

Architectural marketing capabilities of exporting ventures: the contingent effect of the distributor

Abstract

Purpose – The importance of architectural marketing capabilities (i.e., marketing planning and implementation) in exporting ventures has been recognised. However, extant literature has not taken into account the explicit roles and required synergy between the exporter and their foreign distributor in delivering these capabilities. Drawing from the Resource Based Theory, we examine the complementarity of the distributor’s implementation capabilities and market orientation with the exporter’s planning capabilities.

Design/methodology/approach – The study was carried out using a survey. Data were collected from 147 Greek exporters using a questionnaire and the hypotheses were tested using the full information maximum likelihood estimation procedure.

Findings – Our results support the hypotheses about the importance of the exporter’s planning capabilities on financial performance and the complementary role of the distributor’s market orientation. Further, we find that the distributor’s implementation capabilities fully mediate the impact of the exporter’s planning capabilities on financial performance.

Originality/value – This study contributes to a better understanding about the complementarity of exporter and distributor capabilities. It demonstrates the crucial role of the distributor in the deployment of architectural capabilities for the export venture: the distributor’s market orientation and implementation capabilities have the final say in achieving higher levels of export performance.

Keywords

Architectural Capabilities, Resource Based Theory, Market Orientation, Exports

Introduction

Annual world exports reached nearly \$23 trillion in 2017 (World Bank, 2018a) representing 28.5% of the \$80.68 trillion global GDP (World Bank, 2018b) making exporting a major business activity requiring particular attention. Exporting via a distributor as a mode of entry is fairly attractive since it involves less risk and engages a knowledgeable producer and a local expert. This complementary pair consists of the exporter who is responsible for planning and producing a product that is of interest to foreign customers, and their foreign distributor who becomes the marketing implementation arm that also needs to sense competitor moves and customer requirements. The underlying strategic marketing planning processes and related implementation processes shape the export venture's architectural marketing capabilities (Morgan et al., 2003). More specifically, architectural marketing capabilities deal with higher-level processes that are put in place to formulate and implement strategic decisions which are essential for exporting organisations in order to achieve their strategic goals (Spyropoulou et al., 2018) and enhance export venture's performance (Morgan et al., 2003).

While a wide range of capabilities and their contribution to export venture performance has been presented, it is important to examine the most relevant in terms of strategic decisions' formulation and implementation that are also applicable in an exporting context. The literature identifies architectural capabilities as "they integrate, and orchestrate multiple specialised and cross-functional capabilities" (Morgan, 2012: 108) to be fundamental in achieving long-term strategic advantage (Henderson and Cockburn, 1994). Although the exporter and its foreign distributor depend on each other's capabilities, they are also separated by ownership, geography, culture and law (Albaum et al., 2008). In particular, exporting through distributors includes two disadvantages as it "limits the extent of learning" in the foreign market and offers the exporter "limited control over distributors and the marketing strategies they implement on his behalf" (Shipley et al., 1989: 79). Therefore, it appears imperative to examine the distributor's role in terms of facilitating learning through understanding local customer needs and sharing of relevant information, but also by their ability to implement the strategies planned by the exporter.

Exports involve two critical players: the exporter who formulates strategic plans about the deployment of a product or service, and their distributor who implements these plans in the foreign market. In fact, the involvement of different and distant partners increases the

challenge of effectively executing strategic decisions. Nonetheless, extant studies primarily focus on the strategic capabilities of the exporter although the strategic complementarity of the dyad is recognised (Lye and Hamilton, 2001; Aykol and Leonidou, 2018). The successful execution of the intended strategy requires channel members to take into consideration customer needs, and competitor actions in their day to day operations. Therefore, resources that are deployed in the marketplace can benefit from the possession of a highly market-oriented culture (Hooley et al., 2005; Hult et al., 2005; Kaleka, 2012). In the case of export ventures, our research is motivated by the need for: i) strong alignment between distributor's and exporter's contribution in shaping the export venture's architectural capabilities, and ii) refinement of their idiosyncratic role. Therefore, our contribution stems from the fact that extant literature has a primary focus on the exporter and to a lesser extent on the distributor or examines the venture without considering the distinct capabilities of these actors.

Overall, rooted in the Resource Based Theory (RBT) tradition, this study seeks to examine the capability of an export venture to develop strategic marketing plans and its capability of implementing these plans. While these architectural capabilities are described as core elements of theory, they are split between the exporter and their distributor. This paper seeks to shed some light in the exporting process by examining how the foreign distributor's market orientation and implementation capabilities complement the exporter's planning capability for achieving higher levels of financial performance. In this manner, we explore in more detail the crucial role of the distributor and our findings can serve as guidance for the exporter when selecting distributors in new foreign markets. The next section describes the conceptual framework and hypotheses, followed by a description of data sources, methods and analysis. This is further followed by our empirical findings and we conclude with discussion of key findings and implications for theory and practice.

Conceptual framework and hypotheses development

RBT is considered one of the most widely-used, highly effective, and influential theories in the broader area of management studies. RBT embarks upon the early work of Penrose (1959) who defines the firm as a pool of physical and human resources which altogether determine the level of firm performance. Simply put, firm performance differs because the amount, quality and deployment of firm resources and capabilities is diverse among firms. Wernerfelt (1984), drawing on the early work of Penrose suggests that the term resource is envisaged as anything that can be considered a strength or a weakness of the firm. Indeed this initial

resource-based view describes firm-specific resources and capabilities as central sources of competitive advantage and increased performance (Barney, 1991; Peteraf, 1993) and has evolved into a key theoretical perspective (Barney et al., 2011). As a response to increasing external environmental changes, firms need to innovate and maintain a high level of competitive advantage by constantly advancing and reconfiguring their skills and capabilities (Eisenhardt and Martin, 2000). This need is even more pronounced for internationalising firms that compete in diverse marketplaces and idiosyncratic environments.

In the context of exporting firms, Dhanaraj and Beamish (2003) further stress the importance of RBT in explaining the role of firm-specific resources and capabilities in enhancing firm performance. Specifically, they argue that RBT is a key theoretical framework that we need to draw upon in order to better understand the effect of a firm's unique resources and capabilities in deploying an effective export strategy. In particular, the possession of marketing capabilities leads to superior firm performance both in a domestic (Morgan et al., 2009b) and an international context (Morgan et al., 2018). Capabilities are defined as firm-specific resources that take the form of processes with the purpose of enabling and enhancing the deployment of other resources (Makadok, 2001). The need to examine the complementarity of various marketing capabilities is also raised, since the presence of one capability may enhance the productivity of another or the presence of one capability may attenuate the effectiveness of another capability (Morgan et al., 2009a). The exploration of such capability complementarities is especially important in the case of exports: the architectural capabilities required for achieving successful results are shared between the exporter and their distributor increasing complexity and placing increased demands on the complementarity of partner resources.

In general terms, an exporting firm's competitive capabilities include the acquisition of export market-related information, ability to identify potential customers and sign contacts in foreign markets, as well as the capability of monitoring important foreign market information (Seringhaus, 1993). Among others, an exporting firm's competitive resources are drawn from its experience in operating in export markets, and such resources are related to export market knowledge and past performance in such markets (Ganitsky, 1989). For example, Beleska-Spasova et al. (2012) show that knowledge-based resources (including knowledge about the distributors and information related to doing business in export markets) have a positive effect on a firm's export performance. All the above stress that exporting

firms are in constant need of developing unique skills and competences which in turn can generate value through the development of a valuable, inimitable and rare organisational structure (Barney et al., 2001).

Overall, the resource-based logic proposes that sustainable competitive advantage can be achieved when a firm possesses valuable resources that are rare and imperfectly imitable (Barney and Hesterly, 2012). However, it is important to point out that resources are valuable if they “enable a firm to develop and implement strategies that have the effect of lowering a firm’s net costs and/or increase a firm’s net revenues beyond what would have been the case” without possessing these resources (Barney and Arikian, 2001: 138). This implies that the exporter’s planning capabilities, as part of their contribution to the venture’s architectural capabilities, need to be considered in conjunction with the market knowledge and implementation capabilities of their distributor; these implementation capabilities are the exporter’s contribution to the venture’s architectural capabilities.

Despite the fact that RBT is an effective and diverse theory with numerous applications in the wider area of management studies, at the same time its applicability in the field of marketing, and in particular its ability to integrate a diverse range of resources in order to explain contingencies and synergistic effects on performance, remains underutilised (Kozlenkova et al., 2014). Our study responds to recent calls for a more systematic application of RBT in international marketing studies (Wernerfelt, 2014; Kozlenkova et al., 2014). As already mentioned, RBT is a valuable theoretical tool in terms of enhancing our understanding on pinpointing the firm’s relative strengths and competitive advantage over its rivals (Wernerfelt, 2014). We thus draw on important components of the RBT and its competitive advantage in the context of export strategy.

In light of these considerations, the present study draws on the RBT literature to examine the internal process through which architectural marketing capabilities of exporting ventures influence performance in export markets.

Exporter – distributor alignment

From an RBT perspective, we argue that when exporter planning is aligned with the distributor’s implementation capability (i.e. the components of the venture’s architectural capabilities) then export performance will increase. The logic behind this argument is that exporter investments when tailored to a distributor’s needs and idiosyncrasies are more likely

to lead to a greater competitive advantage as compared to general assets being held and deployed by the exporter. Katsikeas et al. (2009) find evidence on the aforementioned argument. Specifically, they empirically show that an exporter's transaction-specific (idiosyncratic) investment in its foreign distributor diminishes the possibility of exporter opportunism and increases the level of importer trust in the exporter, which altogether infer higher efficiency in this dyadic process.

In the same vein, Zou and Stan (1998), in their review study on the antecedents of export performance, argue that the ownership of firm-specific resources and capabilities, including the presence of a competent distribution network, is of crucial importance for maintaining a sustainable competitive advantage in foreign markets. Along the same lines, other empirical studies reinforce this view suggesting that alignment in the strategic planning between exporter and distributor can lead to higher financial performance in foreign markets (Leonidou et al., 2002; Nes et al., 2007). Further, idiosyncratic investments made by exporters towards specific distributors enhance the skills and capabilities of the latter (Skarmeas and Robson, 2008).

Architectural capabilities integrate planning and implementation capabilities, and are considered for some time "as a source of enduring competitive advantage" and lead to increased levels of firm performance (Henderson and Cockburn, 1994). In our context, architectural capabilities are in the core of firms that seek to internationalise as they allow the incorporation of new capabilities in an efficient manner (Tallman and Fladmoe-Lindquist, 2002). Further, firms that are globally mature focus on improving and refining their architectural capabilities (Morgan et al., 2018). Nonetheless, strategic planning primarily depends on the exporter while implementation is the responsibility of their foreign distributor. In a domestic context, strategic planning has been found to have a significant direct effect on performance even in the presence of marketing implementation (Vorhies and Morgan, 2005). These findings demonstrate how these capabilities contribute individually and indicate the importance of strategic planning as a marketing capability which enables the deployment of marketing resources. In fact, in export markets, the lack of strategic planning is the main factor for poor export market performance (Cavusgil and Zou, 1994). Similarly, marketing planning is a key element of the marketing competence required to succeed in the internationalisation process (Knight et al., 2004). We therefore hypothesise that higher levels

of exporter marketing planning capabilities will lead to superior export venture financial results:

H1. There is a positive relationship between exporter marketing planning capabilities and export venture financial performance.

A frequently ignored element in the export marketing literature is that of the import function, i.e., the foreign distributor who can “seriously undermine [the] implementation of effective export marketing programs” (Katsikeas and Dalgic, 1995: 51). This is also echoed by Chrysochoidis and Theoharakis (2004) who find that besides exporter controlled factors, strategic factors of the foreign distributor need to be considered as they are critical for achieving higher levels of performance. However, examining the effectiveness of implementation processes that transform intended strategy to market execution is crucial for achieving a sustainable competitive advantage (Vorhies and Morgan, 2005). While the need to examine the implementation effectiveness in export marketing strategy is recognised, it either examines the internal effectiveness of the exporter, or the manner in which the exporter’s marketing strategy is externally received (Morgan et al., 2012). In other words, the implementation marketing capability of the distributor as a complementary resource in the execution of the exporter’s planned strategy is not explicitly examined.

More recently, implementation capability is presented as an important moderator for the exporter to achieve its strategic goals; namely, it enables exporters to execute their differentiation or cost strategy (Spyropoulou et al., 2018). Therefore, we similarly expect that the strategic marketing plan developed by the exporter will be enhanced by the marketing implementation capability of the distributor. Consequently, a distributor’s inability to adequately implement a marketing strategy will have detrimental effects on the plan. On the contrary, a distributor with competent implementation skills and processes has the potential to enhance the exporter’s plan. We therefore hypothesise that:

H2. The positive relationship between exporter marketing planning capabilities and export venture financial performance is stronger when the distributor has higher levels of marketing implementation capability.

Market orientation is a strategic resource of the firm (Ketchen et al., 2007) which is part of its culture (Deshpande and Webster, 1989; Narver and Slater, 1990) and is empirically shown to have a significant positive effect on firm performance (Kirca et al., 2005). The concept of market orientation is heavily influenced by the marketing concept and makes a significant contribution to marketing management and marketing strategy fields (Cano et al., 2004). The three main conceptualisations of market orientation are the behavioural perspective (Kohli and Jaworski, 1990), the cultural perspective (Narver and Slater, 1990), and the combined perspective (Deshpande et al., 1993). While there are some conceptual differences between the two constructs of Narver and Slater (1990) and Kohli and Jaworski (1990), their operationalisations have a high degree of overlap (Cadogan and Diamantopoulos, 1995). Further, by taking an exporter's perspective, export market orientation is a key construct examining the market orientation of the exporter with regards to their export markets (Cadogan et al., 1999).

The manner in which market orientation contributes to performance is a source of debate, but there is consensus that it "allow[s] the firm to enact better actions" (Hult et al., 2005: 1174). Market orientation is complementary with a wide range of capabilities, positively enhancing the effect of marketing capabilities (Morgan et al., 2009b) and dynamic capabilities (Hernández-Linares et al., 2018) on firm performance. Overall, there is evidence that the effect of market orientation is strengthened when bundled together with a complementary resource (Menguc and Auh, 2006). The export marketing literature provides substantial support with respect to market orientation and its application in exporting operations. More specifically, export market orientation plays an important moderating role providing an explanation for the non-significant findings from a number of studies (Cadogan et al., 2012; Boso et al., 2013).

Given the increased organisational complexity of exporting firms, the effective utilisation of company resources requires greater coordination and planning capabilities (Cadogan and Diamantopoulos, 1995). The exporting firm relies on its distributor for communicating customer and competitor information and for effectively responding to it. This is a weakness of the exporting model (Shipley et al., 1989) as it suggests an export performance dependency on the market orientation of the distributor who is serving on the customer frontline. Nonetheless, the exporting literature in general does not explicitly examine how the market

While our findings support this argument, there is an interesting empirical insight drawn from our analysis which provides an additional layer of information; when distributor implementation capability is taken into consideration, the positive and significant effect of exporter marketing planning capability ceases to exist. Our findings confirm the view that export venture financial performance is based on exporter's skills and capabilities, but once distributor implementation capability is considered, exporter marketing planning capability comes second.

In hypothesis 2, we argue that the distributor's marketing implementation capability complements the exporter's marketing planning capability. In other words, the distributor's marketing implementation capability plays a moderating role (Spyropoulou et al., 2018) on the exporter's marketing planning capability. However, while our results refute this hypothesis, our analysis demonstrates that the distributor's implementation capabilities partially mediate the exporter's planning capabilities. This is in line with previous findings which examine capabilities at the venture level that find distributor's implementation capabilities to have full mediation effect (Morgan et al., 2003). However, considering that the moderating effect of distributor market orientation on exporter planning capability remains significant, we conclude that the mediation effect should be treated as partial rather than full. Further, our results offer the additional refinement of explicitly examining the source of these capabilities; exporter planning capabilities drive the distributor's implementation capability which in turn are responsible for driving performance. This is consistent with the reasoning that exporter marketing capability needs to target the specific distributor resources and capabilities, thus requiring idiosyncratic investments which improve distributor-specific capabilities (Skarmeas and Robson, 2008).

In hypothesis 3, we argue that the distributor's market orientation complements the exporter's marketing planning capability. This hypothesis is confirmed and provides evidence that the distributor's market orientation strengthens key exporter resources (Cadogan et al., 2012; Boso et al., 2013). Further, the direct effect of distributor market orientation on financial performance is also found to be significant. This demonstrates the important role of distributor market orientation, which does not only provide the necessary market intelligence for making exporter planning more effective, but also has a significant effect on its own. When viewed in conjunction with the rest of our findings (Table III – model 4), one observes

that distributor capabilities play a pivoting role in terms of the ability of the dyad to deliver higher levels of performance.

Implications for theory and practice

While marketing capabilities and their influence on international performance are the subject of sizeable empirical research (Morgan et al., 2018), our empirical testing demonstrates that our conceptual framework (Figure 1) provides some further insights, which are of interest to both academics and practitioners. Firstly, an exporter's planning capability when examined on its own, is positively linked with the export venture's financial performance. Secondly, the distributor's implementation capability partially mediates the exporter's planning capability, but does not moderate it as originally hypothesised. Thirdly, the distributor's market orientation while it has direct impact on performance, it also positively moderates the exporter's planning capability. Overall, based on the exporter's own evaluation, our results clearly indicate the dependency of the exporter on its distributor.

In terms of contribution to theory, our study demonstrates that theoretical frameworks relating to export strategy need to jointly consider both the exporter's and distributor's capabilities. From an RBT perspective, exporter firm-specific capabilities need to be aligned with distributor-specific capabilities in order to reap the benefits of export strategy. From a practitioner perspective, our study indicates the crucial role of the distributor in the exporter-distributor dyad that appears to have the final say no matter what strategic planning the exporter may have undertaken. This has implications for the distributor selection process where particular emphasis needs to be placed by the exporters in examining the potential distributor's marketing orientation and implementation capabilities. In order for the exporter to maximise the benefits of this dyadic relationship, they need to continuously support and invest in the venture in a manner which will enhance the implementation capabilities of their distributor.

In light of these findings, future research should emphasise even more the distinct set of skills the exporter and their distributor bring in the export venture. More specifically, examining exporter capabilities without considering the complementarity of distributor capabilities, may lead to biased findings. Our findings indicate the joined-up nature of export ventures, and the need for firms to pick and choose their partners carefully which needs to be more fully explored. More specifically, export venture performance is determined by the

dyadic nature of the exporting process, which requires that export venture member capabilities are aligned with each other. This suggests that in terms of methodology, researchers need to consider collecting data from both sides of the dyad. Future research needs to explore in more detail the criteria used by exporters in selecting their distributors, since export venture success depends on distributor capabilities. Finally, future research could also draw from more diverse data from a wider geographical range, which would enhance our understanding on the potential impact of cultural and institutional variability on the relationship between export venture's architectural capabilities and export venture financial performance.

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Figure 1. Conceptual Framework

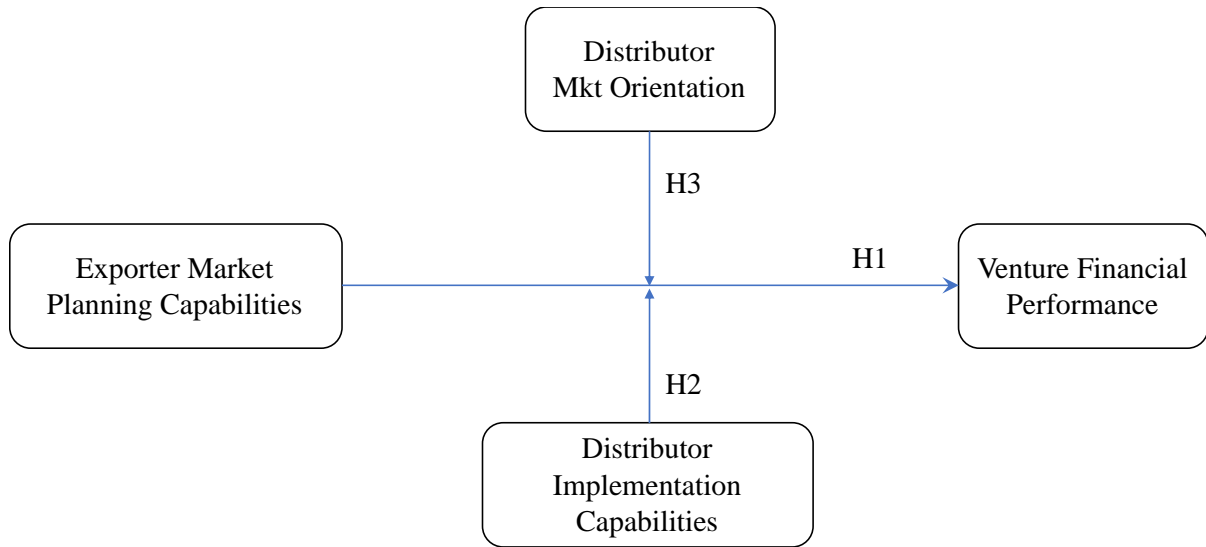


Figure 2. The moderating effect of Distributor Market Orientation on the relationship between Exporter Planning and Financial Performance

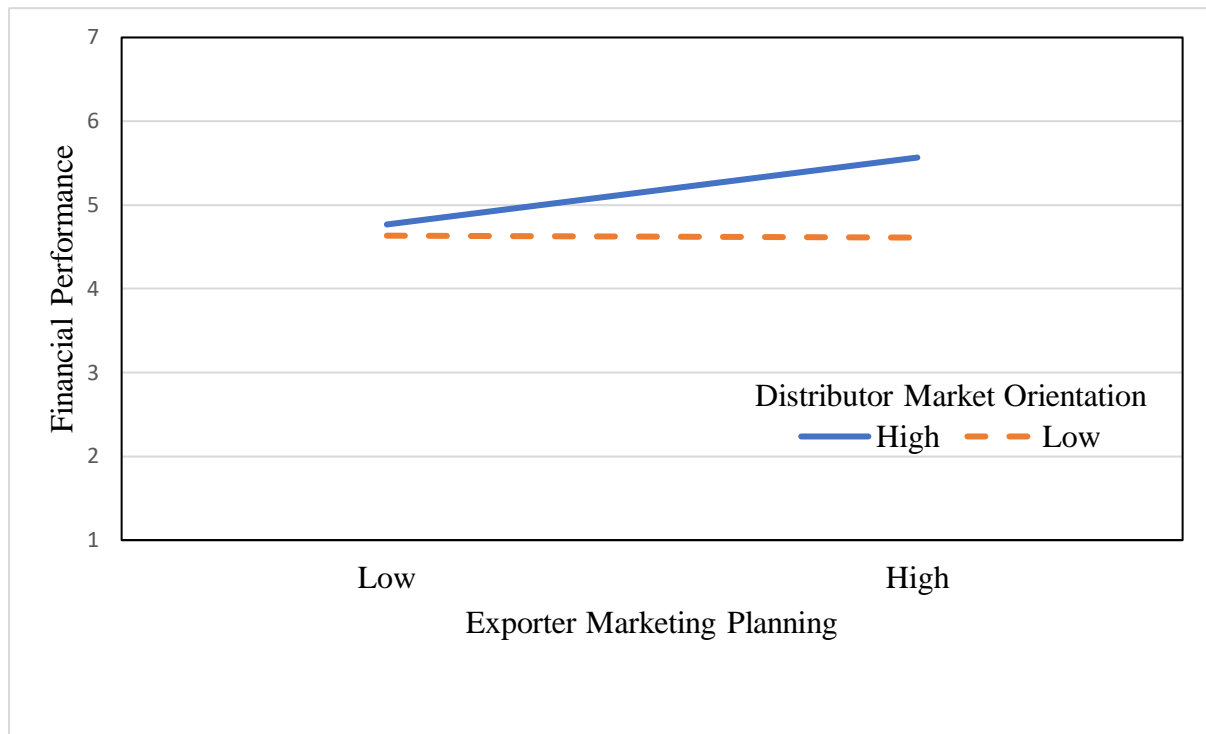


Table I. Measurement model

Construct and item wording	Standardised Loading
Exporter Planning Capability (CR = 0.95, AVE = 0.79); Vorhies and Morgan (2005)	
<i>Rate your capabilities relative to your export competitors in this export venture:</i>	
Our marketing planning skills	0.87
Our ability to effectively segment and target markets	0.80
Our marketing management skills and processes	0.93
Developing creative marketing strategies	0.91
Thoroughness of marketing planning processes	0.93
Distributor Market Orientation (CR = 0.89, AVE = 0.62); adapted from Narver and Slater (1990)	
<i>To what extent do these statements apply to your distributor in this export market</i>	
Our distributor's sales people share information about export competitors	0.71
Our distributor's objectives and strategies are driven by the creation of export customer satisfaction	0.71
Information about export customers is freely communicated throughout our distributor	0.74
Our distributor competitive strategies are based on understanding export customer needs	0.91
Our distributor related business functions are integrated to serve export market needs	0.84
Distributor Implementation Capability (CR = 0.95, AVE = 0.78); adapted from Vorhies and Morgan (2005)	
<i>Rate this distributor relative to other major distributors in the same market</i>	
Our distributor's ability to allocate marketing resources effectively	0.91
Our distributor's ability to deliver marketing programs effectively	0.97
Our distributor's ability to translate marketing strategies into action	0.87
Our distributor's ability to execute marketing strategies quickly	0.77
Our distributor's ability to monitor marketing performance	0.88
Financial Performance (CR = 0.86, AVE = 0.60); Hooley et al. (2005)	
<i>How did your venture perform compared with your main competitors?</i>	
Overall profit levels achieved	0.71
Profit margins achieved	0.71
Return on investment	0.87
Return on sales achieved	0.80
<i>Indicate how far you agree with each of the following statements about this particular market</i>	
Competitive Intensity (CR = 0.84, AVE = 0.65); Jaworski and Kohli (1993)	
Competition in this export market is "cut-throat"	0.98
There are many promotion wars in this export market	0.78
Price competition is a hallmark of this export market	0.61
Technological Turbulence (CR = 0.89, AVE = 0.72); Jaworski and Kohli (1993)	
The technology in our industry is changing rapidly	0.76
Technological changes provide big opportunities in our industry	0.90
A large number of new product ideas have been made possible through technological breakthroughs	0.88

Notes: CR, composite reliability. AVE, average variance extracted

Table II. Correlation table and descriptive statistics

	1	2	3	4	5	6	7	8
1 Financial Performance	<i>0.78</i>							
2 Exporter Planning Capability	0.36	<i>0.89</i>						
3 Distributor Market Orientation	0.40	0.38	<i>0.79</i>					
4 Distributor Implementation Capability	0.42	0.60	0.50	<i>0.88</i>				
5 Competitive intensity	-0.05	0.23	0.20	0.17	<i>0.80</i>			
6 Technological Turbulence	0.23	0.18	0.39	0.01	0.17	<i>0.85</i>		
7 Company age	0.12	0.10	0.12	0.25	-0.11	-0.14	<i>NA</i>	
8 No of exporting countries	0.07	0.08	0.10	0.02	0.03	0.02	0.03	<i>NA</i>
Mean	4.69	4.81	5.30	4.86	5.47	3.90	42.45	13.10
Std. Dev.	0.86	1.09	0.83	1.00	1.06	1.22	29.74	12.52

Notes: Pairwise correlations above |0.13| are significant at the 5% level (two-tailed tests). The diagonal in italics shows the square root of AVE.

Table III. Full Information Maximum Likelihood estimates predicting financial performance

	Model 1	Model 2	Model 3	Model 4	Model 5
	Unstandardised / Standardised				
EPC (H1)	0.27/0.35* (4.02)	0.09/0.12 (1.11)	0.18/0.22* (2.59)	0.05/0.06 (0.56)	0.03/0.03 (0.33)
DIC		0.35/0.41* (4.08)		0.26/0.30* (2.81)	0.28/0.33* (3.15)
DMO			0.35/0.33* (3.62)	0.24/0.23* (2.22)	0.26/0.25* (2.49)
EPC x DIC (H2)		0.09/0.12 (1.41)		-0.05/-0.06 (-0.58)	-0.05/-0.07 (-0.64)
EPC x DMO (H3)			0.23/0.27* (3.07)	0.23/0.28* (2.53)	0.24/0.28* (2.60)
EPC → DIC					0.545* (7.64)
Competitive Intensity	-0.12/-0.15* (-1.83)	-0.18/-0.22* (-2.76)	-0.14/-0.17* (-2.18)	-0.17/-0.20* (-2.61)	-0.16/-0.20* (-2.60)
Technological turbulence	0.16/0.22* (2.60)	0.18/0.25* (3.16)	0.09/0.13 (1.55)	0.12/0.17* (2.06)	0.13/0.18* (2.16)
Company age	0.003/0.091 (1.15)	0.001/0.047 (0.62)	0.002/0.080 (1.07)	0.001/0.047 (0.64)	0.001/0.048 (0.65)
No of exporting countries	0.004/0.053 (0.69)	0.004/0.055 (0.76)	0.004/0.062 (0.82)	0.005/0.074 (1.03)	0.004/0.054 (0.73)
Constant	3.30/3.84* (7.07)	4.83/5.60* (11.09)	4.89/5.66* (10.75)	4.97/5.75* (11.19)	4.96/5.84* (11.30)
R-squared	0.201	0.310	0.334	0.368	0.354
Observations	147	147	147	147	147

Notes: t-test in parenthesis. * $p < 0.05$, one-tailed tests. EPC = Exporter Planning Capability, DIC = Distributor Implementation Capability, DMO = Distributor Market Orientation, EPC → DIC effect of EPC on DIC