

EVALUATING THE ROLE OF MARKETING CAPABILITIES AND EXPORT SUCCESS: AN INVESTIGATION OF THAI AGRO-BASED SME'S

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ABSTRACT

Factors explaining export success has received great attention among researchers in the export marketing field. This study focuses on the relationship between marketing capability and export success among SMEs in Thailand exporting the agro-based sector. Factor analysis was performed on sixteen items describing marketing capability and four factors were extracted. They were labeled as product capability, distribution capability, price capability and promotion capability. The measures of export success comprised two items: perceived export success, and achievement of export objectives. The findings showed that among four dimensions of marketing capability, only price capability and promotion capability were statistically significant and positively associated with export success. The product capability was also statistically significant but shows a negative association. However, distribution capability of marketing capability was not associated with export success. The results appear to concur with some of the previous studies conducted in other developing nations.

KEYWORDS : Marketing capabilities, Export success, SME's, Thailand.

บทคัดย่อ

การวิจัยในครั้งนี้เป็นการศึกษาความสัมพันธ์ระหว่างความสามารถทางการตลาด และความสำเร็จทางด้านการส่งออกของผู้ส่งออกชาวไทยที่เป็นผู้ประกอบการธุรกิจขนาดกลางและขนาดย่อม หรือ SME ในกลุ่มธุรกิจด้านการเกษตร การศึกษาครั้งนี้ใช้การวิเคราะห์ปัจจัยในการวิเคราะห์กลุ่มของตัวแปรทางด้านความสามารถทางการตลาด ซึ่งผลการวิเคราะห์สามารถแบ่งกลุ่มตัวแปรออกได้เป็น 4 กลุ่มประกอบไปด้วย ตัวแปรความสามารถทางด้านผลิตภัณฑ์ ตัวแปรความสามารถทางด้านราคา ตัวแปรความสามารถทางด้านช่องทางการจัดจำหน่าย และตัวแปรความสามารถทางด้านการส่งเสริมการตลาด ในการวิเคราะห์ทางสถิติผู้วิจัยทำการควบคุมตัวแปร 2 ตัวประกอบไปด้วย ประสบการณ์ทางการส่งออกของผู้ส่งออก และการมีหน่วยงานทางด้านการส่งออกของผู้ประกอบการ ซึ่งตัวแปรดังกล่าวจะมีผลต่อความสามารถทางการตลาดที่แตกต่างกันของผู้ประกอบการธุรกิจขนาดกลางและขนาดย่อมในการส่งออกสินค้าไปจำหน่ายในต่างประเทศ ผลจากการศึกษาพบว่าความสามารถทางการตลาดโดยเฉพาะอย่างยิ่ง การกำหนดราคาเพื่อการส่งออกที่เหมาะสมและการกำหนดเงื่อนไขทางการค้า รวมถึงความสามารถทางด้านการส่งเสริมการตลาด ทางด้านการจัดแสดงสินค้าและการจัดกิจกรรมการส่งเสริมการขายในตลาดต่างประเทศมีอิทธิพลอย่างยิ่งต่อความสำเร็จทางด้านการส่งออกของผู้ประกอบการธุรกิจขนาดกลางและขนาดย่อมของไทย ในส่วนของความสามารถทางด้านช่องทางการจัดจำหน่ายผลการศึกษาพบว่า ไม่มีอิทธิพลต่อการความสำเร็จทางการส่งออกอย่างมีนัยสำคัญของการศึกษาในครั้งนี้

คำสำคัญ : ความสามารถทางการตลาด ความสำเร็จในการส่งออก ธุรกิจขนาดกลางและขนาดย่อม ประเทศไทย

1. INTRODUCTION

With the growing trend of globalization, international marketing is becoming increasingly important. With exporters have limitless choices in the world market; they are faced with the challenge to apply appropriate marketing strategies in international market. Thai's economy and the economic development of the country are very much dependent on international trade. The economic growth of Thailand depends on internal and external factors. With Thailand's economy being dependent on importers from developed countries, any economic slowdown that affects those countries directly affects Thailand. During the economic crisis of 1997 the agricultural sector became the impetus for Thailand's economics revival. With 46% of the Thai population working in the agricultural sector (Office of Agricultural Economics, Thailand) it could also support the unemployed from the industries and services sectors to work in the agricultural sector. However, during the

economic downturn, some established Thai's SMEs in the agricultural sector with good managerial practices were able to survive and sustain growth. Many Thai's SMEs failed due to poor decision-making and flawed practices on their marketing strategies in the export market. In 2009, SMEs in Thailand accounted for about 34% of the manufacturing GDP. In terms of exports, the share of SME exports to total exports was 29% (Department of Export Promotion, Thailand).

The capability in planning and implementing a marketing program that aims to create customer value is one of the keys to success in not only domestic but also in international markets. Marketing has its roots in the advanced industrialized nations. This explains the dominance of SMEs from these nations in markets across the globe. The catch-up game by SMEs from newly industrializing nations has posed new challenges in marketing at the international level. As a nation Thailand is aggressively promoting its products in

international markets. The economic growth is dependent on the ability of firms at the micro level to compete with SMEs from other newly industrializing nations for a slice of the global trade. Regarding the existence of sunk costs to entering international market implies that small and medium sized enterprises (SMEs) face greater limitations to be successful exporters (Bernard and Jensen 1999). Julian and O'Cass (2002); and Julian (2003) indicated that marketing capability is key success in international market. This study is undertaken to assess the marketing capability of Thai's exporters in agro-based SMEs and its relationship with export success in international markets. Therefore, the relationships between marketing capability and export success need to be investigated further.

2. LITERATURE REVIEW

The ability to exploit international opportunities is dependent on the firm's possession of valuable resources and competencies (Barney 1991). Daft (1983), the resource-based view is the concept of "enterprise resource". These include the assets, skill, capabilities, organizational processes, attributes, information or knowledge that is under an enterprise's control and that can be used to develop competitive strategies. The resource based theory of strategy linking between the resources and capabilities available to an organization and their impact on strategic options (Bretherton and Chaston 2005). Grant (1991), resource-based view suggests that the ability to make a rate of profit above the cost of capital depends on both the industry attractiveness and on the corporation of supportable competitive advantage. There are two related types of resources that are necessary for creating competitive advantage namely assets and capabilities (Day, 1994). The one of capability as a marketing is the foundation

of the firm's competitive advantage (Cavusgil and Zou 1994; Zou and Stan 1998; Guenzi and Troilo 2006). Capabilities in implementing marketing activities are equally crucial in the firm's venture into international markets. Thai's exporters should indicate the level of market capability is very important for successful in export marketing performance (Julian and O'Cass 2002; and Julian 2003).

Marketing Capability

Vorhies (1998), meaning of marketing capabilities as the integrative processes designed to apply collective knowledge, skills and resources of the firm to market-related needs of the business, enabling the business to add value to its goods and services, adapt to market conditions, take advantage of market opportunities and meet competitive threats. The marketing capability is an important in a business firms, its contribution to the firm's performance (Fahy 2000). The integrative review of export literature concluded that export marketing strategy can indeed determine export success. The previous study, Leonidou, Katsikeas and Samiee (2002), found that market segmentation, product quality, pricing strategy, dealer support, and advertising were significantly associated with export performance. The importance of marketing is also provide in studies involving small and medium-sized (SMEs) exporting firms. The previous studies in Greek manufacturing exporting SMEs found the dimensions of marketing capability in term of distribution network capability and promotion effort capability are significant contributions to the firm's export performance (Katsikeas, Piercy and Ioannidis 1996). Export success of UK SMEs in the agro-food sector is attributed to their marketing capabilities (Ibeh, Ibrahim and Panayides 2006). In addition to marketing capability is positively associated with export venture performance in Turkish SMEs (Zehir, Acar and Tanverdi 2006). Thus, the relationship

of marketing capability and export success need to further investigation in this study. We lead to following hypothesis:

Hypothesis 1: Marketing capability has a positive relationship with export success.

Product Capability. Previous studies have investigated the importance of product in export market found that product capability to be correlated with export performance (Leonidou, Katsikeas and Samiee 2002). Evidence from Malaysia shows that successful exporter are more planning oriented, emphasized product quality improvement and adaptation capability to manage product-mix, ability to target and segment the market, and manage the export process (Osman, Ramayah and Kim-soon 2008). In addition, Evidence from Indonesia exporting firms' product management capability has been identified to explain the performance (Sefnedi, Osman and Daing 2007). Evidence from Thailand firms by Ratanasithi, Hemphill and Geursen (2006), shows that there is positive association between product adaptation capability and export performance. According to Ibeh, Ibrahim and Panayides (2006), found that marketing capabilities - product capability is important for international market success in agro-products. On the other hand, the previous studies from Kaynak and Kuan (1993); Schroder, Banzon, and Mavondo (2001) found that product adaptation strategy has negative effects to export performance. Thus, the relationship of product capability and export success need to further investigation in this study. Based on the above discussion, we lead to following hypothesis:

H1a: Product capability has a positive relationship with export success.

Distribution Capability. Leonidou, Katsikeas and Samiee (2002), meaning of distribution capabilities includes direct channel, channel relationship, distribution adaptation, and delivery time. Previous studies Zou, Fang and Zhao (2003), distribution capabilities such as retaining the best distributor, satisfying the needs of the distributor, and providing high levels of support, are found to produce a positive relationship between export distribution and export performance. Evidence from Greek exporting firms Katsikeas, Piercy and Ioannidis (1996), distribution network capability has a positive significant with export performance. Evidence from Taiwan by Tsai and Shih (2004), shows that distribution capability have a significantly influence business performance. Ibeh, Ibrahim and Panayides (2006), found that distribution capability is important for international market success in agro-products. However, the previous studies in ASEAN countries found that distribution competency does not significantly influence export performance (Kim-soon 2004; Gluma 2005; Sefnedi, Osman and Daing 2007). Thus, the relationship of distribution capability and export success need to further investigation. Based on the above discussion, we lead to following hypothesis:

H1b: Distribution capability has a positive relationship with export success.

Price Capability. The previous studies price competency is statistically significant predictors of the firm's export performance (Zou, Fang and Zhao 2003; Tsai and Shih 2004; Ibeh, Ibrahim and Panayides 2006). The positive association between capability in managing price and export performance appear to concur with

the generally held view that the competitiveness of export from newly industrializing nations is price factor (Sefnedi, Osman and Daing 2007). Pricing capabilities in term of price adaptation and ability to offer lower prices such as penetration pricing strategy positively correlated with the export performance (Leonidou, Katsikeas and Samiee 2002). This study price capability included deciding the appropriate export price level, negotiating terms and conditions of sales are strategic to export performance. Thus, in Thai agro-based exporting firms the relationship of price capability and export success is need to further investigation in this study. We lead to following hypothesis:

H1c: Price capability has a positive relationship with export success.

Promotion Capability. The capability in managing promotion is the factor that contributes to the higher in export performance. This lends support to Leonidou, Katsikeas and Samiee (2002); Zou, Fang and Zhao (2003); Francis and Collins-Dodd (2004); and Shamsuddoha and Ali (2006), found that promotion capabilities including; advertising, sales promotion, personnel selling, and promotion adaptation have a strong positive relationship with export performance. The studies of Tsai and Shih (2004); Ibeh, Ibrahim and Panayides (2006), found that promotion capability is an important influential explanation for success in international market. Among Indonesian exporters, promotion competency is not crucial in explaining the variation in export performance (Sefnedi, Osman and Daing 2007). Thus, the relationship of promotion capability and export success need to further investigation in this study. Based on the above discussion, we lead to following hypothesis:

H1d: Promotion capability has a positive relationship with export success.

Based on the literature review, this study seeks to answer the following research questions, which marketing capability contribute to export success of Thai's SMEs in the agro-based sector? These relationships are presenting in Figure 1.

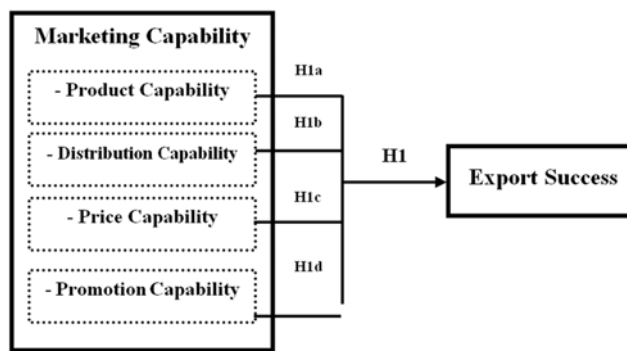


Figure 1 Conceptual Framework

3. METHODOLOGY

This is a cross-sectional study using mail survey. The highly structured survey instruments were mailed to managers in agro-based manufacturing exporting firms listed in Exporter Directory of Department of Export Promotion (DEP) Thailand. The sample consisted of Thai firms. The questionnaire was mailed to a sample of 950 Thai firms and the response rate was an acceptable 15.26 % (113 responses). As the interest was in SMEs only, firms that had 200 employees or less were included in the sample. The data analysis of this study focuses on 88 SMEs in Thai agro-based. This is an acceptable number in accordance to the general rule established by Hair et al., (2006). The profile of firms participating in this survey is presented in Table 1.

Table 1 General Characteristics of the Respondents (n = 88)

Demographic	Categories	Respondents	Percentage
Product Category	1. Cereals Products	19	21.6
	2. Live plant/ Fresh Products	10	11.4
	3. Canned/ Food in Containers	18	20.5
	4. Chilled/ Frozen Products	9	10.2
	5. Dried/ Dehydrate	20	22.5
	6. Semi-process Foods Products	12	13.7
Export Experience	1. New Exporter (<= 7 years)	45	51.1
	2. More Experience (> 7 years)	43	48.9
Existence of Separate Export Department	1. Yes	6	70.5
	2. No	26	29.5

The instrument contained items identified by the literature intended to measure marketing capability and export success. Marketing capability is defined as integrative processes designed to apply the collective knowledge, skills, and resources of the firm to the market related needs of the business, enabling the business to add value to its goods and services and meet competitive advantage mix elements of product, distribution, price, and promotion. In this study, reviews of previous studies the measurements of marketing capability were adopted from Katsikeas, Piercy and Ioannidis (1996); Guan and Ma (2003); Kim-soon (2004); Sefnedi, Osman and Daing (2007). The respondents were requested to rate the level of each capability on a 5-point Likert scale ranging from 1 = major disadvantage, to 5 = major advantage compared to main competitors in the export market. Furthermore, the response to export success measure are also solicited on a 5-point Likert scale ranging from 1 = not at all satisfied, to 5 = very satisfied were adopted from Shamsuddoha and Ali (2006).

4. Data Analysis

Goodness of Measures. The procedures for testing the goodness of measures must be utilized prior to any analysis which includes factor, validity and reliability analysis. Factor analysis was performed on the 16 items of marketing capability. This study performed factor analysis using principle components and varimax rotation technique that are presented in Table 2.

Marketing Capability. The 16 items describing marketing capability was subjected to factor analysis. In this study, factor loading is .50 and higher are considered practically significant (Hair et al., 2006). There are 5 items consists of "skill in communication with foreign distributors", "on-time delivery of export products", "skill in communicating with visitors at international trade fairs", "knowledge of target market", and "knowledge of foreign business culture" that are cross loading were dropped in the rerun factor analysis. The result of the final run factor analysis is analysis on the 11 items measuring of marketing capability. In addition, this study evaluated reliability by assessing the internal consistency of the items representing

Table 2 Factor and Reliability Analyses of Marketing Capability

Dimensions of Marketing Capability	Factor Loading			
	Factor 1	Factor 2	Factor 3	Factor 4
Factor 1 (Product Capability) Adopted from Katsikeas, Piercy and Ioannidis (1996)				
1. Product positioning	.81			
2. Differentiate export product offering	.76			
3. Designing product packaging	.74			
4. Adapting products to export market requirement	.66			
Factor 2 (Distribution Capability) Adopted from Guan and Ma (2003)				
1. Knowledge of legal aspects of marketing in foreign market		.85		
2. Managing distribution network		.74		
3. Identifying appropriate distribution channels		.70		
Factor 3 (Price Capability) Adopted from Sefnedi, Osman and Daing (2007)				
1. Negotiation term and conditions of sales			.80	
2. Deciding the appropriate export price level			.67	
Factor 4 (Promotion Capability) Adopted from Kim-soon (2004)				
1. Trade promotion support to oversea market				.83
2. Managing export sales promotion of activity				.75
Eigen-Value	5.98	1.63	1.10	1.00
Percentage Variance Explained	21.83	20.65	19.20	13.22
Mean Values	3.21	2.86	3.07	2.71
(Std. Deviation)	(0.78)	(0.88)	(0.76)	(0.79)
Reliability (alpha)	.83	.83	.73	.71
Total Variance Explained	74.90			
Measure of Sampling Adequacy (KMO)	.79			
Barlett's Test of Sphericity Significant	.00			

each construct using Cronbach's alpha that has been widely used in many studies. Reliability estimates is between 0.6 and 0.7 which is considered an acceptable internal consistency (Hair et al., 2006).

Since, all the measurement items loaded on the appropriate construct validity. The construct validity test using for factor analysis, based on the rotated component matrix for four dimensions of marketing capabilities; factor 1 contained of 4 items has been labeled as "product capability", factor 2 contained of 3 items has been labeled as "distribution capability", factor 3 contained of 2 items has been labeled as "price capability", and factor 4 contained of 2 items has been labeled as "promotion capability". The factors met the selection criteria of Eigen-Values greater than 1.0. According to Campbell and Fiske (1959) convergent validity refers to all items measuring a construct actually loading on a single construct of all four dimensions. The overall total variance explained by these four dimensions of marketing capabilities factors is 74.90%. Measure of Sampling Adequacy (KMO) is .79.

The Cronbach's alpha for product capability is .83, for distribution capability is .83, for price capability is .73, and for promotion capability is .71 showing that there is internal consistency as a measurement instrument, and provide indicator of a model's construct validity are good (Hair et al., 2006). As shows in Table

2, the ranking of mean values shows that product capability is ranked highest with a mean value of 3.21 and is followed by price capability mean value is 3.07. Distribution capability and promotion capability are ranked third and fourth with a mean value of 2.86 and 2.71 respectively. Thus, we can conclude that the construct and convergent validity of these measures is valid.

Export Success. The responses to two items measuring export success are presented in Table 3. The mean value of the perceived export success is 2.49 besides the achievement of export objectives mean value is 2.48. The overall mean value of export success is 2.49 with a standard deviation is .96 that mean measuring is relative low in export success. Thai agro-based SMEs are rather modest in describing their export success.

Pearson's Correlation. In order to test the relationships among variables of the study, the Pearson's Correlation analysis was performed. The results of correlations summarized in Table 4. Three dimensions of marketing capability from distribution capability ($r = .33$, $p < .01$), price capability ($r = .49$, $p < .01$), and promotion capability ($r = .33$, $p < .01$) are positively and significantly correlated with export success. On the other hand, the product capability do not significantly correlated with export success.

Table 3 Mean and Standard Deviation of Export Success

Export Success Adopted from Shamsuddoha and Ali (2006)	Mean	Standard Deviation
Perceived export success	2.49	.99
Achievement of export objectives	2.48	1.00
Overall mean and S.D.	2.49	.96

5-point Likert scale from: 1 = not at all satisfied, to 5 = very satisfied

Table 4 Pearson's Correlation between Variables

Variables	1	2	3	4	5
1 Product capability	1				
2 Distribution capability	.50**	1			
3 Price capability	.54**	.56**	1		
4 Promotion capability	.48**	.51**	.48**	1	
5 Export success	.12	.33**	.49**	.33**	1

** p < .01, * p < .05

Table 5 Result of Multiple Regressions on the Relationship between Marketing Capabilities and Export Success

Variables	Export Success	
	Model 1	Model 2
Control Variables		
Export Experience	.23**	.10
Separate Export Department	-.35***	-.25**
Independent Variables (Marketing Capabilities)		
Product Capability		-.25**
Distribution capability		-.06
Price Capability		.45***
Promotion Capability		.27**
R^2	.19	.40
Adj. R^2	.17	.35
R^2 Change	.19	.21
F-Change	9.85***	6.62***

*** p < .01, ** p < .05, * p < .10

5. THE FINDINGS

The results of multiple regressions analysis on the relationship between marketing capability and export success are presented in Table 5. In the analysis, two variables (export experience and separate export department) were treated as control variables. Export experience is controlled because, Small and Medium-size firms (SMEs) with more export experience in foreign markets can also benefit from accumulating local market

knowledge and legitimacy, and developing local networks than new exporter (Ling-ye and Ogunmokun 2001; Yiu, Lau and Bruton 2007). Separate export department is controlled because SMEs will locate export department operation in knowledge-intensive so that they can tap into resources and knowledge that would without export department not be available in export market (Beamish et al., 1999; Kim-soon 2004).

In Model 1, export experience and separate export department which were treated as control variables were regressed on export success. The model is statistically significant and shows that 19% of export success is explained by control variables. In Model 2, the addition of the four dimensions of marketing capabilities has resulted in R^2 of 40%. This R^2 change of .21 is statistically significant ($p < .01$). It implies that the marketing capability explained 21% of the variation of export success. The significant F-statistics ($p < .01$) is suggesting that the proposed model is adequate. From the second regression model, it can be observed that price capability ($\beta = .45, p < .01$) and promotion capability ($\beta = .27, p < .05$) are statistically significant and has a positive relationship with export success while product capability ($\beta = -.25, p < .05$) is statistically significant but negatively related to export success. Conversely, the distribution capability does not significant relationship with export success. However, the findings of this study provided support for the hypothesis 1c and 1d because price capability and promotion capability have a positive significant related with export success. Further, the finding rejected hypothesis 1a because product capability has a negative significant related with export success while hypothesis 1b is also rejected because distribution capability do not significant related with export success.

6. DISCUSSIONS

One of the conditions to achieve superior export success is for SMEs to adopt a market driven approach in export activities. The findings of this study show that in terms of marketing capability, the SMEs in Thailand exporting the agro-based sector rated their capability in managing price and promotion. The results of data analysis are revealing. It appears that capability in managing product does not contribute positively to

export success. This lends support to Julian (2003) found that product adaptation have a negative significant with export performance in Thailand SMEs. In fact product differentiation, product design, product adaptation, and brand position do not give advantage with Thai SMEs, because product from SMEs is made to order form customer and buyer. The study finding have shows that manager of SMEs in Thailand exporting the agro-based sector should make effects to adapt their product to meet the needs of the local market to achieve success in the marketing performance of their export venture. Specifically, the culture-specificity of the firm's product, the degree of uniqueness of the firm's product and the extent of the patent enjoyed by the product all require management's attention. Firms venturing abroad must be capable of producing products that achieved certain standard set by the international buyers.

The study found that price capability included deciding the appropriate export price level, negotiating terms and conditions of sales, and on-time delivery are strategic to export success. This lends support to other findings that pricing is one of the success factors support to overseas markets, price adaptation in lower prices strategy that is penetration pricing strategy positively correlated with the export performance (Leonidou, Katsikeas and Samiee 2002; Tsai and Shih 2004). The findings on the positive association between pricing capability with export success appear to be consistent with Ibeh, Ibrahim and Panayides (2006) who found pricing capability are important in agro-food manufacturing SMEs firm.

The finding of this study found that promotion capability has a positive significant relationship with export success. Promotion capabilities including of advertising, sales promotion, personnel selling, and promotion adaptation were found to have a strong positive

relationship with export performance. The capability in managing promotion is the factor that contributes to the higher in export success. The positive relationship shows that firms that build its competitiveness based on its combined promotional efforts with its channel partners will register higher export success. The findings also appear to be consistent with Francis and Collins-Dodd (2004), export promotion had a positive impact on export performance. Promotion capability is an important influential explanation for success in international market (Tsai and Shih 2004; Ibeh, Ibrahim and Panayides 2006). The results of this study promotion capability in term of trade promotional support to oversea market and managing export sales promotion of activity influence the implementation of an effective export strategy to achieve a better performance in Thailand's manufacturing exporting firm.

The insignificance of channel capability could be due to the fact that the participating firms have established a strong working relationship with their networks overseas. The competitiveness has to be built around pricing issues and maintaining visibility in the market. The finding of the study lends support other findings in developing countries (Kim-soon 2004; Gluma 2005; Sefnedi, Osman and Daing 2007), distribution capability does not significantly influence export performance. The insignificant effect of distribution capability on export performance is that the tasks of distributing the products in Thai's SMEs are often the domain of their importers.

There is no doubt that the above findings on firm's marketing capabilities agree with much of the previous study in the literature. The resource-based view that international performance can be enhanced by the resource and capability bundles controlled by the firm, including how the firm uses these resources to seek

differential advantage in its target foreign market. However, the most important result of the present study is that marketing capability namely price capability and promotion capability are the key decision makings of marketing strategic of Thai's SMEs exporting processed agricultural products for competitive advantage in international market.

7. CONCLUSIONS

The findings of the study provide evidence on the importance of marketing capability to export success. The direct effect of price capability and promotion capability lead us to conclude that they are the sole basis of achieving export success. Managers who intend to expand their company's business horizon to international markets and increase the contribution of export success should take notice of the importance of upgrading their capability in managing pricing and promotion aspects. The study focused on the Thai's SMEs. in the agricultural sector and one of the major limitations of this study is the relatively small number of firms responding to the survey. Additionally the findings could not be generalized to other industries or the other countries.

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