Table 4: Relationship between Export Market Orientation and Export performance

Independent Variable	Standardized Beta	T	Sig. (p-value)	R^2
Export Market Orientation	0.687	13.368	0.000	0.475

The link between EMO and export performance of manufacturing SMEs was investigated in this study. It was found that positive and significant relationship exists between EMO and export performance. Thus maintaining export market orientation behaviour in the firm would result higher export performance. SME owner/managers should be aware that EMO activities must be adopted in their firms in order for them to obtain competitive advantage over their rivals. However, the firm's ability to gain positive benefits from the EMO will depend on the availability of resources, such that firms with higher availability of resources will be able to make better use of EMO for achieving superior performance. Due to advancement in the technology information, SME owner/managers could easily generate information, disseminate it within its organization and response to information in efficient and effectively manner which could build competitive advantage for the firm. SMEs are known to lack complex form of organizational and financial resources

(Miocevic & Crnjak-Karanovic, 2012). With proper training and development owner/managers of SMEs could generate market oriented behavior that could be a competitive advantage for the firm in increasing their export performance. Training is an effective tool in developing EMO behavior, which is tailored to the needs of export customers in the international market (Czinkota & Ronkainen, 1995). Moreover, advancement in the information technology enables SMEs to extract information in a latent or knowledge base resource that builds competitive advantage and leverage for the firm (Miocevic & Crnjak-Karanovic, 2012). EMO behavior are crucial international driver, thus owner/managers of SMEs could strengthen their market positions by applying EMO activities in their firm on an ongoing basis. Leveraging the information gathered from the external and internal resources could become source of competitive advantage for the SMEs in increasing their export performance. By applying export strategies (export market orientation) in their export operation firms could attain competitive position and reap higher financial outcome (Zou et al., 2003).

This research has also several limitations that need to be addressed by future research. First, the relatively small sample size may not be representative of export SMEs in Malaysia, and thus generalisability of findings is limited. As the mail survey method generates low returns, future research should consider the variability of methodological approach in data collection. Second, the cross-sectional research design used can only provide a snapshot of one point in time. It does not allow the determination of cause and effect or the impact of changes over time. A longitudinal investigation would allow the firms to be studied over time and provide further insights into the dynamic nature of the EMO and performance relationship. Third, export performance was measured by the subjective perceptions of respondents which may not always be completely truthful. Future research may use objective measures for performance to strengthen the research design. Finally, this research was conducted in Malaysia as a developing nation, and the findings may not have relevance on other countries. However, it should serve as a foundation for future studies in broader geographic settings, and therefore it could be repeated in other countries at all stages of economic development and contexts.

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