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The Mediating Role of Competitive Strategies in the Effect of Firm Competencies and Export Performance

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Abstract

The objective of this research is to study the mediating role of competitive strategies in affecting the aspects of firm competencies such as production capability, marketing and sales capability and information competency, and export performance. A questionnaire was used for data collection which was randomly distributed among 200 of managers and export experts of top export companies in Iran. SMART PLS and SPSS software were used for the data analysis. The results of the data analysis showed that competitive strategies mediate the effect of production capability and export performance. However competitive strategies do not mediate the effect of marketing competency and export performance. The results of structural equation modeling show that the research model has a proper goodness-of-fit.

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Keywords: Organizational capabilities; Production capability; Marketing capability; Marketing and sales capabilities; Competitive capability; Competitive strategy; Export performance

1. Introduction

Currently, the development of non-oil exports is one of the most important strategies in the development of the country and it has always been emphasized in its economic development plans. Based on theoretical issues, international business growth plays a significant role in the development process of countries. Since the world business process is associated with the reduction of raw materials and non-oil exports are the only reliable source for national

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economic growth and revenue growth, non-oil exports should be considered a national necessity.

Undoubtedly, one of the fundamental characteristics of our economy is its strict adherence to crude oil exports and the significant fluctuations in their income will lead to a structural imbalance in different sectors. Moreover, the government's failure to achieve anticipated revenues from crude oil exports, not only affect the implementation of development and infrastructure projects, but also influence the future of the economy in a negative manner.

These days, export is one of the most important sources of revenue of every country, so, in some countries that the economy is dependent on just one product, the most important source of foreign exchange and revenue would be export. On one hand, export among countries has become a complex process these days and it requires long-term and accurate policies in order to constantly have the foreign market in hand. Therefore, export planning and foresight in this regard are necessary.

For economic development, governments have been forced to reform their production structure and since it is necessary to provide edible supplies, they pay a special attention to marketing and export promotion. In other words, they believe exporting is the best way to overcome economic difficulties. They say export promotion is an important factor of economic development, because an access to foreign markets will provide an opportunity to take advantage of full potential gain from economies of scale. As a result, production costs will be reduced and domestic consumer interests will be provided.

Therefore, the purpose of this research is to study and analyze the effects of the dimensions of firm competencies such as production competency, marketing and sales capability, information competency, and competitiveness and export performance on export performance. Eventually, some appropriate strategies for such exporters and companies will be offered so they could employ them in order to be more successful or have continued success, and then, improve their export performance.

2. Related literature review and hypothesis development

Kabagambe (2011) had a research regarding small and medium-sized enterprises in Uganda and he suggested that firm competencies have a positive impact on export performance. O'Cass (2003) proved that firm competencies have a positive effect on export marketing performance.

2.1. Firm competencies

Although firm competencies do not have any systematic framework, several studies have tied the export performance to firm competencies. These capabilities facilitate the conversion of organizational resources into value creation for export markets. The theory of firm competencies is related to the theory of resource-based view, in which firms are seen as a specific set of resources and competencies. (LaPatterson, 2005) Hence, specific export performance specifies the position of added capabilities in discovering, creating, and delivering value to customers in export markets. (Morgan, 2004)

La, et al (2005) stated that internal resources such as capabilities, affect procedures concerning organizational competition and performance more than industry factors. A review on the literature of export market suggests that production, information, marketing and sales competencies are the themes of firms' export capabilities. (Morgan, 2004) These capabilities will be determined through their role in the process of delivering value to customers in the production of goods that are value, construction, and delivery; Ritter proposed them in 2006.

2.2. Production competencies

Production competencies involve a portfolio of skills related to new product development or modification of existing products. (Day, 1994) The development of production capabilities is also related to the dependence of skills on new methods and ideas in the process of production and manufacturing. In terms of exports, the production capabilities enable the organization to develop, integrate, convert resources, and create value in export market. (Morgan, 2004) This indicates that production competencies help organizations to achieve the level of market demand, rapidly develop their products to meet export orders and export functions, and to have available opportunities.

Identically, Rauch et al (2009) emphasized the importance of production capabilities, especially in terms of

increased competition, rapid changes of customers' needs and demands, and short lifecycle of production. They said that organizations under the above conditions need to be able to adjust their production to market needs. Cavusgil (1994) realized that production capability has a positive and significant effect on strategic export performance. Accordingly, the following hypotheses are suggested:

- H1: Competitive strategies mediate the effect of production competencies on financial export performance
- H2: Competitive strategies mediate the effect of production competencies on strategic export performance

2.3. *Marketing and sales competencies*

The literature of the issue shows a significant relationship between export performance and marketing and sales capabilities. This community is made based on Ritter's perception of marketing as a critical combination in the process of value creation for customers in firms. According to this perspective, it is reasonable to guess that export growth, profitability, market share, etc. are more depend on the ability of the exporters in visualization, planning, and implementation and control of marketing and sales efforts than the competition itself.

In consideration of the above issue, prior studies have proved some capabilities in the field of marketing and sales competencies. Notable instances of them are: marketing planning, market analysis, focused marketing, the ability to obtain information, managing the distribution and the development of communications in foreign markets, research and observation, pricing, distribution, and practicing personal marketing. (Cavusgil, 1994 and Kuppasamy, 2008). Due to limited availability of clear empirically demonstrated findings, it is considered appropriate to propose that:

- H3: Competitive strategies mediate the effect of marketing and sales competencies on financial export performance
- H4: Competitive strategies mediate the effect of marketing and sales competencies on strategic export performance

2.4. *Information competencies*

Information competency is a portfolio of capabilities that enables the exporter to collect, analyze, and interpret important information of markets. (Piercy, 1978) Market information, either objective (obtained through formal market research) or experimental (because of the operations of foreign markets) are closely linked with export performance. (Andersen, 1989) Organizations are tend to the development of a positive perception of export opportunities through a lot of information about customers, competitors, marketing practices (such as required productions, pricing system, and promotion and distribution practices), and natural environment. Conversely, inexperienced exporters often face considerable uncertainty that irrelevantly influence their imaginations relative to potential risks or return to foreign markets. (Elango, 2007)

This perspective is consistent with the theory of Julien and Ramangalahy that says most of SMEs do not strive and avoid confronting international markets. However, some of them limit their international operations due to their poor control on these activities; it is mostly due to lack or absence of information. Toften (2005) discovered empirical evidence that suggest a positive and important impact of information skills (generation, interpretation, and operation) on the profitability of exports. A similar discovery by Peircy et al was reported in 1998. In which, information skills approved a distinction between strong and weak export performances. However, due to the complex nature and structure of information capabilities and lack of available experimental results (LaPatterson, 2005), after a little while, it seems necessary to examine these relationships. Afterwards, Ritter (2006) stated that when exporting is not based on competition and competency, the risks that exporters have taken, will cause some demands that cannot be satisfied. Such evidence refer to the combined effect of firm capabilities on export performance that must be more effective than the influence of unique and distinct capabilities. Therefore, following hypotheses are suggested:

- H5: Competitive strategies mediate the effect of Informational competencies on the financial export performance
- H6: Competitive strategies mediate the effect of Informational competencies on the strategic export performance

3. Research Model

Fig 1 illustrates Research framework.

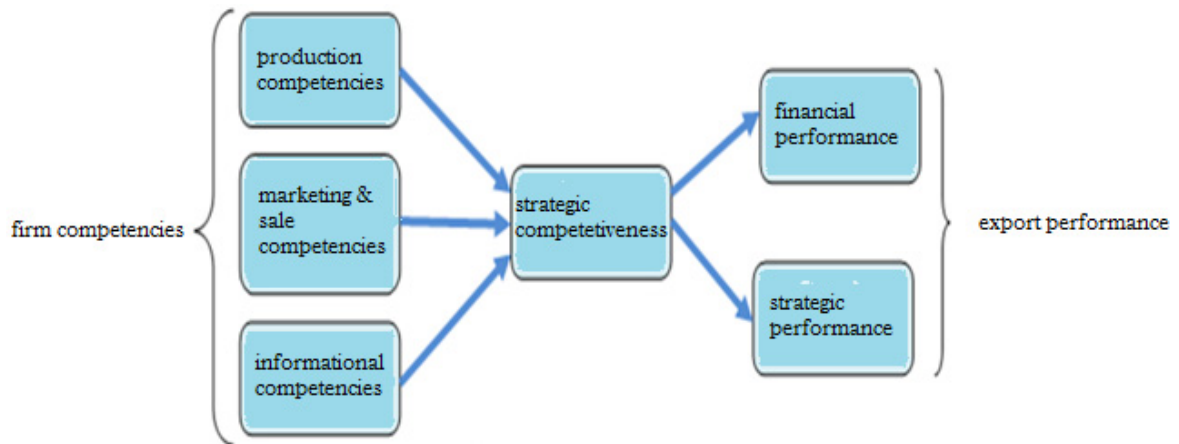


Fig 1. Research framework

4. Research Methodology

The framework used in this study is given in Fig. 1. As explained earlier, there are six constructs in this framework: 'production competencies', 'marketing and sale competencies', and 'informational competencies' are independent constructs, 'strategic competencies' is a mediating construct, and 'financial performance' and 'strategic performance' are dependent constructs.

4.1. Research instrument

In this research, a questionnaire was used for data collection. The questionnaire contains 44 questions in two parts, the first part includes 7 questions about demographic data of respondents and the second part includes 37 questions that are designed based on 5-point Likert scales. The questions of the second part are derived from authentic papers of Levi Bategeka Kabagambe (2011), Janet Y. Murray (2010), Shaoming Zou (1997), Soo Wook Kim (2007), and Neil A. Morgan (2007). Once the questionnaire was designed, its validity and reliability were measured.

4.2. Data collection

The respondents of the mentioned questionnaires were senior managers and experts of national top export companies in Iran in 2014. These questionnaires were distributed among 200 people and 150 of them that were fully and accurately completed, were used.

4.3. Measurement, reliability and validity of scales

The results suggest the Cronbach's alpha of all the research variables has an acceptable reliability and it is more than 0.70. The Cronbach's alpha of the variable of firm competencies is 0.90, competitive strategies are 0.79, and export performance is 0.82. Since the questions of the questionnaire were extracted in consultation with experts from authentic articles, they have proper reliability or validity.

4.3.1. Production capability scale

Production capability was measured by factors including quality control process, the development of new products, and range of products, developing products according to customer specifications, product quality, product uniqueness, and warranty and service arrangements. (Kabagambe, 2012)

4.3.2. *Marketing and sales capability scale*

Marketing and sales capability were measured by factors including export pricing abilities, managing export distribution channels, abilities in managing export marketing communications, capabilities of the firm’s export sales force, export market research skills, export marketing planning skills, and export marketing implementation skills. (Kabagambe, 2012)

4.3.3. *Information capability scale*

Information capability was measured based on factors such as understanding overseas customer requirements, establishing and maintaining close supplier relationships, establishing and maintaining close overseas distributor relationships, identification of prospective customers, capturing important market information, acquiring export-market related information, making contact in the export market, and monitoring competitive products in the export market. (Kabagambe, 2012)

4.3.4. *Strategic competitiveness scale*

Competition refers to the rapid changes of a business in which the position of the organization is strongly against other organizations and it looks for a method to destroy the competitive advantage of industry leaders. Fundamental forces that lead to the formation of competitive strategy are increasing customer expectations, technological revolution, and the elimination of barriers to market entry. (Lahiri, 2008) These are an important category of strategies that are located between levels of business strategy and operational strategies; they are known as business strategies. These strategies focus on how to gain competitive advantage and corporate objectives. (Day, 1994) In this research, strategic competitiveness was measured based on three factors including cost leadership, marketing differentiation, and service differentiation. (Morgan et.al, 2004)

4.3.5. *Export performance scale*

Export performance is the extent to which the organization's objectives (strategic goals and economic goals) for exporting a product through the design and implementation of export marketing strategies could be fulfilled. (Cavusgil, 1994) In this research, export performance was measured by financial export performance and strategic export performance. (Levi Bategeka Kabagambe, 2012) Strategic export performance was measured through improving competition at the international level, strengthening the strategic position, and increasing global market share. Financial export performance was measured through profitability, increasing sale share, and having access to rapid growth. (Murray, 2011).(Table 1)

Table 1. Constructs, items and alpha value results

Prior research	Items	# of Items	Construct (Cronbach)
Kabagambe, et al (2012)	1. Quality control process	7	Production competencies (0.89)
	2. Development of new products for export customers		
	3. Range of products offered on the export market		
	4. Developing products according to customers specifications		
	5. Product quality		
	6. Product uniqueness		
	7. Warranty and service arrangements		

Kabagambe, et al (2012)	<ol style="list-style-type: none"> 1. Export pricing abilities 2. Managing export distribution channels 3. Abilities in managing export marketing communications 4. Capabilities of the firm's export sales force 5. Export market research skills 6. Export marketing planning skills 7. Export marketing implementation skills 	7	Sale and marketing competencies (0.82)
Kabagambe, et al (2012)	<ol style="list-style-type: none"> 1. Understanding overseas customer requirements 2. Establishing and maintaining close supplier relationships 3. Establishing and maintaining close overseas distributor relationships 4. Identification of prospective customers 5. Capturing important market information 6. Acquiring export-market related information 7. Making contact in the export market 8. Monitoring competitive products in the export market 	8	Informational Competencies (0.81)
Morgan, et al (2004)	<p>A. Cost Leadership</p> <ol style="list-style-type: none"> 1-Improving production/operating efficiency 2-Maintaining experienced and trained personnel <p>B. Marketing Differentiation</p> <ol style="list-style-type: none"> 3-Adopting innovative manufacturing methods and/or technologies 4-Improving/maintaining advertising and promotion 5-Building brand identification in the export venture market 6-Adopting new/innovative marketing techniques and methods <p>C. Service Differentiation</p> <ol style="list-style-type: none"> 7-Achieving/maintaining quick product delivery 8-Achieving/maintaining prompt response to customer orders 9-Offering extensive customer service 	9	Strategic Competitiveness (0.79)
Murray. et al (2010)	<ol style="list-style-type: none"> 1. Exporting has improved the firm's international competitiveness 2. Exporting has strengthened the firm's strategic position 3. Exporting has significantly increased the firm's international market share 	3	Strategic export performance (0.75)
Murray. et al (2010)	<ol style="list-style-type: none"> 1. Overall, exporting has been very profitable for this firm 2. Through exporting, the firm has generated a high volume of sales 3. The firm's exports have achieved rapid growth 	3	Financial Export Performance (0.71)

5. Results

5.1. Hypothesis testing

In this research, SPSS 22 and Smart PLS 2 software were used for the data analysis. The validity of the questionnaire was measured through confirmatory factor analysis, load assessment procedure, and average variance extracted. The reliability of the research method was measured through inner harmony between parts and Cronbach's alpha value assessment. In analytical findings and hypothesis testing part, structural equation modeling, Spearman correlation test, and Friedman test were employed. The maximum level of alpha error for the hypothesis testing was considered 0.05 ($P \geq 0.05$). Researchers have cited many reasons for the use of PLS. The main reason is the superiority of this method for small samples. Another reason is non-normal data that researchers deal with them in some studies. Finally, the last reason for using this method is measurement models for manufacturing. Measurement of mediation was executed by two regressions following the recommendations of Baron and Kenny (1986). In order to test mediation, first it is required that all three variables should be significantly correlated with each other (Baron and Kenny, 1986). The correlations between various constructs are given in Table 2.

Table 2. Correlation coefficients between various constructs

	Mean	Standard deviation	Production competencies	Marketing & sale competencies	Informational Competencies	Strategic Competitiveness	Financial Export Performance
Production competencies	4.04	0.63					
Marketing & sale competencies	3.46	0.79	0.58**				
Informational Competencies	3.35	1.05	0.47**	0.44**			
Strategic Competitiveness	3.45	0.71	0.32**	0.52**	0.29**		
Financial Export Performance	3.78	0.69	0.53**	0.48**	0.15*	0.63**	
Strategic export performance	3.62	0.63	0.29**	0.47**	0.42**	0.55**	0.51**

* P< 0.05
**P<0.01

Results suggest that production capability does not affect competitive strategies ($P > 0.05$). Its significance level is more than 0.05 and it indicates that production capability does not influence competitive strategies, as a result, due to competitive strategies, it cannot influence financial export performance. Sanctions and low standards of products and services in Iran might be the factors that reject the first hypothesis of this research. Moreover, since production competency does not affect competitive strategies ($P > 0.05$) and its significance level is more than 0.05, due to competitive strategies, it cannot influence strategic export performance.

According to the results, marketing and sales competencies affect competitive strategies ($P < 0.01$). Moreover, the results show that structural model of competitive strategy variable has a significant effect on financial export performance ($P < 0.01$). The severity of the impact of marketing and sales capabilities on competitive strategies is equal to 0.611 and the severity of the impact of competitive strategies on financial export performance is equal to 0.873. The orientation of all the relationships is positive. Given the results, it can be concluded that the total impact of marketing and sales competencies on financial performance (with mediating role of competitive strategies) is equal to 0.53 and it indicates the significant impact of marketing and sales capabilities on financial performance. Moreover, the severity of the impact of marketing and sales competencies on competitive strategies is equal to 0.611 and the severity of the influence of competitive strategies on strategic export performance is equal to 0.606. The orientation of all the relationships is positive. Given the results, it can be concluded that the total impact of marketing and sales capability on strategic performance (with mediating role of competitive strategies) is equal to 0.37.

The results of the research show that information competency does not affect competitive strategies ($P > 0.05$). Its significance level is more than 0.05 and it suggests that information capability does not influence competitive

strategies, hence, due to competitive strategies, it cannot affect financial export performance. Furthermore, since information capability does not influence competitive strategies ($P > 0.05$) and its significance level is more than 0.05, it can be concluded that information capability does not have any impact on competitive strategies, hence, due to the competitive strategies, it cannot affect strategic export performance. The testing of model and PLS outputs are given in Fig 2. and Table 3.

Table 3. Testing of models and PLS outputs.

Set/model	Independent variable	Mediating variable	Dependent variable	PLS output	Hypothesis results
Model 1 Fig. 2	Production competencies	Strategic Competitiveness	Financial Export Performance	R2=/.626 , GOF= ./44 CV-Redundancy= ./33	Supported
Model 2 Fig. 2	Production competencies	Strategic Competitiveness	Strategic Export Performance	R2=/.902 , GOF= ./59 CV-Redundancy= ./64	Supported
Model 3 Fig. 3	Marketing & sale competencies	Strategic Competitiveness	Financial Export Performance	R2=/.544 , GOF= ./24 CV-Redundancy= ./29	Not Supported
Model 4 Fig. 3	Marketing & sale competencies	Strategic Competitiveness	Strategic Export Performance	R2=/.370 , GOF= ./21 CV-Redundancy= ./26	Not Supported
Model 5 Fig. 4	Informational Competencies	Strategic Competitiveness	Financial Export Performance	R2=/.820 , GOF= ./50 CV-Redundancy= ./44	Supported
Model 6 Fig. 4	Informational Competencies	Strategic Competitiveness	Strategic Export Performance	R2=/.512 , GOF= ./35 CV-Redundancy= ./36	Not Supported

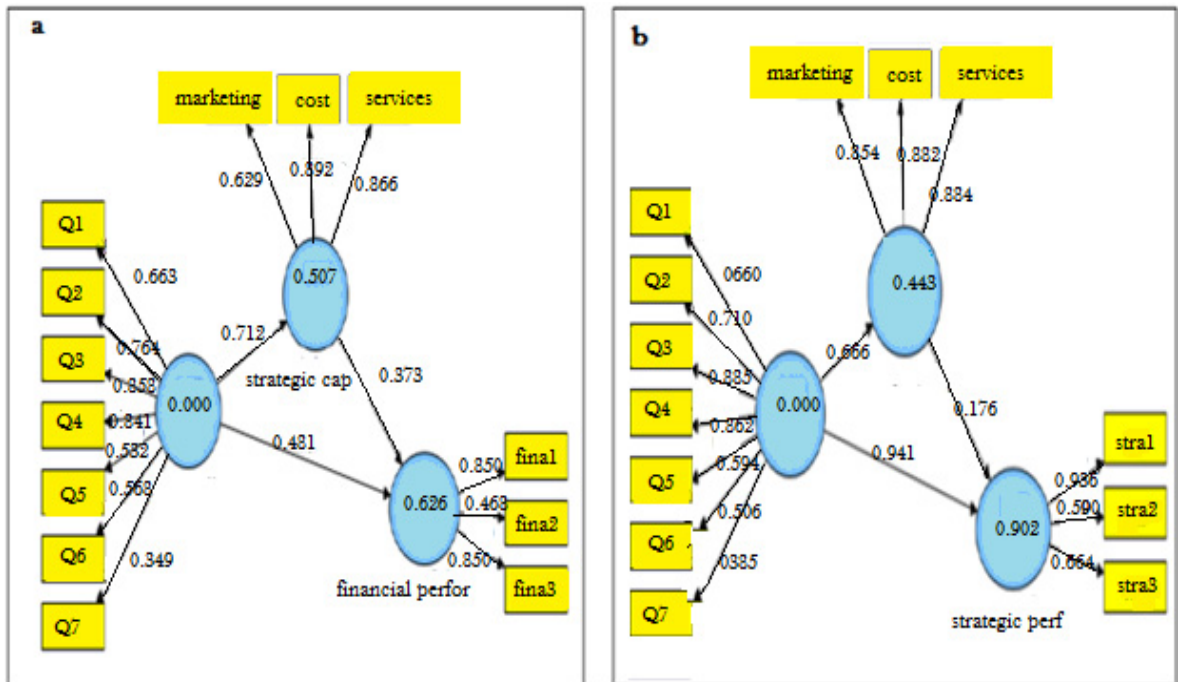


Fig 2.(a)model 1.(b)model 2

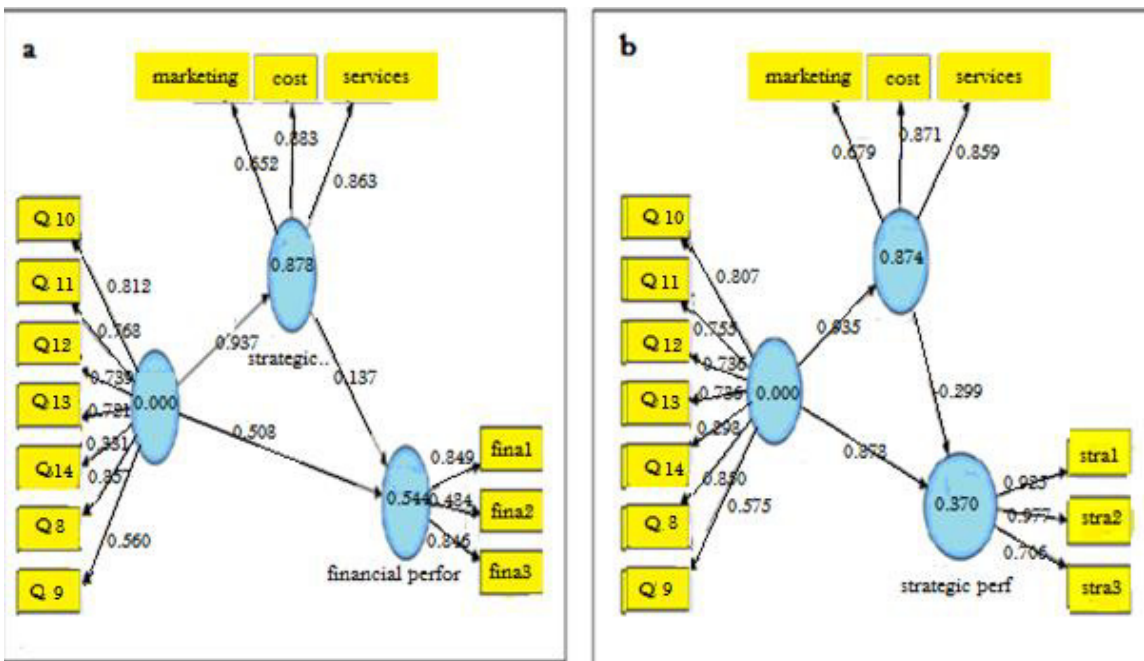


Fig 3.(a)model 3.(b)model 4

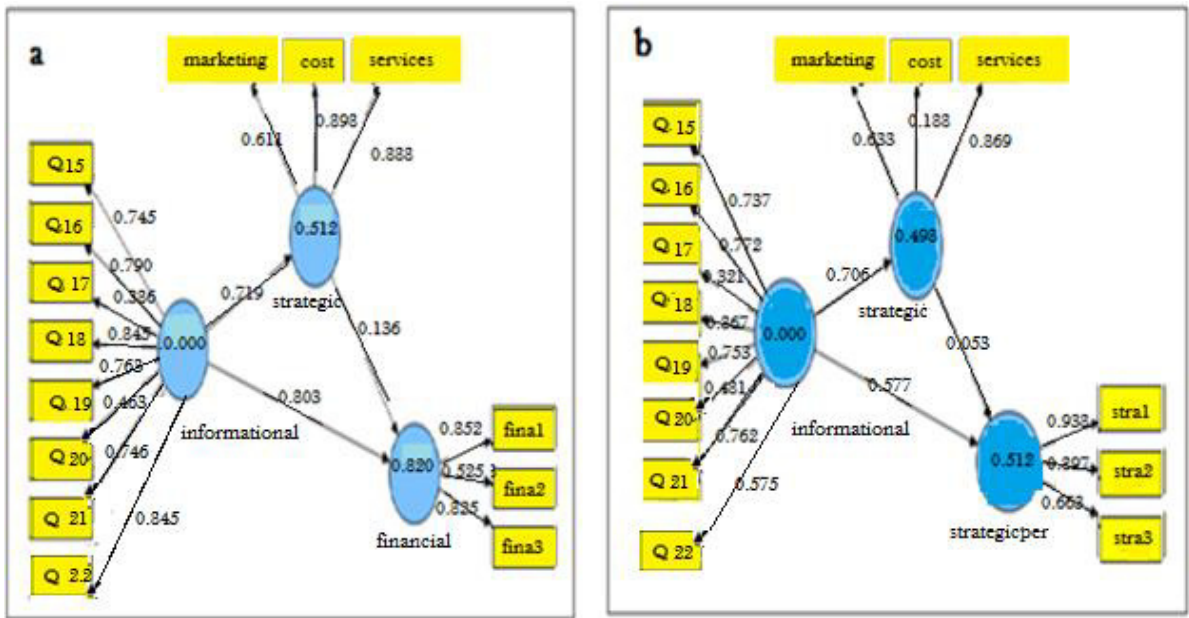


Fig 4.(a)model 5.(b)model 6

6. Conclusions and discussions

The results of this study showed that the success of business enterprises in the export sector depends on competency in production, marketing and sales as well as on the collection of appropriate information. The results also suggest that these forms of competency can affect export performance through strategic competencies. As intraorganizational and controllable factors, they enable companies to implement competitive strategies necessary for the improvement of organizational efficiency and effectiveness. Despite the many challenges in the export sector, Iranian producers should always take steps to improve these intraorganizational factors so as to increase export performance day by day. Ignoring target market expectations in the long run has decreased Iran’s share of exports in products that historically used to lie within its sphere of competency. Exporters that sell products to different customers around the world should note that the equalization of products for all markets will lead to indifference on the part of foreign customers. Companies that apply adjustments to their products commensurate with the needs and demands of target market customers satisfy their customers and ultimately increase their overall performance. Exporters should always try to have complete control over the quality of their products and production processes. They should be able to provide foreign customers with unique products by using innovation and taking into account expected product characteristics by foreign customers and target market expectations. They should also provide after sales service for foreign customers, consider and review their tastes, and continuously improve the quality of their products. The task of marketing is to create a higher product value for customers than that of competitors. So in the field of marketing and sales, exporters should be able to deploy export specialists and their skills in the export sector and improve them in conducting export market research, planning, and implementation. Exporters need to increase export performance by boosting their export marketing communications and by identifying and managing distribution channels. The success of export programs depends on the ability to appropriate and validate information on international markets and foreign customers and competitors. Without a deep understanding of foreign markets and the needs of customers, export enterprises will not be able to effectively and efficiently develop export marketing programs. Exporters should always obtain appropriate information about the needs of foreign customers and develop closer and deeper relations with suppliers and vendors. They should also act smartly in the collection of data related to foreign markets and clients and

keep themselves updated with useful information for the identification of potential customers overseas. It is suggested that exporters always have complete control over competitive products in foreign markets and obtain required data in this regard. Thus export companies must think about strengthening their strategic position and through it, increase their global market share and ultimately improve their position at the international level.

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