The Drivers of Market Orientation and its Impact on Export Performance of Serbian Firms*

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Abstract

In the field of international business, examination of the link between a market orientation (MO) and an export performance (EP) is quite popular. However, mechanisms through which MO affects EP have not been sufficiently investigated. The aim of this paper was to examine direct and indirect impact of MO on EP, as well as drivers of MO. In this paper, MO is defined as organisational culture. Based on the structure-conduct-performance paradigm and Resource-Based View, a model was formulated and tested on a sample of 121 large and medium-sized exporters operating in the Republic of Serbia. The method applied was partial least squares structural equation modelling (PLS-SEM). Obtained results indicate that there is a direct and positive effect of relational resources and competitive intensity on MO. It was also found that MO affects EP directly, and that differentiation strategy partially mediates the relationship between MO and EP.

1. Introduction

With the increased liberalisation of the world trade, export became a popular way to exploit opportunities in foreign markets (Singh 2009; Krammer/Strange/Lashitew 2018). In addition to this, export is a significant driver of a firm's survival and growth (Acar 2016). Therefore, the understanding of how a firm can improve its export performance (EP) is crucial.

Since 2000, market orientation (MO) has become increasingly interesting as a determinant of EP (Sousa/Martínez-López/Coelho 2008). In most scientific articles to date, the focus is on establishing a direct link between MO and different EP indicators (Cadogan/Boso/Story/Adeola 2016). Recently, the authors have begun to recognise the importance of examining processes through which MO affects EP, and they started to include various mediating factors in their research

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frameworks. Nevertheless, it is stated that the way in which MO influences EP has not been sufficiently examined (Zehir/Köle/Yildiz 2015; Olabode/Adeola/Assadinia 2018). Moreover, studies examining the intervening role of competitive strategy in the relationship between MO and EP are especially rare.

There are some other gaps in the literature related to MO in the export context. A few authors examine factors that affect the implementation of MO, i.e., drivers of MO (İpek/Bıçakcıoğlu-Peynirci 2020). Furthermore, studies that use the cultural approach of Narver and Slater (1990) in EP research are scarce (Julian/Mohamad/Ahmed/Sefnedi 2014; Olabode et al. 2018). Despite numerous calls in the literature (Sousa et al. 2008, Chan/Sousa/He 2016), there is still less empirical evidence in the field of EP from developing countries than from the developed ones. Based on literature reviews presented by Sousa et al. (2008) and Chan et al. (2016) it can be seen that the vast majority of studies in the field of EP were conducted in North American countries and developed European countries (the UK, Spain, Portugal, Germany, Norway, Finland, and France). In the last 15 years, China came into the focus as it is one of the largest economies and the biggest exporter in the world (Chan et al. 2016). Less developed Asian countries, certain parts of Africa and Latin America, as well as developing European countries, have received little or no interest from researchers so far (Chan et al. 2016).

This paper aims to offer a broader framework of the impact of MO on EP. Drawing on the structure-conduct-performance paradigm (SCP) and Resource-Based View (RBV), a model was developed that was tested on a sample of large and medium-sized exporters from the Republic of Serbia. In this paper, MO is defined as organisational culture, and is perceived as an ability of a firm to connect resources enabling it to make the best use of them. Based on RBV, relational resources are recognised as drivers of MO. Relying on postulates of the SCP, it is assumed that competitive intensity has a direct impact on the level of MO and that differentiation strategy mediates the relationship between MO and EP.

This paper adds up to the existing literature in numerous ways. For international business and strategic marketing theorists, this study is relevant since it brings together two approaches that are typically considered opposite (Morgan/Kaleka/Katsikeas 2004). For researchers in the field of EP, it provides insights into drivers of MO, and direct and indirect impact of MO on EP in the context in which these relationships have not been tested before. In the Republic of Serbia, there have been no studies on this subject so far. From a practical point of view, the results of the conducted research could help managers of exporting firms understand importance of implementation of MO and improve formulation of strategy on a scientific basis, all of which can result in better export performance.

The paper is organised as follows. Following the introduction, a conceptual framework is developed. The third part of the paper explains the applied methodology. The fourth part summarises the research results. The fifth part discusses the implications of the conducted research both theoretically and practically, followed by the conclusion, limitations, and recommendations for further research work.

2. Conceptual framework

2.1 Theoretical background

This paper adopts the concept proposed by Narver and Slater (1990), defining MO as organisational culture. Researchers examining the relationship between MO and strategy in a domestic context have used this concept to link organisational culture with the firm's strategy (Dobni/Luffman 2000; Hansen/Dibrell/Down 2006). This approach has been selected due to the fact that establishing a link between MO and strategy is one of the main tasks of this paper. Additional reason for this decision is the desire to fill in the gap in export business related literature. In previous studies pertaining to the relationship between MO and EP, this very approach was neglected (Julian et al. 2014; Olabode et al. 2018). The authors usually use a behavioural approach, even though both perspectives are equally important and recognised in the literature (Deshpandé/Farley 1998; Shoham/Rose/Kropp 2005). Following Narver and Slater (1990), in this paper, MO is defined as a set of norms and values among employees in an organisation. Narver and Slater (1990) particularly highlight the importance of the link between MO and sustainable competitive advantage. They state that knowing and understanding customers' needs, as well as the strategic moves of competitors enables the organisation to create superior value for its customers. In this way, the firm maintains a competitive advantage in the market, which is considered to be the main precondition for achieving an above-average performance (Naeini/Mosayebi/Mohajerani 2019). This view underlines the significance of MO in the area of strategic management and lays foundation for investigation of the link between MO and competitive strategy (Hunt/Morgan 1995).

Export performance (EP) represents an overall result of a firm's export activities (Chen et al. 2016). Most frequently studied dimensions of EP are strategic and economic (financial) ones (Papadopoulos/Martin 2010). Export success can be assessed both subjectively and objectively (Sousa 2004). Subjective indicators, although considered less accurate, can be beneficial when objective data are not available (Sousa 2004). Researchers' experience has shown that respondents are usually unwilling to reveal confidential financial information regarding sales and profit which is why they prefer to make subjective performance assessments (Lages/Lages/Lages 2004). Based on the aim of the paper, and according to

the recommendations given by Oliveira, Cadogan, and Souchon (2012), this paper adopts a firm-level view of EP. EP is formulated as a composite measure comprising financial and strategic dimensions, while subjective indicators are used to measure EP.

Leading theoretical approaches this study of EP is based upon as predominantly found in the literature are Resource-Based View (RBV) and structure-conduct-performance (SCP) paradigm (Sousa et al. 2008; Styles/Patterson/Ahmed 2008). It is stated that SCP and RBV, when used separately, cannot provide a comprehensive picture of the factors that influence EP (Morgan et al. 2004; Chen et al. 2016). Following Morgan et al. (2004), this paper combines two approaches in order to offer a broader picture of the MO's impact on EP.

The link between MO and EP is usually established relying on RBV (Rose/Shoham 2002). MO is often perceived as capability of a firm (Fahy/Smithee 1999; Chen et al. 2016). Capabilities relate to the ability of firms to deploy and combine resources using organisational processes. They are based on the transmission and exchange of information through human capital (Amit/Schoemaker 1993). According to Fahy and Smithee (1999), organisational culture represents a capability, i.e., skills of individuals or groups in an organisation, as well as procedures and interactions all resources are managed by. Day (1994) states that capabilities are that "glue" connecting resources and enabling a firm to make the best use of them. DeSarbo, Benedetto, and Song (2007) reiterate that ability of a firm to employ resources through organisational capabilities may be more important for achieving the desired performance than solely owning those resources. Following the explanations given in the literature, this paper views MO as the capability used to deploy its resources. It is assumed that relational resources have a direct and positive effect on the level of implementation of MO.

According to SCP paradigm, a firm's behaviour and its performance are directly affected by characteristics of the industry the firm operates in (Porter 1981; Hill/Deeds 1996). Following SCP approach, Porter states that strategy evolves as a deliberate response to market's requirements. (Porter 1985). He goes on explaining that firms need to choose a strategy that will enable them create a defensive position against rivals. Referring to SCP, Cavusgil and Zou (1994) indicate that aligning a strategy with the environment has a significant positive impact on the firm's performance.

Based on the presented standpoints, it can be assumed that intensity of competition in export markets will trigger specific behaviour of the firm, that is, pressure imposed by competitors will force it to be more market-oriented. Market-oriented firms will have a higher level of implementation of a differentiation strategy, which helps them compete in foreign markets and consequently have better export results. Strategic mediating factors represent an important topic

for research (Rose/Shoham 2002). There is a somewhat faint understanding of how MO affects strategy and, consequently, a firm's performance (Foley/Fahy 2009). Some authors emphasise that market orientation has to be incorporated into strategic management research in order to be able to understand and predict business results (Hult/Ketchen 2001; Ketchen et al. 2007). This paper underlines that the competitive advantage of an exporting firm is determined not only by resources but also by the external environment and market forces it faces. Success of the firm depends on the processes it combines its resources through. Resources are not a sole key to success. Market-oriented culture is essential in order to deploy, connect and exploit resources in the best possible manner. If a firm has a market-oriented culture, it will skilfully manage information from export markets, and know how to utilise it for the formulation or adaptation of competitive strategy.

Having in mind all presented standpoints and in order to gain better insight into the relationship between MO and EP, the aim of this paper is to address the following research questions:

RQ1:   How do relational resources and competitive intensity influence MO?

RQ2:   What is the role of differentiation strategy in the relationship between MO and EP?

In order to provide the answer to RQ2, additional research questions need to be considered:

RQ2.1: How does MO influence the implementation of differentiation strategy?

RQ2.2: How does the implementation of differentiation strategy influence EP?

RQ2.3: Does MO influence EP directly?

2.2 Hypotheses development

2.2.1 Relational resources and market orientation

Relational resources are defined as relationships a firm builds with external entities such as customers, stakeholders (suppliers, distributors, partners), and other organisations (government institutions, agencies, and unions) (Morgan/Vorhies/Schlegelmilch 2006; Davis/Mentzer 2008). Various advantages of owning relational resources have been reported in the literature. Firms that nourish strong relationships with partners have information advantages in foreign markets since reliable and dedicated partners are always willing to deliver and exchange information. This way, a firm can gain knowledge about customers' needs and increase awareness of opportunities in foreign markets (Yayla/Yeniyurt/Uslay/Cavusgil 2018). Some authors indicate that benefits of possessing relational

resources are greater when the firm operates in an unstable and highly competitive environment and when formal market-supporting institutions are weak or inefficient (Batjargal/Hitt/Tsui/Arregle/Webb/Miller 2013; Li/Chen/Liu/Peng 2014; Yi/Li/Hitt/ Liu/Wei, 2016). It is also said that relational resources improve capabilities and enable the development of new ones in order to support implementation of major strategies (Yi et al. 2016). If the firm has good relationships with customers, it will be able to respond and adapt more quickly to changes in its environment and anticipate changes in consumers' desires (Li/Liu/Zhao, 2006). Some studies show that firms with developed relational resources have a strong customer orientation making them therefore more efficient in meeting consumers' needs (Li et al. 2006).

Evidence of how relational resources influence MO is hard to find in the literature. Some authors have examined the impact of other types of resources on MO (Navarro-Garcia/Acedo/Robson/Ruzo/Losada, 2010). In this paper, it is assumed that a firm needs to possess relational resources in order to be able to obtain necessary information about customers and competitors. A firm can successfully utilise this information through the implementation of MO. Based on the above, the first hypothesis is derived:

H1: Relational resources have a positive effect on MO.

2.2.2 Competitive intensity and market orientation

Competitive intensity refers to the extent to which firms, within a specific industry, exert pressure on one another (Porter 1985). Overseas business operations are more complicated, as they can substantially differ from business operations in the domestic market (Murray/Gao/Kotabe 2011; Boso/Oghazi/Cadogan/Story 2016). SCP approach suggests that a firm modifies its behaviour in order to respond to pressures from the external environment (Ghemawat 2002; Matyjas 2014).

Studies showing that forces of the external environment directly affect MO are rare. Davis, Morris, and Allen (1991) and Cervera, Molla, and Sanchez (2001) demonstrate that environmental turbulence increases the level of implementation of MO while Lengler, Sousa, Perin, Sampaio, and Martínez-López (2016) confirm that competitive intensity has a positive effect on customer orientation.

This paper hypothesises that firms will assess the level of competition based on signals from the export market. If they perceive that the competition is strong, this will lead them to increase the level of implementation of MO in order to meet customers' needs faster and better than competitors. Based on the above, a second hypothesis is suggested:

H2: Competitive intensity positively affects MO.

2.2.3 Market orientation and differentiation strategy

Firms pursuing a differentiation strategy seek to gain a competitive advantage by creating products that consumers perceive as unique (Porter 1985). Although there are theoretical grounds for establishing a link between MO and competitive strategy, few authors only have tested this link empirically. Ruekert (1992) emphasises that development and implementation of a competitive strategy is the main organisational focus of MO. Elliott (1990) believes that designing a strategy aiming at meeting customers' needs should be part of the MO concept. Canning (1988) explains that MO requires development of marketing skills, and the author places particular emphasis on the design and implementation of the strategy. It is stated that market-oriented firms will implement a differentiation strategy rather than a cost leadership strategy. Implementation of a differentiation strategy requires an external focus of the firm, while a cost leadership strategy is internally focused in order to increase efficiency of organisational processes (Dobni/Luffman 2000; Hansen et al. 2006).

Several studies test the link between MO and competitive strategies formulated for the domestic market. Dobni and Luffman (2000) empirically confirm that MO positively relates to differentiation strategy, while lower levels of MO are associated with cost leadership strategy. Ge and Ding (2005), Hansen et al. (2006), and Iyer, Davari, Zolfagharian, and Paswan (2019) find a positive relationship between MO and the adoption of a differentiation strategy.

Based on the above, it can be assumed that same relationships are bound to exist when strategies are designed and implemented in export markets. Accordingly, the third hypothesis is derived as follows

H3: MO has a positive effect on the level of implementation of the differentiation strategy.

2.2.4 Differentiation strategy and export performance

Based on theoretical postulates suggested by Porter (Porter 1980; 1985), researchers generally assume there is a positive relationship between differentiation strategy and EP. In recent studies, authors have used different EP indicators and have therefore obtained different results. Baldauf, Cravens, and Wagner (2000) report on a negative relationship between differentiation strategy and export intensity and export sales volume. They have also found a positive relationship between differentiation and export effectiveness. Salavou and Halikias (2009) demonstrate that there is a positive effect of a differentiation strategy on export profitability. Boehe and Cruz (2010) report on a statistically insignificant relationship between product quality differentiation and EP while confirming a positive effect of innovation-based differentiation on EP. Okpara (2012) reveals that there is a strong positive link between differentiation and overall EP, export

sales growth, and export profitability. The results of a study conducted by Kumlu (2014) showed that differentiation strategy had a significant positive effect on the composite measure of EP.

There is little research on competitive strategy in developing countries (Njegić/Ravić, 2019). Additionally, studies that include a strategic dimension when testing the link between competitive strategy and EP are rare (Chung/Kuo, 2018). To the authors' knowledge, no studies have so far examined this relationship on a sample consisting solely of large and medium-sized firms. The aforementioned gaps in the literature, as well as conflicting results reported by the researchers, impose the need for further testing of this relationship. Based on the above, it is hypothesised that:

H4:   The implementation of the differentiation strategy has a positive effect on the EP.

2.2.5 Market orientation and export performance

In most studies that have tested the direct relationship between MO and EP, the authors report on positive and statistically significant results (Cadogan/Sundqvist/Puumalainen/Salminen 2012; Julian et al. 2014; Lin/Huang/Peng 2014; Navarro-García/Arenas-Gaitán/Rondán-Cataluña 2014; Zehir et al. 2015; Zhang/Zhu 2016; Alotaibi/Zhang 2017; He/Brouthers/Filatotchev 2018; Olabode et al. 2018). However, there are also studies in which the assumed direct positive relationship between these variables was not confirmed (Cadogan/Kuivalainen/Sundqvist 2009; Frishammar/Andersson 2009; Cadogan et al. 2016; Kayabasi/Mtetwa, 2016; Acosta/Crespo/Agudo 2018).

Different results can be attributed to different contexts the research was conducted in, as well as to different ways of measuring EP. Besides, most of these studies apply behavioural approach. Only a few studies (Julian et al. 2014; Navarro-Garcia et al. 2014; Olabode et al. 2018) use Narver and Slater's approach. Therefore, there is a need for further examination of this relationship. Based on all of the above, it is assumed that:

H5:   MO has a positive effect on the EP.

2.2.6 Indirect effect of market orientation on export performance

The relationship between MO and EP is more complicated than it seems (Cadogan et al. 2009). In recent years, authors have begun to recognise that MO can affect EP indirectly. They incorporated different intervening variables in their research frameworks (Racela/Chaikittisilpa/Thoumrungroje 2007; Armario/Ruiz/Armario 2008; Cadogan et al. 2009; Murray et al. 2011; Kayabasi/Mtetwa 2016; Alotaibi/Zhang 2017; Olabode et al. 2018). However, studies examining the

mediating effect of competitive strategy on the relationship between MO and EP are rare.
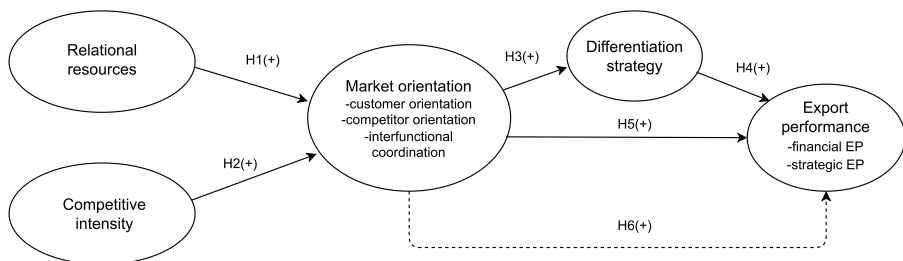
The study conducted by Murray et al. (2011) is one of the few highlighting the importance of examination of strategic actions as an intermediate factor in the relationship between MO and EP. The authors of this study emphasise that MO, as a resource, has only just a potential value. Consequently, if a firm wants to gain a competitive advantage and achieve better performance, it has to take appropriate strategic actions to take advantage of MO. Murray et al. (2011) empirically prove that competitive advantage stemming from differentiation mediates the relationship between MO and EP. Authors generally conclude that observing only a direct effect of MO on EP cannot consistently and comprehensively capture the main postulates of RBV referring to the link between strategic resources and strategic actions. Similar research has been conducted recently by Kayabasi and Mtetwa (2016), indicating the growing importance of this topic for export business theory and practice.

Based on all of the above, it is hypothesised that:

H6:   Differentiation strategy mediates the relationship between MO and EP.

The proposed conceptual framework is presented in Figure 1.

Figure 1.   Conceptual model and hypotheses

3. Methodology

3.1 Sample and data collection

For the research that was conducted, only large and medium-sized exporting firms were selected. It was assumed that large and medium-sized firms were able to choose which competitive strategy to implement. Therefore, small firms were excluded from the sample. The reason why small firms exporting from a developing country failed to choose a differentiation strategy may lie in a lack of resources (Murray et al. 2011). Thus, their choice of strategy would rather represent an inability to differentiate themselves from other firms in highly competitive export markets than their own strategic decisions.

The sample included only firms exporting consumer goods since firms exporting final products tend to have more options for differentiation than ones exporting industrial goods. This way, the level of implementation of the differentiation strategy would depend solely on the management's decision and not on constraints stemming out of the type and characteristics of the product itself.

In order to classify firms according to size, number of employees was used as a criterion. This study covers only firms employing more than 50 people, since medium-sized firms in Serbia are those employing between 51 and 250 people, while large firms are those with 250 employees plus.

In order to collect the required data, a structured questionnaire was prepared. The survey was conducted online in the Republic of Serbia at the beginning of 2020, focusing on the business year 2019. Exporting firms' contacts were provided upon the request from the Serbian Chamber of Commerce. The obtained database contained basic data including 1,016 firms, listing points of contact responsible for exports. These included mainly middle or upper-level managers.

Respondents' main characteristics are presented in Appendix 1. When small firms and firms exporting industrial products were eliminated, 414 firms remained. It is known that the response rate in business surveys is quite low (Manzo/ Burke 2012). Given that the available population is small and in order to increase the response rate, the questionnaire was sent to all 414 firms. The firms were first contacted by telephone. After this, 28 firms were eliminated, some of which failed to meet the criteria for entering the sample (7) and some that rejected to participate in the survey (21). Following the telephone call and their consent to take part in the survey, the respondents were sent an e-mail with a link to the online questionnaire. The questionnaire was sent to 386 addresses and 121 completed questionnaires were returned (31.35 %). Main characteristics of the firms in the sample and in the available population are presented in Table 1.

Table 1. Characteristics of the firms surveyed

Criteria	Sample (N=121)		Available population (N=414)	
	Frequency	Per cent	Frequency	Per cent
Size				
▪ Medium	75	61.98	298	71.98
▪ Large	46	38.02	116	28.02
Industry type				
▪ Food, beverage and agriculture	47	38.84	206	49.76
▪ Electronics	22	18.18	101	24.40
▪ Wood industry	17	14.05	42	10.15

Criteria	Sample (N=121)		Available population (N=414)	
	Frequency	Per cent	Frequency	Per cent
▪ Textile industry	16	13.22	21	5.07
▪ Clothing and footwear	9	7.44	14	3.38
▪ Chemistry and plastics	6	4.96	9	2.17
▪ Leather industry	4	3.31	12	2.90
▪ Other	/	/	9	2.17
Years in exporting				
▪ Less than 5 years	20	16.53	/	/
▪ 5–15	67	55.37	/	/
▪ 15+	34	28.10	/	/
Years in operation				
▪ Less than 5 years	8	6.61	/	/
▪ 5–15	64	52.89	/	/
▪ 15+	49	40.50	/	/
Number of export markets				
▪ 1–5	69	57.03	/	/
▪ 6–10	42	34.71	/	/
▪ 10+	10	8.26	/	/
Main export destination				
▪ Balkan region	48	39.67	/	/
▪ Europe	43	35.54	/	/
▪ US, Canada, Latin America	21	17.35	/	/
▪ Other (Australia, Asia, etc.)	9	7.44	/	/

In order to test for the non-response bias, the extrapolation method was used (Armstrong/Overton 1977). Early respondents were defined as the first 60 % of respondents, and late respondents were defined as the last 40 % of respondents. Two-tailed t-test with 95 % confidence interval showed no significant differences in all of the observed variables.

3.2 Measurement scales

According to the recommendations in the literature EP as well as other variables in the research were measured at the firm level (Oliveira et al. 2012). Measurement scales used for constructs measurement were developed on the basis of the scales used in previous research. All items were measured on a five-point Likert scale. The measurement items are listed in Appendix 2.

Relational resources are defined as the first-order reflective construct consisting of three reflective indicators (R1, R2, R3). The items were adopted and modified based on the studies of Morgan et al. (2006) and Leonidou, Palihawadana, and Theodosiou (2011). The scale captures intensity of relationships that a firm has established with its overseas customers, partners, and other organisations in foreign markets.

Competitive intensity (CompInt) is defined as the first-order reflective construct, and it was measured according to Pelham (1999). The respondents were asked to assess the intensity of competition (CI1), frequency of price wars (CI2), and frequency of competitive moves (CI3) in their related export markets.

Market orientation (MO) was measured according to Narver and Slater (1990), and following Olabode et al. (2018) this scale was modified in order to capture the level of implementation of MO in export markets. Since MO consists of three separate dimensions, this construct was defined as the second-order construct. Customer orientation (CustOr), competitor orientation (CompOr), and inter-functional coordination (IFC) were defined as reflective constructs, while MO, on the second level, was examined as a formative construct. The formulation of MO as a reflective-formative construct corresponds to the theoretical concept proposed by Narver and Slater (1990) due to the fact that three dimensions explain the whole MO phenomenon.

Differentiation strategy was measured according to Aulakh, Kotabe, and Teegen (2000), and it was formulated as the first-order construct consisting of three reflective indicators (Diff1, Diff2, Diff3). This scale captures the uniqueness, quality, and level of differentiation of the firm's products in comparison with its competitors in export markets.

Export performance (EP) was formulated and measured according to Njegić, Damnjanović, and Komnenić (2020). EP construct was defined as the second-order construct composed of two reflective first-order constructs – financial EP and strategic EP (see Appendix 2).

3.3 Data analysis

In order to test the hypotheses, PLS-SEM analysis was conducted in SmartPLS 3.7.8. This method was selected for several reasons. The model is complex relative to the number of observations available. Furthermore, the research is exploratory in its nature, and the model contains higher-order constructs as well as one formative construct. Under these circumstances, use of PLS-SEM is recommended (Hair/Risher/Sarstedt/Ringle 2019). Moreover, bootstrapping procedure PLS-SEM applies is suitable for testing mediating effects (Falahat/Knight/Alon 2018). In addition, this method has been increasingly used in the field of international business (Richter/Sinkovics/Ringle/Schlägel 2015).

4. Results

The analysis was conducted in two steps as suggested by Hair et al. (2019). Firstly, the measurement model was assessed, including examination of the reliability and validity of measurement scales. Secondly, the structural model was evaluated by examining the quality of the structural model as well as the statistical significance of the links between latent variables in the model. A disjoint two-stage approach was used in order to handle the measurement issues arising from the presence of higher-order constructs in the model (Becker/Klein/Wetzels 2012; Sarstedt/Hair/Cheah/Becker/Ringle 2019). The disjoint two-stage approach requires an analysis of the lower-order constructs first, followed by examination of the reliability and validity of higher-order constructs and assessment of the structural model. The obtained results are summarised and presented below.

4.1 Measurement model assessment

Factor analysis was used (PLS Algorithm function) for the reliability and validity assessment of the measurement scales. The obtained results are presented in Table 2.

Table 2. Assessment of the measurement model

Constructs and their indicators	Mean	StDev	Factor loadings	Ch. Alpha	CR	AVE	VIF	T statistic	Weights
CompInt (reflective construct)	3.243	0.069		0.772	0.868	0.687	N/A	N/A	N/A
CI1	3.26	0.801	0.807						
CI2	3.26	0.883	0.852						
CI3	3.21	0.939	0.827						
Relational resources (reflective construct)	3.39	0.028		0.834	0.899	0.748	N/A	N/A	N/A
R1	3.37	1.126	0.901						
R2	3.31	1.117	0.862						
R3	3.49	1.073	0.831						
MO (second-order formative construct)	3.601	0.081		N/A.	N/A	N/A			
CustOr (first-order reflective construct)	3.404	0.055		0.883	0.915	0.684	2.477	2.087	0.350* (CI:0.013;0.667)
CustOr1	3.47	1.096	0.763						
CustOr2	3.41	1.229	0.802						
CustOr3	3.31	1.203	0.861						
CustOr4	3.44	1.125	0.894						
CustOr5	3.39	1.143	0.809						
CompOr (first-order reflective construct)	3.677	0.107		0.813	0.876	0.639	2.479	2.850	0.422* (CI:0.135;0.718)
CompOr1	3.39	1.193	0.811						
CompOr2	3.61	1.075	0.803						

Constructs and their indicators	Mean	StDev	Factor loadings	Ch. Alpha	CR	AVE	VIF	T statistic	Weights
CompOr3	3.83	1.046	0.788						
CompOr4	3.88	0.933	0.794						
IFC (first-order reflective construct)	3.752	0.063		0.850	0.899	0.689	2.333	2.504	0.342* (CI:0.049;0.588)
IFC1	3.87	0.991	0.822						
IFC2	3.79	1.105	0.807						
IFC3	3.7	1.152	0.864						
IFC4	3.7	1.038	0.827						
IFC5	3.7	1.046	0.796						
Differentiation (reflective construct)	3.11	0.025		0.768	0.866	0.683	N/A	N/A	N/A
Diff1	3	1.095	0.808						
Diff2	2.92	1.137	0.836						
Diff3	3.41	1.093	0.835						
ExpPerf (second-order reflective construct)	3.25	0.041		0.806	0.907	0.831	N/A	N/A	N/A
Strategic EP (first-order reflective construct)	3.313	0.050	0.952	0.861	0.904	0.703	N/A	N/A	N/A
StratGoal1	3.29	0.944	0.828						
StratGoal2	3.26	1.006	0.824						
StratGoal3	3.3	1.046	0.879						
StratGoal4	3.4	0.944	0.821						

Constructs and their indicators	Mean	StDev	Factor loadings	Ch. Alpha	CR	AVE	VIF	T statistic	Weights
Financial EP (first-order reflective construct)	3.188	0.036	0.869	0.850	0.898	0.689	N/A	N/A	N/A
FinEP1	3.26	1.037	0.819						
FinEP2	3.12	0.976	0.860						
FinEP3	3.15	1.005	0.812						
FinEP4	3.22	0.953	0.828						

Note: Italics are used for higher-order construct values; *weights are significant (p<0.05) based on a two-tailed t (995) test; CI- confidence interval

Some of the items from the Strategic EP construct were eliminated since they had low factor loadings (see Appendix 2). For all other reflective constructs in the model, factor loadings were above 0.708, as recommended by Carmines and Zeller (1979) providing evidence for the reliability of the items used. Internal consistency reliability was evaluated based on Chronbach's alpha coefficient and composite reliability (CR). Chronbach's alpha was above the recommended threshold of 0.7 (Churchill 1979) and composite reliability (CR) for all constructs was between 0.7 and 0.95, as recommended in the literature (Diamantopoulos/Sarstedt/Fuchs/Wilczynski/Kaiser 2012). Convergent validity was evaluated according to the suggestions of Fornell and Larker (1981). The obtained results indicate that all constructs meet this requirement (CR > 0.7; AVE > 0.5 and CR > AVE).

Discriminant validity was assessed using the Heterotrait-Monotrait ratio (HTMT). According to Henseler, Ringle, and Sarstedt (2015), the value of this ratio has to be lower than 0.9 if the constructs are very similar, and if they conceptually differ even lower threshold of 0.85 is suggested. MKTOR scale demonstrated some discriminant validity issues, which was also the case in previous research (Ward/Girardi/Lewandowska 2006; Olabode et al. 2018; Njegic/Djokic/Milanovic 2020). The components of MO (CustOr, ComOr, and IFC) overlapped leading to HTMT values above 0.9. In order to establish discriminant validity, some of the items were deleted (see Appendix 2). The final results obtained after the refinement of MKTOR scale are presented in Table 3.

Table 3. HTMT ratio

	CompInt	CompOr	Cus-tOr	Differ	EP	EconEP	IFC	Re-sources
CompOr	0.488							
CustOr	0.477	0.848						
Differ	0.412	0.650	0.579					
EP	*0.318*	*n.a.*	*n.a.*	*0.539*			*n.a.*	
EconEP	0.222	0.341	0.301	0.357	n.a.			
IFC	0.493	0.847	0.802	0.555	/	0.275		
Resources	0.447	0.548	0.592	0.425	*0.542*	0.447	0.621	
StratEP	0.334	0.543	0.423	0.587	n.a.	0.795	0.417	0.491

Note: Italics are used for the HTMT ratio obtained in the second stage of the disjoint two-stage approach.

For formative second-order construct (MO), the collinearity analysis was conducted first. For all three dimensions of MO VIF values were lower than 3 (CustOr=2.477; CompOr=2.479; IFC=2.333) indicating that MO's measurement model is not negatively affected by collinearity. Secondly, using the Bootstrap

procedure (percentile method; 5.000 subsamples; two-tailed t(995) test) con-
firmed that all three components have a significant effect on MO (T statistics
and weights are given in Table 2.).

4.2 Structural model assessment

Before the evaluation of the structural model, collinearity was tested and no
critical levels of collinearity between each set of predictor variables were found.
For both CompInt and Resources, VIF values were 1.149, and for the predictors
of EP, i.e. Differ and MO, VIF values were 1.423. VIF values that are lower than
3 indicate that the collinearity is not going to lead to biased results (Hair/Hult/
Ringle/Sarstedt 2016).

The quality of the structural model was assessed by applying different metrics.
The coefficient of determination (R^2) was used to evaluate the model's explana-
tory power (Shmueli/Koppius 2011). For all endogenous constructs in the mod-
el, R^2 was above the required value of 0.25 as recommended by Henseler,
Ringle, and Sinkovics (2009). For Differ it was 0.292, for EP 0.255, and for
MO 0.381. In the export performance literature, the obtained values of R^2 are
considered satisfactory, and some authors report on values of R^2 even lower than
0.25 (Navarro-García/Peris-Oritz/Barrera-Barrera 2016; Navarro-García/Arenas-
Gaitán, Rondán-Cataluña/Rey-Moreno 2016). Thus, it can be concluded that the
independent variables sufficiently explain changes in the dependent variables in
the model.

In order to assess the model's predictive relevance, the Blindfolding procedure
was conducted (omission distance=7) producing satisfactory levels of Q^2. For
all endogenous constructs Q^2 values were higher than zero (Q^2_{Differ}=0.185;
Q^2_{EP}=0.185; Q^2_{MO}=0.279) as suggested in the literature (Hair et al. 2019).

Significance and relevance of path coefficients were obtained by using the
Bootstrap procedure with 5,000 subsamples (BCa method). The results were
obtained on the basis of a two-tailed t-test with a 5 % significance level. They
are presented in Table 4. Hypotheses were evaluated based on the sign and
significance of the t-value.

Table 4.   Hypotheses evaluation

Hypothesis	B	t-value	p-value	Supported
H1: Resources -> MO	0.462	6.231	0.000	yes
H2: CompInt -> MO	0.272	3.732	0.000	yes
H3: MO -> Differ	0.542	7.861	0.000	yes
H4: Differ -> EP	0.295	2.900	0.004	yes
H5: MO -> EP	0.281	3.137	0.002	yes
H6: MO -> Differ -> EP	0.160	2.661	0.008	yes

The results indicate that relational resources and competitive intensity have a statistically significant and positive effect on MO (β=0.462, p<0.001; β=0.272, p<0.001) supporting hypotheses H1 and H2. It is confirmed that MO has a significant positive effect on the level of implementation of differentiation strategy (β=0.542; p<0.001). It was also shown that the differentiation strategy positively affects EP (β=0.295, p<0.05). These results suggest that H3 and H4 are supported as well. The results reveal that the relationship between MO and EP is twofold. MO has a direct and positive effect on EP (β=0.281, p<0.05). It also affects EP indirectly through the implementation of differentiation strategy (β=0.160, p<0.05). These results confirm H5 and H6. Since both the direct and the indirect effects are shown to be significant, it is concluded that differentiation partially mediates the relationship between MO and EP.

5. Discussion and conclusions

Many empirical studies have examined the relationship between MO and EP with the general conclusion that MO has a positive effect on the EP. However, researchers are still discussing the specific role of MO in achieving superior EP and processes within firms through which MO affects EP. Regardless of the theoretical and practical significance, few papers only examine the relationship between MO, strategy, and EP. In order to expand the existing knowledge in the field, MO was placed in a broader context of the influence of external and internal factors, with the desire to gain a clearer insight into what influenced the implementation of the MO as well as how MO, directly and indirectly, affected firm's EP. An empirical study conducted on a sample of large and medium-sized Serbian exporters contributed to the understanding of these relationships.

5.1 Theoretical implications

The results of the conducted research indicate a positive influence of relational resources on the level of implementation of MO (H1). The stronger relationships firm develops with its partners, customers, and other organisations in foreign markets, the more successfully it will implement MO. This is due to the fact that the firm will have reliable information pertaining to customers' needs and moves of competitors in overseas markets. Information from foreign markets will flow faster and easier. Thus, firms will be able to respond quickly to changes in export markets. The information obtained can be essential for a timely response and adaptation of a competitive strategy.

These findings also show that there is a direct positive effect of competitive intensity on the level of implementation of MO (H2). Similar studies are rare, but the obtained results can be compared to those of Davis et al. (1991) and Cervera et al. (2001). Some authors demonstrated a moderating effect of competitive intensity in the relationship between MO and performance (Grewal/Tansujah

2001; Harris 2001). The results of the presented research give new insights into the impact that the external environment has on a firm's behaviour. Thus, if a firm faces severe competition in the export market, it will make an effort to establish a market-oriented culture. It will monitor moves of competitors more closely, and it will be more attentive to customers' needs.

The third hypothesis suggests that firms with a strong MO culture will be inclined to implement a differentiation strategy (H3). This hypothesis has been confirmed, which is consistent with the results of previous studies (Hansen et al. 2006; Iyer et al. 2019). The establishment of the link between MO and differentiation is relevant for the confirmation of the theoretical views on the nature of MO expressed by Canning (1988), Elliott (1990), Ruekert (1992), and other authors who called for an investigation of the impact of MO on competitive strategy (İpek/Bıçakcıoğlu-Peynirci 2020).

The results obtained indicate a positive impact of a differentiation strategy on EP (H4). These findings are in line with the findings of previous studies, especially those that examine the impact of differentiation strategy on the composite measure of EP (Aulakh et al. 2000; Boehe/Cruz 2010). They also add to the debate on the impact of competitive strategy on the EP, given the opposing views and different results reported by authors (Baldauf et al. 2000; Martin/Javalgi/Cavusgil 2017; Rua/França/Ortiz 2018). Although there is a notion that firms exporting from developing countries will be more likely to implement a cost leadership strategy due to low labour costs and low prices of raw materials (Murray et al. 2011), this study showed that large and medium-sized firms exporting from Serbia that implement differentiation strategy perform better than those that do not adopt this strategy.

The hypothesis of a direct impact of MO on EP (H5) has been confirmed, as in other research in developing countries (Racela et al. 2007; Julian et al. 2014; Lin et al. 2014; Olabode et al. 2018). This finding provides further evidence of the importance of MO. It has been shown that firms that put customers' needs first and monitor competitors' moves achieve superior EP. Competition in export markets is more severe than in domestic markets, while customers are more demanding and sophisticated. Therefore, for a firm to survive in the international market, it constantly needs to collect, process, and use information from export markets.

The results confirmed that MO indirectly affects EP through a differentiation strategy (H6), which is consistent with the findings of Murray et al. (2011). Given that more and more attention is being given to the indirect impact of MO on EP, since some authors particularly emphasise the importance of strategic actions as mediating factors (Murray et al. 2011; Kayabasi/Mtetwa, 2016), the findings are significant from the theoretical aspect. According to SCP paradigm, strategy represents a link between a firm's internal and external environment

(Porter 1985). Thus, the results of this research can add to SCP paradigm by proving that aligning a strategy with the environment has a positive impact on firm's EP. When a firm aligns its internal capabilities (i.e. MO) with the environment (i.e. competitive intensity) through the implementation of a differentiation strategy this results in superior EP. This research has also enriched RBV by showing that possession of valuable resources is not sufficient. In order to achieve superior performance, resources should be transformed into capabilities (i.e. MO). A firm's ability to utilise and employ resources through MO differentiates successful from unsuccessful firms. It is not the mere possession of information and knowledge that enhances performance, but how they are managed, combined, and integrated within the firm (DeSarbo et al. 2007; Murray et al. 2011).

5.2 Managerial implications

Based on the obtained results, several practical implications can be drawn.

The first implication relates to the finding that MO has a positive impact on EP. This result suggests that it is necessary for firms to focus on building and cultivating a market-oriented culture. Export managers of medium-and large-sized firms from small developing countries such as Serbia are encouraged to invest in the development of MO since it will deliver stronger performance outcomes in export markets. Therefore, the results of this study can assist export managers in better allocation of resources to those activities that strengthen MO. In order to develop a strong MO culture, managers should devote special attention to frequent measuring of the level of customers' satisfaction and constant monitoring of competitors' actions in export markets. The information gathered from export markets should be systematically analysed and distributed throughout the firm. Managers are strongly advised to share collected information with all functional units. That way, the whole firm can engage in responding to customers' needs.

This paper also contributes to the practice by showing that higher level of competitive intensity in export markets corresponds to the higher level of MO. This study showed that medium- and large-sized exporters from Serbia that exported to highly competitive markets developed a stronger market-oriented culture. That is why managers are advised to modify their behaviour in order to respond to external challenges a firm is facing. Managers should be proactive, and once they assess that the level of competition is high, they should focus on the market and develop a market-oriented culture. Increasing the level of implementation of MO in order to meet customers' needs faster and better than competitors would represent a good response to competitive pressures.

This paper draws special managerial attention to the fact that MO indirectly affects EP through the implementation of a differentiation strategy. Firms that want to meet hidden and unsatisfied customers' needs through the development

of a market-oriented culture will further profit from a positioning strategy differencing them from competitors. The development of MO is just one step in achieving a superior EP. This is why managers of exporting firms should be aware of not only implementation of MO but also of the process contributing to the increase of EP. In order to enjoy full benefits from MO, acquire a competitive advantage, and achieve better EP, managers should monitor the internal process through which the information gathered from export markets is used and combined for the formulation of strategy. Based on the gathered information and depending on the available resources, managers need to find a way to differentiate their products from the competitors' ones in foreign markets since this leads to a sustainable competitive advantage and ensures good export results.

As the findings of this study suggest, MO has a positive effect on the level of implementation of the differentiation strategy. It was shown that managers who were able to create a culture that was based on the pursuing of customers' needs and monitoring the moves of competitors were more successful in the implementation of the selected differentiation strategy. Thus, the ability of managers to develop a market-orientated culture cultivates behaviour that complements the chosen differentiation strategy.

Firms exporting from developing countries usually implement a cost leadership strategy due to low labour costs and low prices of raw materials (Murray et al. 2011). However, the results of the conducted research show that differentiation has a positive impact on EP. This finding is important from the practical viewpoint since it shows that for firms from a small developing country such as Serbia, differentiation has proven to be a good strategic option. Firms can differentiate themselves in different ways. This is why managers are encouraged to develop differentiation strategies that are not necessarily based on expensive innovations, since for firms from developing countries that do not always have sufficient funds and technology this may not be feasible. In order to implement a differentiation strategy, managers are advised to focus on development of a unique image, the implementation of strict quality control for their export products, as well as on obtaining highly qualified, trained, and experienced personnel.

This paper also points at the importance of relational resources for the development of a market-oriented culture. It is shown that relational resources have a positive impact on the level of implementation of MO. This finding indicates that it is difficult to maintain a high level of MO without close relationships with foreign partners and organisations. Thus, in order to develop a culture based on information from the market, managers should focus their efforts on building a network of contacts and reliable partners that will provide relevant information in time. Situation in foreign markets is constantly changing, so

without relational resources, information can arrive late, after competitors have already taken action. In order to gain an advantage over competitors in export markets, it is necessary for managers to acquire information that is unique and not easily accessible, which is possible only with strong relational resources. In order to create superior value for the customers and, in this way, gain a competitive advantage, resources have to be transformed into capabilities (i.e., MO). That is why managers should realise that it is not enough to possess valuable and rare resources only. They should better utilise relational resources through the implementation of MO.

Beyond the aforementioned direct implications for managers, based on the results of this paper, one important contribution for policy-makers can be drawn. The significant impact of relational resources on processes within the firm, i.e. on development of MO, indicates that a state can effectively support exporters through different export promotion programmes. The government can provide contacts with foreign partners and thus facilitate firms' entry into the international market. Firms from developing countries have fewer resources to invest in product differentiation and are less technologically equipped compared with firms from developed and emerging countries (Murray et al. 2011). The role of the state in this situation can be hugely important (Yakop/Bergeik 2009; Martincus 2010). Serbian products are relatively unknown to consumers abroad since Serbia is still recovering from the transition process and it has not yet taken a noticeable place in the global market. Therefore, the state could contribute to differentiating the products of national firms by investing in creating a national brand.

5.3 Limitations and directions for future research

Although this study provides some interesting insights into the drivers of export success, it is necessary to note limitations in interpretation of the results. As the survey was conducted in one country, one should be careful with generalising the results. The conclusions drawn in this paper may eventually be extended to countries with a similar level of development and characteristics of the economy. Service firms, as well as firms exporting industrial products, were not included in the sample, which may represent an additional constraint for the generalisation of the results. The sample covers only large and medium-sized firms. Thus, the results do not apply to small firms. Although the sample is relevant, the number of firms surveyed is modest.

Future research could be based on the examination of a larger number of firms from different industries, including firms exporting industrial goods. The paper does not examine how the cost leadership strategy affects EP and whether that strategy relates to the implementation of MO. Therefore, it would be interesting to compare which of two competitive strategies contributes more to EP. In

future research, it would be useful to examine MO as organisational culture, as the studies in the field of EP using this approach are still rare. In addition, it would be valuable to discover the drivers of the implementation of MO, both external and internal. Longitudinal studies would be particularly useful, as would comparative studies that include multiple countries.

Acknowledgements

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Appendix 1. Characteristics of the respondents

Criteria	Frequency (N=121)	Percent
Age		
25–35	9	0.07
36–45	58	0.48
more than 45	54	0.45
Gender		
Male	74	0.61
Female	47	0.39
Qualifications (Education)		
High school	2	0.02
Bachelor degree	97	0.8
Master degree	22	0.18

Criteria	Frequency (N=121)	Percent
PhD degree	/	
Work experience in present firm		
between 2 and 5 years	18	0.15
between 6 and 10 years	53	0.44
between 11 and 15	46	0.38
more than 15 years	4	0.03
Overall experience in export operations		
between 2 and 5 years	21	0.17
between 6 and 10 years	47	0.39
between 11 and 15	51	0.42
more than 15 years	2	0.02
Function		
General manager	15	0.13
Export manager	23	0.19
Sales manager	62	0.51
Marketing manager	21	0.17
English language knowledge		
None	/	
Basic	4	0.03
Intermediate	78	0.65
Advanced	39	0.32
Knowledge of any other language		
None	67	0.55
Basic	26	0.22
Intermediate	27	0.22
Advanced	1	0.01

Appendix 2. Measurement items

Competitive intensity (adopted from Pelham 1999)

(1- not existing at all; 5-very high existence)

CI1: **Intensity of competition in export markets**

CI2: **Frequency of price wars in export markets**

CI3: **Frequency of new competitive moves in export markets**

Relational resources (based on Morgan et al. 2006 and Leonidou et al. 2011)

(1- not existing at all; 5-very high existence)

R1: **We understand well our overseas customer requirements**

R2: **We have reliable representatives (partners, distributors) in our foreign markets**

R3: **We have strong business ties with other organisations in foreign markets (trade organisations, government agencies, chambers of commerce, etc.)**

Market orientation (adopted from Narver/Slater 1990)

(1- not existing at all; 5-very high existence)

Customer orientation

CustOr1: **We measure the satisfaction of our customers abroad systematically and frequently**

CusrOr2: **In export markets, we constantly monitor our level of commitment and orientation to serving customers' needs**

*We give close attention to after-sales service in export markets

CustOr3: **Our business objectives are driven primarily by customers' satisfaction**

CusOr4: **Our strategy for competitive advantage in export markets is based on our understanding of customers' needs**

CustOr5: **Our business strategies are driven by our beliefs about how we can create greater value for customers**

Competitor orientation

CompOr1: **Top management regularly discusses the strengths and strategies of our competitors in export markets**

CompOr2: **We rapidly respond to competitive actions that threaten us in export markets**

CompOr3: **In export markets, we target customers where we have an opportunity for competitive advantage**

CompOr4: **Our salespeople regularly share information within our organisation concerning strategies of our competitors in export markets**

Inter-functional coordination

IFC1: **All the departments in our firm are responsive to each other's needs and requests**

IFC2: **All of our business functions (e.g., marketing/sales, manufacturing, etc.) are integrated in serving the needs of our target markets**

IFC3: **Our top managers from across the firm regularly visit our current and prospective customers in export markets**

IFC4: **We freely communicate information about our successful and unsuccessful customer experiences across our firm**

IFC5: **Our managers understand how everyone in our business can contribute to creating customer value**

*Eliminated item

Differentiation strategy (adopted from Aulakh et al. 2000)

(1-not existing at all; 5-very high existence)

Diff1: **We maintain higher quality standards for our products in export markets**

Diff2: **We maintain a unique image for our products in export markets**

Diff3: **We differentiate products and services from competitors in our export markets**

Export performance (adopted from Njegić et al. 2020)

Strategic EP – the level of strategic goals achievement (Cavusgil/Zou 1994)

(1-not accomplished at all; 5- accomplished to a great extent)

StratGoal1: **We gained a foothold in the export market**

StratGoal2: **We increased the awareness of our product/firm**

*We responded to competitive pressure

StratGoal3: **We improved our firm's market share position**

StratGoal4: **We expanded strategically into foreign markets**

*We increased profitability of the firm

*We responded to enquiries from abroad

*Eliminated items

Financial EP (adopted from Armario et al. 2008)

(1-we did not achieve at all; 5-we achieved a very high level)

FinEP1:   **Export sales**
FinEP2:   **Export profit**
FinEP3:   **Export sales growth**
FinEP4:   **Export profit growth**