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## Drivers of the Implementation of Strategies in Latin American Firms' Export Performance

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# **Drivers of the Implementation of Strategies in Latin American Firms' Export Performance**

## **ABSTRACT**

This study examines the relationships among competitive strategies (differentiation and cost-leadership), MO (market orientation), and export performance. We used a questionnaire survey of executives of manufacturing and service companies in Peru, Brazil, Mexico and Chile and employed a structural model equation to test the hypotheses and confirmatory factor analysis to develop the underlying multi-item constructs. We find that MO mediates the implementation of competitive strategies in export performance. Additionally, differentiation strategy have a greater impact on MO than cost strategy. We conclude with implications and future research.

**Key Works:** Emerging Markets, Competitive Advantage, Business Strategy, export performance, market orientation.

### **1. Introduction**

Competitive strategies, such as cost leadership and differentiation, are mostly employed in studies of implementation strategies for emerging economies as reflections of firm behaviors and strategic choices (Aulakh et al., 2000; Brenes et al., 2014; Gao et al., 2010; Parnell, 2008, 2010). Similarly, strategies directly affect the market orientation that is adopted by a company (Homburg et al., 2004; Kharabsheh et al., 2015; Voola & O'Cass, 2010; Wang & Ahmed, 2007). Market orientation is defined as strategic direction in the field of strategic management (Hakala, 2011). Market orientation is a key behavioral aspect that influences the implementation of firm strategy. However, capabilities (Gao et al., 2010; Morgan, Vorhies, & Mason, 2009), together

with company resources (Dhanaraj & Beamish, 2003; Murray, Gao, & Kotabe, 2011), are also necessary to substantiate the observed performance of a firm.

Our study is driven by one research question: What is the relationship among competitive strategies (differentiation and cost-leadership), responsive market orientation (RMO), proactive market orientation (PMO), and the export performance of firms, in the process of implementing competitive strategies? This paper will explain how company market orientation drivers (PMO or RMO), adopted strategies, affect the business export performance of Latin American firms. We collected primary data through 201 surveys of executives from exporting companies in Peru, Chile, Brazil and Mexico.

Our contribution to the strategy implementation literature is to evaluate the impact of drivers of international behavior, e.g., resource-based factors, across Latin American markets because of the limited research on export behavior in these markets (Bianchi & Wickramasekera, 2016; Brenes et al., 2014). Theoretically, we expect to shed light on the level of influence of internal behavioral factors and organizational capabilities on firm export performance using a multi-dimensional concept with a focus on financial, customer and product dimensions.

## **2. Theoretical framework**

The research on the implementation of strategy has determined the key factors that influence the implementation of competitive strategies in Latin America. Such factors include innovative capacity, marketing, operating skills and the quality of management (Brenes et al., 2008; Brenes, Montoya, & Ciravegna, 2014; Pillania & Kazmi, 2008). However, the research has only shown the antecedents and identified the operative factors, but it does not indicate the mechanism of the internal capabilities of MO (market orientation) during the implementation of competitiveness strategies and their impact on export performance.

We propose a framework to measure the heterogeneity of firm export performance (Aulakh et al., 2000) as a combination of drivers, competitive strategy, market orientation, capabilities, as shown in Figure 1.

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Insert Figure 1 about here  
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## **2.1. Drivers in the Implementation of the Competitive Strategy**

There is extensive research related to the conceptualization, definition and impact of market orientation on business performance (Connor, 2007; Hult, Ketchen, & Slater, 2005; Ketchen, Hult, & Slater, 2007). Market orientation represents a specific firm-level resource that enables organizations to identify requirements from the markets and develop other capabilities that connect an organization to its external environment (Ketchen et al., 2007). Firms that follow differentiation strategies emphasize the development of new and unique products and services (Brenes et al., 2014; Porter, 1985). Thus, differentiation strategies require a stronger market orientation to be realized compared to cost-based strategies. Based on the above literature, we hypothesize:

**H1:** Differentiation strategies have a greater impact on market orientation (RMO and PMO) than cost-based strategies.

Firms with an orientation towards markets have organizational characteristics that enable them to create value through the understanding of customer requirements, competitors and markets (Hakala, 2011) and they tend to be more adventurous in the international markets (Kaliappen & Hilman, 2014). While it is positive to have an orientation towards markets, some authors suggest that such orientation is responsive in nature (e.g., attempting to understand only the customers' expressed needs), which makes firms risk averse and more likely to ignore new

markets (Hult et al., 2005). This market orientation perspective is called reactive market orientation (RMO) (Voola & O'Cass, 2010). Narver, Slater, & MacLachlan (2000) refined the concept of market orientation and added a proactive dimension, which they called proactive market orientation (PMO), which suggests that a proactive stance will help a firm to understand and satisfy customers' latent needs. However, a highly proactive stance may incur additional costs without generating expected revenues.

**H2:** Market orientation (RMO, PMO) has a mediator role between competitive strategies and the export performance of companies.

### **3. Methodology**

#### **Sample and data collection**

Primary data was collected through surveys of executives from exporting companies in Peru, Chile, Brazil and Mexico, excluding subsidiaries of exporting companies operating in these countries. Prior to the implementation of the surveys, they were validated by interviews with four businessmen from different countries. For the administration of the survey, an online survey design was applied using the professional online survey software Survey Monkey. Online survey use is growing in business studies (Muñoz-Leiva, Sánchez-Fernández, Montoro-Ríos, & Ibáñez-Zapata, 2010), we employed a mail personalization strategy (Sánchez-Fernández, Muñoz-Leiva, & Montoro-Ríos, 2012) and high frequency contact (every 7 days) (Muñoz-Leiva et al., 2010). Data collection was also done through phone calls (with four telemarketers, via Skype) in coordination with exporters associations of the countries of our sample and through the network of MBA alumni of two business schools.

The size of the sample (201 observations) collected between 2012 and 2013 is significant for validation of hypotheses when using Structural Equations Modeling (SEM) and multiple regression for the data analysis (Hair, Black, Babin, & Anderson, 2013).

### **Data description**

Of the companies that completed the questionnaire, 45% were Mexican companies; 22% Peruvian companies; 21% Brazilian companies and 11% Chilean companies. Regarding the type of product exported: 37% of the total are durable goods manufacturing companies; 25%, non-durable goods manufacturing companies; 19%, agricultural and maritime foodstuffs companies and 19%, companies exporting services (logistics and consultancy). Table 1 summarizes the characteristics of the sample. An ANOVA factor test for the evaluation of non-response bias that considers only firms that responded completely and incompletely was applied (Muñoz-Leiva et al., 2010), We concluded that both samples were similar and there was no significant non-response bias.

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Insert Table 1 about here  
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### **Measurement of variables**

#### ***Dependent variable.***

Following the existing literature, “export performance” as a second order construct, consists of three factors: Financial, customer and product, as they have been used in previous research for emerging economies (Aulakh et al., 2000; Gao et al., 2010; Voola & O’Cass, 2010). See table 3.

#### ***Independent variables.***

We measured the degree of orientation of the strategy towards costs using factorial analysis, as it has been employed in previous research (Aulakh et al., 2000; Gao et al., 2010; Voola & O’Cass,

2010). Differentiation orientation indicates the degree of differentiation strategy of the company as employed by (Aulakh et al., 2000; Gao et al., 2010; Voola & O'Cass, 2010).

Reactive market orientation (RMO) and Proactive market orientation (PMO) are related to learning, organizational culture and innovation focused on the market as has been mentioned in previous investigations (Voola & O'Cass, 2010). The measurement of market orientation was based on previous validated scales (Voola & O'Cass, 2010) and consists of two constructs: market orientation reactively (five items) and proactively (four items). After processing the data and executing an EFA (Hair et al., 2013), these two factors were collapsed into one and defined as market orientation.

### ***Control variables***

Control variables follow the work of (Aulakh et al., 2000): country (Peru, Chile, Mexico and Brazil), line of business (agricultural / marine, services, manufacturing / non-durable and durable manufacturing), business type (B2B and B2C), product type (manufacturing and service), firm size (number of employees) and international experience (years of export to foreign markets). These control variables were included in our estimation but they didn't have a significant effect.

### **Assessment of measures**

Table 2, shows the descriptive statistics. The measure of export performance was positively and strongly correlated with the measures of independent variables; with significant correlation coefficients ranging from 0.32 to 0.86.

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Insert Table 2 about here  
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## **4. Results**



## **Mediation of Market Orientation**

First we will assess the mediator role of Market Orientation; afterwards, we will analyze the conditional indirect effects according to the structural model (Figure 1).

Within the framework proposed, we calculate the mediator effect of the Market Orientation first for each competitive strategy separately, for which three regressions are performed, as indicated by previous research on mediation (Preacher, Rucker, & Hayes, 2007), we note that for each of the strategies of market orientation exerts mediation between competitive strategies and export performance.

To evaluate the mediation effect simulating for both strategies we use a structural model (Preacher et al., 2007). The results of the structural model are presented in figure 1 and the overall goodness-of-fit indices show the adequacy of our proposal (Hair et al., 2013):  $\chi^2_{ms}(485) = 1081.06$ ,  $RMSEA = 0.08$ ,  $CFI = 0.86$ ,  $TLI = 0.85$ ,  $SRMR = 0.105$ ,  $CD = 0.99$ . The mediator effect is detected by analyzing the significance of the structural relations between the constructs (strategy and performance) and the mediator construct (market orientation) (Preacher et al., 2007).

To assess the degree of mediation of Market Orientation, we calculated the direct and indirect effects on export performance; In the case of the Differentiation leadership strategy, direct effect is 0.49 ( $p\text{-value} < 0.01$ ), the indirect effect 0.08 ( $p\text{-value} < 0.05$ ) and total effect 0.5704 ( $p\text{-value} < 0.01$ ); for the Cost leadership strategy, the direct effect is 0.00 ( $p\text{-value} < 0.01$ ), the indirect effect 0.05 ( $p\text{-value} < 0.1$ ), the total effect 0.05 ( $p\text{-value} < 0.1$ ).

## **Assessment of Hypotheses**

Hypothesis 1 states that differentiation strategies have greater impact on market orientation than cost-based strategies. As shown in Figure 1, the impact of the Differentiation Strategy on Market Orientation is considerably larger than Cost-Leadership Strategy. Therefore, a differentiation strategy requires that the firm develops not only a deep understanding of customers, that is, Reactive Market Orientation, but also needs a better understanding of their customer's latent needs, that is, Proactive Market Orientation (Rock & Ahmed, 2014; Voola & O'Cass, 2010).

Regarding Hypothesis 2, through individual and simultaneous analysis of competitive strategies, it is concluded that market orientation plays a mediating role between these strategies and export performance (Kaliappen & Hilman, 2014). More specifically, Market Orientation acts as a mediator in the relationship between Cost-Leadership Strategy and Performance: in order to provide value to the customers, firms need to understand how customers acquire and employ the product and then reduce its cost. Similarly, Reactive Market Orientation allows the firm to diminish their marketing budget and decrease the price of the product (Frambach, Prabhu, & Verhallen, 2003; Voola & O'Cass, 2010). Finally, for exporting companies in emerging economies with restrained access to resources, market orientation provides firms with important information about the cost structure of their competitors. In the same vein, the implementation of the strategy of differentiation through market orientation, have a greater impact than the strategy of cost over performance. This is because the implementation of a differentiation strategy allows us to offer products or services of a premium, more profitable type because they meet (actual and latent) customer needs (Homburg, Krohmer, & Workman, 2004).

In order to test the robustness of the mediating role of the market orientation between competitive strategies and export performance we replicated the SEM analyses by groups: by type of business and by destination country. Due to the size of the database when grouped by country of origin, by line of business and by type of product exported, we used an alternative: Conditional Process

Analyses (Hayes, 2013). These analyses allowed us to verify that the relationships of the structural model don't change significantly. Therefore we can conclude that the mediating role of market orientations is robust, results that reaffirm previous research (Dobni & Luffman, 2003; Kaliappen & Hilman, 2014).

## **5. Discussion and conclusions**

### **5.1. Theoretical contribution**

Our study focuses on export strategy implementation, i.e., the way in which the choice of export strategy is implemented, as well its drivers, and how it affects firm performance in emerging economies. For that purpose, we tested the following measurement scales: differentiation leadership, cost leadership, market orientation, and export performance in four developing countries: Peru, Chile, Mexico and Brazil.

Independently of the type of strategic choice for a firm, cost or differentiation, in the global market for exports, capacities and marketing assets acquire greater relevance due to the need to understand more precisely customers' requirements and to provide them with value (Bianchi & Wickramasekera, 2016; Brenes, Montoya, & Ciravegna, 2014; Cadogan et al., 2003; Kaynak & Kara, 2004). Market orientation is one of the assets (such as strategic orientation) that is understood as the culture inside an enterprise that enhances a firm's attention towards customers' needs in the implementation of the competitive strategies.

Additionally, we also found the type of product (manufacturing and services) is an important condition that affects export performance. In the case of firms that provide services, the link between market orientation and performance is larger in comparison to manufacturing firms: for a successful implementation of export strategy in services firms, having a deep understanding of the customer (person-to-person relationship) is more important than generating value in contrast to manufacturing firms (Cano, Carrillat, & Jaramillo, 2004).

## 5.2. Practical Implications

The validation of the model confirms that differentiation strategies generate a greater impact than cost-leadership strategies performance. This aspect is important for exporting firms in emerging economies, which are strongly oriented towards commodities exports and adopt a cost-leadership strategy because they can improve their performance if it is combined with a differentiation strategy.

Therefore, this study recommends that the manager of a cost leader exporting firm should simultaneously implement improvements in the quality of the product by increasing the investment in market orientation (preferably proactive) to the maximum extent that does not decrease operating revenues. This will enable firms to boost innovation activities, achieve competitive advantages and obtain higher performance. Additionally, when choosing the type of business in which a firm wants to invest, we would recommend a B2B type because they are more efficient when investing resources to increase market orientation, thus enabling them to provide customers with better service and achieve greater performance. Furthermore, in the implementation of both strategies, firms need to develop a market orientation.

Considering the type of product that is exported (services or manufacturing), the results suggest that service firms that invest in market orientation gain bigger profits than manufacturing firms; that is, for the same level of market orientation, the impact on performance is wider on service firms rather than manufacturing firms.

### 5.3.Limitations and future research

The size of the sample of firms was not large enough to conduct all of the structural assessments by groups and multiple countries. Subsequent studies can be carried out with larger samples that could lead to structural models identified by country. To control non-response bias, surveys can be conducted in different time periods and combine the data collection methods (in person and by e-mail), as well as increasing the number of invitations to participate in the survey (Muñoz-Leiva et al., 2010).

The previous research has demonstrated that the relationship between market orientation and performance constructs is highly sensitive to changes in the scale of measurement; even the change of a measurement scale is a moderating factor in this relationship (Kaynak & Kara, 2004). Therefore, we need to conduct further research that includes new scales of measurement for market orientation, such as MARKOR (market orientation scale) and EMO (export market orientation) as well as new performance constructs (objective and subjective measurements) (Kaynak & Kara, 2004).

From a theoretical point of view, it would be interesting to test the bidirectional relationship between market orientation and competitive strategies. According to the previous research (Dobni & Luffman, 2003; Ketchen et al., 2007), the alignment between these constructs could yield helpful insights into the optimal strategic position for each firm to successfully

address external turbulences (competitive intensity, market turbulence and technological turbulence).

Finally, with regard to the static model, new competitive strategies for exporting firms in emerging economies could be incorporated, such as market diversification and focalization in new market segments (Aulakh et al., 2000). Similarly, researchers can also add or combine the different strategic classifications of Miles and Snow (defender, prospector, analyzer and reactor) (Aulakh et al., 2000; DeSarbo et al., 2005).

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**Table 1.**  
**Descriptive statistics of the sample**

Characteristics	Peru	Chile	Mexico	Brazil
Industries	100.00% (45)	100.00% (23)	100.00% (91)	100.00% (42)
Agriculture and Fishing Sector	40.00% (18)	21.74% ( 5 )	15.38% (14)	4.76% ( 2 )
Services Sector	0.00% ( 0 )	21.74% ( 5 )	10.99% (10)	54.76% (23)
Manufacturing of durable goods	28.89% (13)	43.48% (10)	45.05% (41)	26.19% (11)
Manufacturing of non-durable goods	31.11% (14)	13.04% ( 3 )	28.57% (26)	14.29% ( 6 )
Type of Export Business				
Firms B2B	11.11% ( 5 )	60.87% (14)	39.56% (36)	71.43% (30)
Firms B2C	88.89% (40)	39.13% (9)	60.44% (55)	28.57% (12)
Export Destination				
Developed Economies	82.22% (37)	65.52% (15)	80.22% (73)	54.76% (23)
Developing Economies	17.78% ( 8 )	34.78% ( 8 )	19.78% (18)	45.24% (19)
Average				
Average number of employees in a firm	237.98	747.04	318.71	89.33
(S.D)	640.26	2048.81	758.11	184.22
Average number of firm's export experience	12.51	21.87	14.62	14.40
(S.D)	10.18	31.90	11.15	7.91

Absolute values are presented in parenthesis

S.D Standard Deviation

**Table 2.**  
**Matrix of median, standard deviation and correlation**

<b>Constructs</b>	<b>Media</b>	<b>S.D.</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
1 Export	0	0.65	1						
2 Cost	-0.01	0.91	0.6***	1					
3 Differentiation	-0.01	1.2	0.83***	0.69***	1				
4 Market	0	1.2	0.72***	0.58***	0.56*	1			
6 Operational	-0.01	0.95	0.83***	0.72***	0.75*	0.76**	0.75***	1	
7 Competitive	-0.01	0.95	0.42***	0.35***	0.25*	0.39**	0.55***	0.32**	1

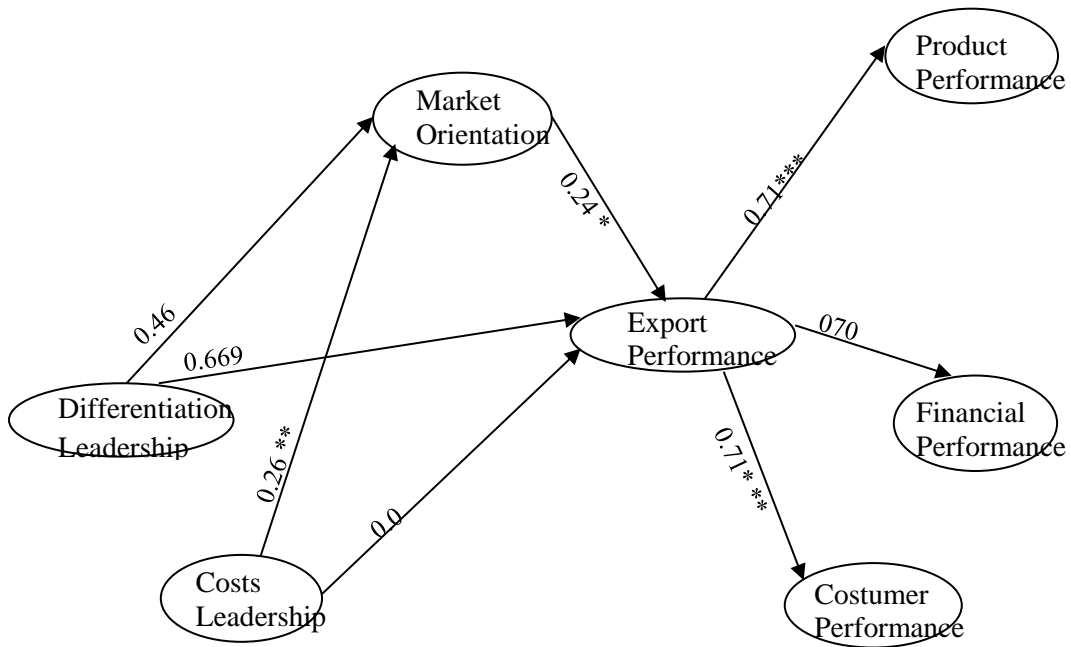
\*\*\*p<0.001,\*\*p<0.01,\*p<0.05

**Table 3.**  
**Construct Validity**

<b>Constructs</b>	<b>AVE</b>	<b>CR</b>	<b>Alpha</b>	<b>MSV</b>	<b>ASV</b>
Differentiation Leadership	0.54	0.77	0.76	0.34	0.23
Cost Leadership	0.41	0.65	0.66	0.34	0.24
Market	0.54	0.91	0.91	0.27	0.23
Product Performance	0.81	0.93	0.92	0.28	0.27
Financial Performance	0.62	0.91	0.91	0.29	0.28
Customer Performance	0.62	0.92	0.92	0.29	0.27
Export Performance	0.52	0.76	0.76		

**Figure 1.**

**Outputs Structural equations model, all samples. Terms in ellipses are factor names.**



Model fit	Chi2/gl	AIC	BIC	CFI	RMSEA	SRMR
Model	2.43	22152.19	22530.34	0.83	0.09	0.11

† p<0.10, \*p<0.05, \*\*p<0.01, \*\*\* p<0.001