The Impact of External Environment on Export Performance

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Abstract

The aim of this study is to evaluate the effect of the external environment on the company’s strategic behavior, taking into account the psychological distance and the role of market orientation of export activities. Presence and continuity of presence in the turbulent of international markets need to take smart approach, considering the differences in internal and external markets. To Increase export performance in complex environments and greatly varied with the degree of market orientation is possible. Effectiveness and continuity of presence in foreign markets requires a level of adopting the design of the marketing mix.

The method of this research is based on practical objective and descriptive-survey. The study population of research consists of experts, Supervisors and managers of international commerce exporting companies that their companies are excellent and food sample in 2015 Tehran province. To analyze the data collected, the researcher has used SPSS software and Excel.

The results show that export market orientation positively affects the marketing mix adoption strategy and both positively associated with export performance. Also export marketing modifies the relationship between the export marketing mixed adoption strategy and export performance. Psychological distance and external environment positively affect marketing mix adoption.

Keywords: External environment; Psychological distance; Export market orientation; Marketing mix adoption; Export performance

Introduction

What distinguishes the recent decade from previous decades is globalization and competitiveness in businesses. Consumer products markets and industrial goods and services are highly integrated at the global level. Internationalization is caused by providing a context for change. In fact, companies’ growth provides a platform for them to move toward internationalization, to the extent that “growth” and “international” have become two intertwined words [1]. In order to prevent the companies’ backwardness in the competitive market, it is necessary to enter the international market and prepare the ground for knowledge promotion and create knowledge networks. On the other hand, shifting to different foreign markets always causes increasing the complexity of the environment [2].

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 [3]. 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 [4]. 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 [5].

The concept of psychological distance (PD) is essential to assess the differences between cultures and markets and to drive international market selection [6].

Export is a vital tool for countries to achieve their goals of prosperity and economic growth [7]. Export promotion is one of the main objectives of the non-oil economy. Non-oil exports positively impacted on economic growth [8]. This is an important issue for countries like Iran, where the bulk of their exchange earnings is obtained from oil exports. Market-Orientation as an organizational competence can successfully facilitate exports performance (EP) [9].

The aim of this study was to investigate the impact of the external environment and the moderating role of export market orientation on export performance in the food industry.

The rest of the paper is organized as follows: first, the study reviews the literature which is followed by hypotheses. Subsequently, it discusses in detail the research methodology employed in this study. This is followed by the results of the analysis. Finally, the study findings are presented, discussed, and concluded.

Literature Review

External environment

Three components of the external environment are particularly pertinent to export activity [10]. 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 [11]. 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 [12]. Competitive intensity refers to the extent

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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 [13]. 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 [12].

Psychological distance

Many managers are influenced by their perceptions of hardness of entering to the foreign markets regarding the selection of the target market. In international marketing literature, the 'psychological distance' construct has been used to explain the cultural differences or similarities between the domestic and foreign markets [14]. Psychological distance as the distance between the domestic and foreign market is caused by understanding the cultural and business differences, which refers to the similarity or difference in the degree of separation between the export domestic and foreign market of the company. Empirical studies show that a company needs more adaptation in its marketing strategies for entering to markets with more psychological distance than entering the markets with less psychological distance [15]. According to Sousa and Lages, the definition of PD is the individual’s perceived differences between the home market and that of the foreign country [6]. 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 find a positive and significant effect of PD on marketing strategy adaptation [6].

From the international marketing point of view, differences between the two countries include differences in marketing infrastructure and legal environment, that causes considering the great psychological gap by the market manager of the target destination. Sousa and Bradley defined psychological gap as the difference perceived by the managers between the origin and destination country. A manager, who intends to enter a foreign market, perceives less psychological distance when he/she perceives more similarities between his/her country and destination country [16].

Marketing mix adaptation

Adaptation or standardization is the first question which arises for the firms that have reached to stage of deciding on overseas marketing programs. Standardization of the marketing mix in all target markets or adopt different methods comply with the conditions of each market are two options for the organizations that selecting each one brings different level of utility for each organization. Standardization is a response to the increasing homogenization of the global markets in which, the market differentiation in marketing becomes less and less important [17].

Adaptation is only associated with a positive target-group specific upgrading of product features. We defined adaptation as any modification of the product standard due to certain market conditions [18].

Some authors like Morgan, O’Cass, Julian maintain that developing a differentiated marketing strategy in foreign markets requires the firm to adapt to the needs and desires of the target markets [19,20]. 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; (2) they improve relationships with local intermediaries and (3) the firm can attain a greater profitability as a better product market match can result in greater customer satisfaction [19,20].

Export market orientation

Market orientation includes a set of beliefs that puts customers at the center of the attention to provide long-term profitability; it also emphasize on launching effective and efficient business to create the highest value for the customer and competitive advantage [21]. Export market orientation is a technical term that has been used to describe the market orientation level of the company in its export markets [22]. Export market orientation is consisted of three behavioral components (exports intelligence generation, dissemination and responsiveness) in addition to an integrated dimension (a coordinating mechanism) [23]. Market intelligence means identifying the customer’s needs and desires faster than competitors [24]. Intelligence dissemination means that the effective response to market needs requires the participation of all parts of the organization [25]. Responsiveness means to respond to the created and released market intelligence [26]. Coordination mechanism is made up of several areas; communication and shared understanding, organizational culture with an emphasis on responsibility, cooperation and assistance; lack of inefficient conflict and goal orientated collaborative work [23]. Export market orientation behaviors is focused on current and future needs of export customers, competitors active in the export market of the company and other factors such as legal and political factors affecting export performance. Thus, the concept of marketing is not different whether a company participates in the domestic or foreign market; however the focus quality of market orientation activities in the foreign market is different from the market orientation activities in domestic market [22]. On the other hand, Rose and Shoham recognize that EMO provides an integrative insight for evaluating EP [9].

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.

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

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

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

H5. EMO relates positively to EP.

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

Figure 1 shows the conceptual model.

Methodology

Sample and data analysis

The study population of research consists of experts, Supervisors and managers of international commerce exporting companies that their companies are excellent and food sample in 2015 Tehran province; the list of these selected companies are issued every year by the Iran Trade Promotion Organization. The number of the selected company is 10 and the population is consisted of 45 companies. Census method is used in the present study instead of sampling in order to investigate the population. The researcher managed to collect a total of 32 questionnaires with the response rate of 71% of the whole society.
Table 1 presents the profiles of the respondents.

Measures

In this study, the researcher made questionnaires and has been prepared according to the articles Cadogan, Kaleka and Berthon, Theodosiou and Leondidou and Sousa and Lages [6,10,23,27]. Respondents were asked to indicate their level of agreement on 5-point Likert-type scales, anchored by 1=strongly disagree and 5=strongly agree.

To analyze the inferential statistics, the researcher has used SPSS22 software.

In the present study, calculating Cronbach’s alpha in SPSS software was used to estimate the reliability; the final coefficient value obtained for the studied hypotheses is according to the following table after distributing 25 questionnaires in order to conduct initial test (Tables 1 and 2).

Churchill and Malhotra acknowledged that the minimum amount of Cronbach’s alpha coefficient for the research questionnaire is 0.6 and as can be seen, the calculated alpha coefficient for the hypotheses and the entire questionnaire is more than 0.6 in the designed questionnaire [28,29]. So, it can be concluded that the questionnaire used has the necessary level of reliability.

To use most of the statistical techniques, we must firstly determine that the data collected follow normal distribution or not. Skewness and kurtosis values are very important indicators for normality. Skewness is a measure to indicate the symmetry. Kurtosis is a measure to test if the data are peaked or flat in accordance to a normal distribution. From the results illustrated in the Table 3, it can conclude that all hypotheses meet the normality conditions.

One sample t-test method is used to examine, approve or reject the research hypotheses. In fact, the test is used to determine whether the average observed in samples which is randomly selected from the population, has an amount equal to the assumed mean of the population or not.

Results

Tables 4 and 5 show the results of one sample t-test for the research hypotheses. According to the Table 5, the test values obtained from all assumptions are more than critical value Z=t>Z0.5 and so all hypotheses are confirmed at 95% confidence (Tables 3-5).

Discussion and Conclusion

As discussed above, all hypotheses were confirmed and taking into account the research overall model as reference, the following concepts emerge. Our results confirm a positive relationship between the exporting companies’ external environment and the strategic behavior of these companies to adapt the marketing mix plan. This result confirms H1, in line with the premises of the contingency approach [30,31]. It can be deduced that due to the type of foreign market, whether in terms of the certain rules and regulations or the level of complexity and environmental sustainability, there is the need for clear and consistent plan of the marketing mix programs to enter and continue participation in the international markets. 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 [32].
The results also confirm that PD has a positive and significant impact on marketing strategy adaptation, validating H2. This hypothesis is consistent with the results of the other studies [6,15,20,33,34]. It can be argued that different perception level in different societies with different demographic characteristic requires marketing mix consistent with these properties. Therefore, managers ought to be aware of the impact that PD has on their strategic decisions.

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. It can be concluded that determining type and impact of each of factors of price, promotion, place and product in export position influences market development and strategic and economic goals. The results also indicate that exporters who adapt and adjust their marketing mix elements with their external customers’ needs has better export performance than exporters who employ more standard marketing strategies. This hypothesis is consistent with the results of the other studies [19,20,27,35,36].

The results also indicate that the export market orientation has a positive impact on adapted marketing mix strategy in foreign markets that confirms H4. It could be argued that recognition of declared and undeclared customers and market needs and create a new corporate culture to provide superior value for the customer, causes drastic changes, especially in product adapted marketing mix elements. This result is also consistent with other studies [5,7,37-39].

The findings also show that EMO plays a key role in the success of foreign trade operations. Thus, if the exporting company orients itself toward foreign clients, monitors competitors’ practices and uses a strong cross-functional coordination on the basis of export market intelligence; the company then improves exporter performance. So, paying attention to the today’s needs and demands can be determinant for the organization achieving its goals, as previous studies point out [3,4,26,40,41].

However, the main role of EMO in export activity is as a moderator, as previous studies point out [31,42,43]. 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. These findings confirmed H6. Therefore, the organizations ability to identify declared and undeclared needs and create superior value for customers can influence on the marketing 4Ps impact in export. This result is also consistent with previous studies [31,43–46].

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 interrelationships between external environment, PD, strategic behavior and EP. Furthermore, this work shows how these relationships may vary depending on EMO.

Managerial implications

This study has several significant implications for managers to make systemic decisions for their company’s export activities. 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. Fast pace of change in technology requires increasing research and development to provide better and newer products. 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.

Export oriented companies periodically review the export environment in terms of the demand structures (growth rate, market turbulence and buyer power), the supply structure (technological turbulence and supplier power) and the competition structure (the competition intensity and entry / exit barriers). Deploying a specialized team in order for continuous visits of export markets and investigating structures and survey of consumers and distribution channels, at least once a year, examine the expedient changes in the marketing mix according to the target market, in terms of export products, changes in competitive price, distribution system, the cost and type of advertising. Also, organizing the valuer groups that constantly review market can lead to the correct pricing, especially in turbulent markets.

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.

Limitations and Future 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. This information comes from a certain time period and the results may be different at other times. Therefore, studies at another time intervals, as well as long-term studies to analyze the relationships between the external environment, psychological distance, export orientation and export performance is recommended. Also, this study has been conducted only on a small population and a single country and more companies in a larger geographical area should be included in future research so we can generalize the results. Finally, the potential impact of the other factors in this study is ignored that could be examined in future studies. For example, the quality of relationships with international distributors, evaluating the quality of relationships with customers in shaping the marketing mix, identifying and developing strategies to...
reduce the products psychological distance for foreign customers and the developing and recognition of the methods of making companies market-oriented.

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