

ENHANCING FOREIGN CONSUMER ACCEPTANCE The Role of Capabilities of Creating Export-Market Oriented Products in Small and Medium-Sized Enterprises (SMEs)*

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The main purpose of this paper is to measure the effects of SMEs capabilities on their export performance. This paper offers a model to test the effects of the capabilities of creating export-market oriented products (EMOPs) on increasing SMEs' export performance. Six hypotheses are developed to analyze causal effects of variables. Using 387 Indonesian SMEs as sample, hypotheses testing highlight the importance of SMEs' capabilities of building export-market oriented products, which highly follow foreign (export) market standards. Hence, these kinds of products increase foreign consumer acceptance. In general, this paper offers a possible explanation to predict the determinants of how SMEs' can perform in the export market.

Keywords: capabilities; export performance; market-oriented; small medium enterprise (SME)

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Introduction

Recently, there is mounting interest to analyze the factors affecting small and medium enterprises' (SMEs) export success. As argued by Dhanarj and Beamish (2003), following internationalization of SMEs' activities, a new challenge to research in this area is to build conceptual framework on what influences SME success abroad. Several factors have been identified as the key success factors for SMEs' exportation. For instance, Brouthers and Nakos (2005), using a sample of Greek exporter firms, show that systematic international market selection is a significant determinant of export performance. Accordingly, the more systematic an SME in selecting target markets, the higher its export performance. However, Cavusgil and Zou (1994) and Kirpalani and MacIntosh (1980) argue that international experience, measured by the number of years the firm has been exporting, has a positive correlation with export performance. Experiencing on international exportation makes SMEs accumulate foreign market knowledge, thereby enhancing the understanding of how to compete in the international market. Therefore, international experience contributes positively to increasing the SMEs' capabilities of penetrating and searching for new foreign markets.

Several organizational factors within SMEs' are believed to be fundamental factors predicting export

performance (e.g., Axinn et al. 1995). Decision-making process (Leonidu and Katsikeas 1996), company size (e.g., Aaby and Slater 1989; Calof 1994; Bonnacorsi 1992), and company age (e.g., Ursic and Czinkota 1984) could be used as predictors of SMEs' export performance. However, literature on SME's export performance rarely discusses this issue from the marketing approach. It is surprising because marketing is well known as a tool to gain competitiveness in the international market (Tepstra 1987). Following high intensity of global competition, marketing science argues that a firm has to focus more on customer satisfaction to win competition in the highly competitive market (Kotler 1967). This task will be more difficult in the international context in which there are different local characteristics that must be considered (e.g., Morisson and Roth 1992; Roth and Morisson 1991). Thus, international marketing concept states that if a firm wants its products and services to be largely accepted by the foreign market, it must understand the different needs, wants, and demands of the foreign market.

Understanding consumers seems difficult to be achieved by SMEs' without intention to be market-oriented firms. Products processed and delivered to the market should correspond with export market characteristics. SMEs cannot focus merely on internal production process without understanding product characteristics demanded by the export market. Blankson

and Cheng (2005) emphasize the need for market orientation, and this need is higher for firms that have limited resources and capabilities such as SMEs. Small firms tend to be market driven rather than market driving since they do not have resources and competencies to drive market that is very expensive and takes long time to form. In the same vein, Pelham (1996; 2000) argues that a positive link between market orientation and business performance appears to exist for small firms.

The main aim of this paper is to analyze the effect of market orientation on product characteristics in order to increase SMEs' performance. The results of this paper are expected to enrich previous research findings. Even though some seminal work has been conducted by authors like Blankson and Cheng (2005), Golann (2006), and Pelham (1996; 2000) to investigate the role of market orientation in leveraging export performance, but these investigations are still in the early stage of development (Cadogan et al. 2002).

More specifically this research has two different objectives. First, this research will analyze the effect of export-market oriented products on SMEs' export performance. Second, this research also identifies factors that contribute to creating and building such products in SME context. This paper argues that export market orientation is not automatically present in SMEs. Skills and competencies in marketing for the foreign market are important factors in building high quality prod-

ucts following foreign market standards. Market orientation must be translated into product and service characteristics offered to the foreign market. This paper is composed of several parts. First, this paper shows the concept of export-market oriented products as a result of market orientation activities. Second, model and hypotheses construction will be described. Third, data collection and method to test hypotheses will be presented. Fourth, results concerning hypotheses testing will be shown in this section. Finally, some conclusions and limitations drawn from this research will be presented in the last part of this paper.

Export-Market Oriented Products (EMOPs)

A positive link between market orientation and business performance appears to exist for SMEs (Pelham 2000), especially when they export product to foreign market (Cadogan et al. 2002; Blankson and Cheng 2005). Market-oriented SMEs generate information on changes in customer needs and their markets. The information collected is then disseminated among SMEs' internal units. Foreign information-generating activities include foreign market scanning, consumers ordering system, market tastes and preferences, and feedback collection on delivering products. This foreign information is not only gathered but also analyzed and disseminated into different units. Coordination to

response consumers, competitors, and overall market changes are then implemented by market-oriented firms. One of the essential implementations of market orientation is that SMEs should develop products or services that have characteristics demanded by the foreign market. By this conception, SMEs' production process must consider all foreign market information gathered by the marketing unit. Therefore, according to Jaworski et al. (1993) to be market-oriented means understanding competitor offering and threats as well as overall changes in the market environment.

Following Slater and Narver (1999), market orientation refers to all organization efforts to understand customer's expressed and latent needs, and to develop superior solutions to those needs. Kohli and Jaworski (1990) define market orientation as the organization-wide information generation and dissemination and appropriate responses related to current and future customer needs and preferences. Market-oriented firms understand that analyzing industry and consumers are an important factor to create sustainable competitive advantage (Narver and Slater 1990). Some literature argues that market orientation consists of three elements: customer orientation, competitor orientation, and interfunctional orientation (Narver and Slater 1990; Kohli and Jaworski 1990; Jaworski and Kohli 1993). However, in their new product development study, Gatignon and Xuereb (1997) argue

that market-oriented firms consist of customer, competition, and technology orientation.

Different from previous research, this study does not focus on the elements of market orientation, but it emphasizes how SMEs can translate foreign market information into products and services that will be offered to the export market. Market orientation is useful if information collected from the market could be materialized into concrete products (Wolff and Pett 2006; Danneels 2002). Hence, products and services must consist of and consider all information concerning foreign market factors (e.g., foreign customer tastes and preferences, foreign government regulations, foreign quality standards, foreign cultures). All of this information is translated into product attributes and characteristics. These kinds of products and services are called export-market oriented products (EMOPs). These products have attributes and characteristics adapting with the foreign market where the products will be commercialized. EMOPs are believed to be able to bridge the intention of SMEs and foreign consumer expectation (Castro et al. 2005)

However, research that analyzes the consequences and antecedents of EMOPs in SME context is still limited. Many studies in the past are focused on market-oriented activities and do not really put their studies on exportation context (e.g., Kohli and Jaworski 1990; Green et al. 2005;

Castro et al. 2005; Narver and Slater 1990). Meanwhile, previous research has identified several factors that influence export market orientation, such as export experience, export dependence, and export coordination (Cadogan et al. 2002). In addition, it is also found that export market orientation is a significant predictor of export performance regardless of the environmental condition facing the firm.

Extending previous research on market-orientation and understanding the determinant factors to increase market orientation are important to influence SME's performance. This paper proposes that EMOPs cannot be formed without certain level of capabilities. Cadogan et al. (2002) emphasize that behaving in market-oriented way requires considerable long-term resources investment. EMOP activities themselves are very complex. They encompass market information gathering, analysis, and translation into production process following the foreign market standards. More precisely, to have an export market orientation requires activities such as: (1) the generation of market intelligence pertinent to the firm's exporting operations, (2) the dissemination of this information to related decision makers, and (3) the design and development of products directed toward export consumers, export competitors, and other extraneous export market factors, which affect the firm and its ability to provide superior value for export consumers. Producing EMOP

activities needs high degree of skills and capabilities to orchestrate diverse local environment characteristics.

Model and Hypotheses

Extending Dierikcx and Cool (1989), the model is built based on the consideration that firm's capability is an important role in building competitive advantage. Here, capability is defined as firm's capacity to deploy resources, usually in combination, to support organizational process in order to affect a desire end (De Saaperez and Garcia-Falcon 2002). Ulrich and Smallwood (2004) argue that organizational capability is a function of collective activities, not any single pursuit. Adopting this concept to SME context, SMEs' capabilities are the collective skills, abilities, and expertise of organizations to cope with a changing environment. SMEs' competitive advantage could be explained more by the SMEs' ability to build, stock, and manipulate their existing internal resources and external firm specific competencies to address the changing environment (Teece et al. 1997). SMEs' capabilities could be reflected as the ability to exploit new opportunities and overcome international market challenges. In his study, Rosenbloom (2000) figures out that as electronic environment changes – which destroys entry barriers and creates rapid change in the customer's sense of their information needs and in the products available to them– new

technology processes are required to integrate marketing and product development. Thus, the resulted product is driven by customer needs rather than the preferences of 'expert' product planners. Firm's capabilities could be considered the ability to make product innovation. Being able to leverage technologies and customers through product development and innovation, such a firm is able to extract more value out of its competitors (Danneels 2002).

Developing and implementing export-market orientation needs capabilities of learning and adapting with export-market environment characteristics, both general and industrial environments (Bourgeois 1980). However, EMOPs cannot be produced automatically. Rather, SMEs have to build the capability of absorbing, exploiting, and translating export market information (e.g., customer, competitors, industrial standards, and government regulations) into products and services. Market intelligence capability must be well developed in order to collect and accumulate export market information. Capabilities of analyzing international information and disseminating it into a wide array of SMEs' activities become crucial. More importantly, SMEs need the ability to formulate and design new products adapting with customer needs and wants. In other words, products sold and offered in the international market are supposed to be fitted with export

destination customer preferences and industrial standards.

This paper distinguishes organizational capabilities into external and internal capabilities. External capability refers to the organizational ability to develop close relationships with market factors in order to win the competition (Ogbehui and Longfellow 1994; Katsikeas et al. 1997). Internal capability refers to the ability to guarantee that the production facilities and processes follow export market standards (Grimes et al. 2007). In this research, external capability refers to marketing capability while internal capability indicates production capability. Marketing capability refers to organizational collective efforts to develop and implement export marketing strategies and actions in order to win competition in the export market. Day (1994) defines marketing capability as an integrative process designed to apply the collective knowledge, skills, and resources of the firm to meet competitive demand. Export marketing capabilities can create values for both foreign customers and SMEs. These values are translated to build competitive advantage in the marketplace. Besides, the market-share growth and sales are accepted to be the indicators of growth and business performance. Therefore, the capacity to develop and execute international marketing programs should have a positive effect on growth and performance of SMEs' products in the export market.

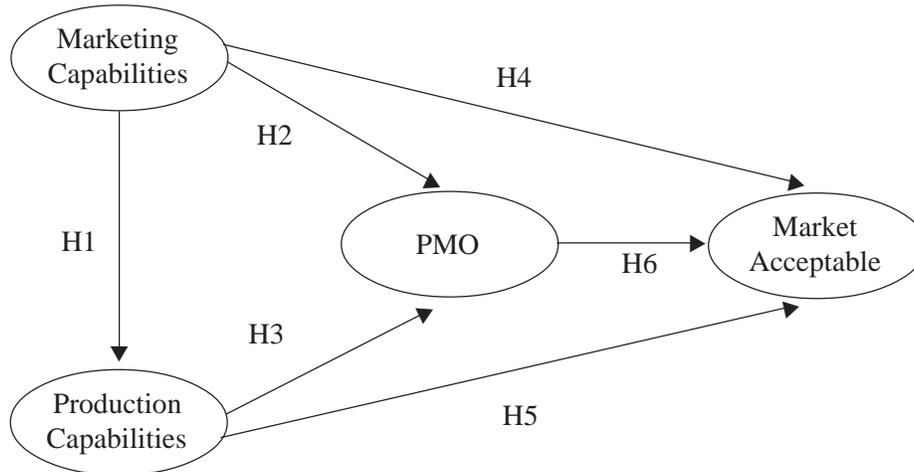
On the other hand, production capability also plays an important role in SMEs (Zehir et al. 2006). This kind of capability is believed to be able to enhance the quality of products and services offered by SMEs. Being present in the foreign market competition, SMEs need to be able to differentiate and create uniqueness of their products since this differentiation has been a key source of competitive advantage (Porter 1990). Production capability is characterized as a unique process that emerges from different functions, resources, skills, and expertise of the firm that translates into competitive advantage. In the context of SME exporters, export market information should be translated into product characteristics. Export market information must be considered and transformed, during new product development, into final products. Technical skills and abilities that assure production process, by manipulating raw materials to be products following export market characteristics, are essentials for SME exporters. Therefore, in this research, production ability to create superior products is selected as one of the critical SMEs' capabilities.

As stated earlier, commercializing products for export market necessitates SMEs to analyze permanently the environment of export market destination. Literature on international business shows that the diversity of cultural, political, and economic differences among nations require that marketing programs be adapted to the local market conditions (Boddewyn et

al. 1986, Wind 1986; Douglas and Wind 1987). Consequently, SMEs' export marketing capabilities are important to evaluate and monitor international market diversity. These capabilities are needed by SME to conceptualize and formulate the types of products that will be produced and exported following each segment found in the export market. It also facilitates export market information gathering and accumulation (Cadogan et al. 1999; Kohli and Jaworski 1990). In the international context, being market-driven cannot be reached without adequate competencies to accumulate, analyze, disseminate, and transform export market information into product characteristics offered to this market.

Market-oriented SMEs are market-driven firm (Day 1994). SMEs need to emphasize the ability of the firm to learn about export characteristics such as consumers, competitors, and distribution channels in order to continuously sense and act on events and trends in present and prospective markets. In market-driven firms, the process of gathering, interpreting, and using market information is more systematic, thoughtful, and anticipatory than that in other firms. The capabilities of the firm of processing the information, taking strategic decisions and actions are needed for success in the market. These activities provide valuable information for production facilities and processes. Consequently, SMEs have more ability to produce products that fit with export consumer tastes and preferences. Additionally,

Figure 1. **Structural Model of SMEs Capabilities' Effects on Export Performance**



SMEs can assure that production capabilities of guaranteeing that the process from input selection to final-product characteristics pursue standards required by export market environment.

H1: SMEs' export marketing capabilities increase SMEs' production capabilities

What kind of products that must be produced is a basic problem during product development and production process in SMEs (Huang and Brown 1999). Confronting with limited resources, these SMEs are challenged to produce something based on 'what can be done' and not 'what should be done'. Export market has its own standards and demand different from those of domestic market. Therefore, what should be produced by SMEs must consider export market product char-

acteristics. However, export marketing capabilities are not only export market intelligence (Cadogan et al. 1999). This concept also covers the ability to disseminate international information gathered in the overall organization. Market-sensing will be distributed to all organization units, and every single unit will have the same perception about the product characteristics that must be produced. Consequently, products reflect foreign market requirements and demand. In other words, the products exported contain highly characteristics demanded by foreign consumers and foreign market standards.

EMOPs cannot be designed, developed, and produced without capabilities of accessing and using foreign market information (Grimes et al. 2007). Export marketing capabilities play an important role in collecting all

information concerning the foreign consumer needs, wants, and preferences. These capabilities also detect foreign industrial standards and foreign government regulations with respect to product standards. Consequently, EMOPs necessitate export marketing capabilities in order to pursue foreign market standards and how to deliver, strategically and administratively, products into the export market. Producing high quality products seems difficult to be achieved for SMEs' without an intention to adopt the foreign market orientation. What kind of products that must be produced and delivered to the market should correspond with market characteristics. SMEs cannot merely focus on internal production process without understanding product characteristics demanded by the export market. Thus, having high export marketing capabilities facilitates the creation of EMOPs.

H2: SMEs' export marketing capabilities increase SMEs' export-market oriented products

As stated earlier, export-market orientation must be reflected during product development and production process (Golann 2006). Products and services offered by SMEs to the foreign market must follow export quality standards. It is the foreign market that determines whether the products or services offered by SMEs are acceptable. Thus, production capabilities are important to guarantee the export standards. Several factors should

be respected during production process, such as export consumer tastes and preferences, foreign government regulations, foreign industrial standards. These factors must be accommodated into product characteristics. SMEs cannot produce and offer something to the export market without assuring that these factors are respected during the production process. Having high production capabilities means that SMEs can develop planned, coordinated, and consistent process procedures, systems, and performance measures to assure that export market standards and quality have been considered during product development and production. The result of this process is the acceptance by the export market of products offered by SMEs.

H3: SMEs' production capabilities increase SMEs' export-market oriented products

Export marketing capabilities facilitate SMEs to develop a marketing program in order to maintain existing export market or to find a new export market. Additionally, through marketing capabilities, SMEs can generate information on changes in export customer needs and markets. Strong buyer loyalty is achieved when SMEs are able to understand and satisfy foreign buyers' latent needs (Slater and Narver 1999). Latent needs are difficult to articulate. Monitoring, evaluating, and analyzing foreign market information and then articulating it into product characteristics can enhance the appropriateness of SMEs' products and the

product characteristics wanted by consumers in foreign country destination. Foreign consumers will perceive that products imported fulfil the standards demanded.

Aaby and Slater (1990) argue that export marketing strategies such as market selection, pricing, promotion, and distribution increase foreign consumer acceptance. By designing marketing decisions following export market characteristics, products exported fit with export market conditions. This situation reduces the probabilities of foreign consumer rejection. Therefore, SMEs should have export marketing capabilities to deliver and communicate their products following foreign consumer tastes and preferences.

H4: SMEs' export marketing capabilities increase foreign consumer acceptance

Foreign market, from exporters' perspectives, necessitates high quality import products. Exporters are not only competing with other exporters coming from other countries but also with local competitors. Therefore, the basic necessity for SMEs is how they can create product values greater than competitors can in the export marketplace. SMEs' production capabilities are very important to guarantee that the product quality offered is greater than that of competitors. Production capabilities assure that products offered by SMEs will follow export market standards. Production capabilities also contribute to the product improvement

and SMEs' performance (Wolff and Pett 2006). The ability to produce high quality products can reduce the gap between what products that will be produced by SMEs and what products needed by foreign consumers. Thus, production capabilities can enhance foreign market consumer acceptance.

H5: SMEs' production capabilities increase foreign consumer acceptance

Product market orientation is a product that has characteristics and attributes following consumer expectations. This kind of product is a result of being a market-oriented firm (Kohli and Jaworski 1990; Day 1994; Slater and Narver 1995). Market-oriented firms will be successful in translating information and ideas from the market into products and services offered. Designing, developing, and producing products and services following foreign consumer tastes and preferences, will enhance acceptance of those products and services abroad. Consumers are reluctant to buy something when there is a 'big-gap' between the product characteristics needed and offered by producers. Reducing this gap by following consumer tastes and preferences will enhance foreign consumer acceptance. In other words, offering products that have characteristics adapting with foreign consumer needs and wants will have a negative effect on foreign consumer rejection and refutation. Thus it increases foreign consumer acceptance.

H6: SMEs' export-market oriented products increase foreign consumer acceptance

Data and Method Analysis

Most Indonesian SME leaders are remarked as illiterate and have low degree of education (Tambunan 2005). This situation creates a difficulty developing a questionnaire based on Likert-Scale in which the answer ranges from 1 to 5 (some researchers prefer using 6 or more scale to have more precise answer). For that reason, the questionnaire is developed based on a binary answer (0 = No and 1 = Yes). This strategy intends to facilitate SME leaders in filling out the questionnaire. Furthermore, using binary scale can avoid complexity and difficulty for SME leaders at some stage in filling out the questionnaire that may cause ignorance to the questionnaire. To construct the 'export-marketing-capabilities,' the respondents are asked to think whether they have capabilities in marketing areas, such as the ability to find a new market, manage export administration, develop foreign marketing programs, and develop foreign communication programs. This series of questions use a scale ranging from 0 ('No') to 1 ('Yes'). The main objective of these questions is to analyze whether or not SMEs have these capabilities. To develop 'production-capabilities' construct, there are two questions used in this research: the ability to produce high quality products and the ability to make innovation follow-

ing foreign market needs. This series of questions also use a scale ranging from 0 ('No') to 1 ('Yes'). The investigation whether SMEs have production capabilities is not the main objective of this block of questions. The construct of 'export-market oriented products' is developed using four questions: whether products are designed following the market, whether products are destined for end-customers, whether innovation is realized following the market, and whether foreign market characteristics are followed during the new product development. Finally, the last construct is 'foreign consumer acceptance'. It is established using four questions: whether product price is perceived as competitive, whether there is a high degree of foreign customer satisfaction, whether there is a high degree of foreign market absorption, and whether products have foreign reputation.

SMEs in this research are SMEs owned by Indonesian and export their products (fully or partially) to one or more foreign countries. Consequently, this research excludes SMEs fully commercializing their products only in the Indonesian (domestic) market. Using data collected from Indonesian National Agency for Export Development (NAFED) and the Department of Trade, 500 SMEs are identified as SME exporters located in North Sumatra, Lampung, Jakarta-Banten, West Java, Yogyakarta, East Java, and Bali. Questionnaire distribution is facilitated by *Lembaga Manajemen* of the Faculty of Economics, University

of Indonesia during May 2006. Data are constituted by 387 SMEs (77.4%) who are willing to participate in this study by returning the questionnaire.

Hypotheses are tested using the structural equation modelling (SEM). Structural equation modelling is inherently a confirmatory technique (Jöreskog and Sörbom 1986; Kelloway 1998).¹ Therefore, this method is proper to examine the observed variables within each construct. The other aspect of structural equation modelling involves the estimation of unknown parameters based on observed covariances/correlations (Bollen and Long 1993; Fornell and Larcker 1981). This type of analysis has the advantage over correcting unreliability of measures and also provides information about the unique paths between the constructs.

Results and Discussion

The individual reliability in every item is evaluated by examining the loadings or simple correlations of the indicators with their respective constructs. The results shown by Table 1 indicate that all indicators exceed the 0.55 threshold proposed by Falk and Miller (1992) during the initial devel-

opment of scales. However, Cronbach's alpha construct is higher than 0.7, by which Nunnally (1978) and Peterson (1994) classify as a preliminary finding. As shown in Table 1, Cronbach's α of 'export marketing capabilities' is 0.78; 'production capabilities' is 0.77; 'product market orientation' is 0.79 and 'foreign consumer acceptance' is 0.79. Accordingly, considering the results of confirmatory results of the items, we can continue the analysis in the next stage, which are hypotheses testing and the analysis of index fit of the model.

Hypotheses are examined using the structural equation model. As noted earlier, it is important to obtain a comprehensive measure of the effect of SMEs' capabilities on product market orientation and foreign consumer acceptance. This type of analysis has the advantage over correcting unreliability of measures and also provides information about the unique paths between the constructs. The global model test provides a good fit to the data ($\chi^2 = 273.064$ $df = 71$, $p < .05$, CFI = .956, IFI = .957, RMSEA = .049). These indices indicate that this model can be used to test the path-structural relationship among the constructs. Table 2 indicates the results of hypothesis test-

¹ Structural equations for hypothetical model as follows:

$$\eta_1 = \gamma_{11} \xi_1 + \xi_1 \quad (\eta_1 \text{ as production capabilities; } \xi_1 \text{ as marketing capabilities and } \xi_1 \text{ as error})$$

$$\eta_2 = \gamma_{12} \xi_1 + \beta_{11} \eta_1 + \xi_2 \quad (\eta_2 \text{ as EMOP; } \xi_1 \text{ as marketing capabilities; } \eta_1 \text{ as production capabilities and } \xi_2 \text{ as error})$$

$$\eta_3 = \gamma_{13} \xi_1 + \beta_{12} \eta_1 + \beta_{21} \eta_2 + \xi_3 \quad (\eta_3 \text{ as consumer acceptance; } \xi_1 \text{ as marketing capabilities; } \eta_1 \text{ as production capabilities; } \eta_2 \text{ as EMOP and } \xi_3 \text{ as error})$$

Table 1. Results of Confirmatory Analysis

	<u>Mean</u>	<u>S.D.</u>	<u>Loading</u>
<i>Export Marketing Capabilities ($\alpha = 0.78$)</i>			
Company has skills and capabilities to find new international market (V1)	0.68	0.467	0.69
Company has skills and capabilities to manage export administration (V2)	0.57	0.495	0.73
Company has skills and capabilities to develop international marketing program (V3)	0.69		0.64
Company has skills and capabilities to communicate with international consumers (V4)	0.49	0.501	0.67
<i>Production Capabilities ($\alpha = 0.77$)</i>			
Company has skills and capabilities to produce a high quality product (V5)	0.11	0.315	0.63
Company has skills and capabilities to make innovation (V6)	0.22	0.413	0.84
<i>Export-market oriented product (0.79)</i>			
Products are designed by following international market demand (V7)	0.15	0.355	0.79
Products are destined for international end-consumer (V8)	0.21	0.405	0.70
Innovation is realized by following international market needs (V9)	0.13	0.333	0.67
Understanding international market needs is an important activity during product creation (V10)	0.46	0.499	0.68

Continued from Table 1

	Mean	S.D.	Loading
<i>Foreign Consumers' Acceptance ($\alpha = 0.79$)</i>			
Product's price is perceived very competitive by foreign consumers (V11)	0.21	0.411	0.69
High degree of international consumers' satisfaction (V12)	0.17	0.372	0.85
High degree of international market absorption (V13)	0.30	0.459	0.74
Products have a good reputation in international market (V14)	0.18	0.382	0.76

ing by evaluating path coefficient standardized (β) and also p-value and t-value of each relationship. However, Figure 2 shows that the complete model consists of observed variables and latent variables.

Hypotheses testing (from Table 2 and 3 as well as described in Figure 2) show that five out of six hypotheses are confirmed by the data. From the results above, 'export marketing capabilities' significantly increase 'production capabilities' ($\beta = 0.20$, $p < 0.01$). This result indicates that international marketing capabilities have a positive effect on production capabilities. Production capabilities cannot stand alone but it needs precise market information concerning customer tastes and preferences and product quality information. This information is valuable during production and innovation processes (Urban and Hausser 1980). This finding suggests that SMEs' produc-

tion capabilities of producing exported products are determined by export marketing capabilities. SMEs' production facilities and processes must follow foreign market standards. The role of export marketing capabilities in providing valuable foreign information is critical to enhance SMEs' production capabilities (Grimes et al. 2007).

Export marketing capabilities' also significantly increase 'export-market oriented products' with $\beta = 0.21$ and $p < 0.001$. This result reinforces the idea that to create products needed by the foreign market, SMEs need to develop marketing-capabilities (Ogbehui and Longfellow 1994). This ability can assure and guarantee that the market information is collected and translated into final products. This finding substantiates previous research that in order to produce high standard products following export standards, SMEs need capabilities of absorbing

Table 2. Results of Structural Model

Hypothesis	Path Standardized (β)	P value Coefficient	T value	Results
Marketing Capabilities → Production Capabilities	0.20	0.004*	2.902	Accepted
Marketing Capabilities → Product-Market-Oriented	0.21	0.000**	3.631	Accepted
Production Capabilities → Product-Market-Oriented	0.72	0.000**	9.117	Accepted
Marketing Capabilities → Int. Market Acceptance	0.23	0.000**	3.631	Accepted
Production Capabilities → Int. Market Acceptance	0.02	0.891	0.137	Rejected
Product-Market-Oriented → Int. Market Acceptance	0.68	0.000**	4.846	Accepted

* Indicates significant at the $p < 0.01$ level

** Indicates significant at the $p < 0.001$ level

Figure 2. Standardized Regression Weight of Model

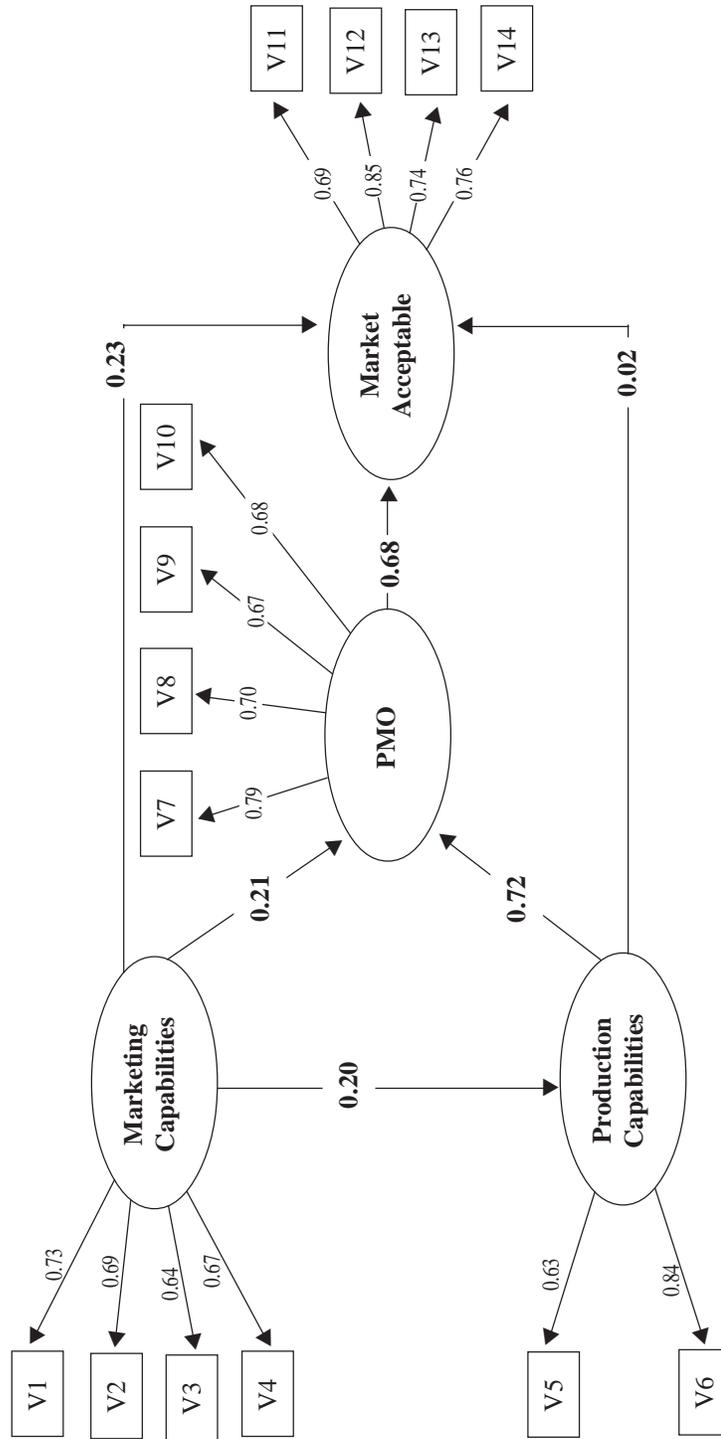


Table 3. **Structural Regressions**

Production capabilities = 0.20 * Marketing capabilities + error (t=2.902)
EMOP = 0.21 * Marketing capabilities + 0.72 * Production capabilities + error (t=3.631) (t=9.117)
Consumer acceptance = 0.68 * EMOP + 0.23 * Marketing capabilities (t=4.846) (t=3.631) + 0.02 * Consumer acceptance + error (t=0.137)

The t-value is to show whether the coefficient is significant or not.

and translating valuable information during designing and developing products (Urban and Hausser 1980).

Another result indicates that ‘production capabilities’ contribute significantly to ‘export-market oriented products’ with $\beta = 0.72$ and $p < 0.001$. The strong relationship between these two constructs reflects that ‘export-market oriented products’ need a high ability and capability of production in SMEs. In the production process, market information will be transformed to end-products and exported to the foreign market. Producing high quality products needs production capabilities (Zehir et al. 2006). This finding reinforces the importance of SMEs’ production capabilities for creating products following foreign market characteristics.

The fourth hypothesis is also confirmed by the data where ‘export marketing capabilities’ increase ‘foreign consumer acceptance’ with $\beta = 0.32$ and $p < 0.001$. Hypothesis testing points

out that ‘export marketing capabilities’ bring SMEs closer to the export market. Consequently, more SMEs have strong ‘export marketing capabilities’ and more SMEs’ products will be accepted by the foreign market. The ability to integrate process designed to apply the collective knowledge, skill, and resources in the firm are important to meet competitive demand (Day 1994). Export marketing capabilities can create values for products that will be commercialized in the foreign market.

‘Product market orientation’ also boost ‘export market acceptance’ with $\beta = 0.68$ and $p < 0.001$. It is quite clear that more products fit with market characteristics and attributes, and they will be absorbed and accepted by the foreign market. This result supports previous findings that market orientation leverages export performance (Blankson and Cheng 2005; Golann 2006; Pelham 1996 2000). Moreover, Blankson and Cheng (2005) empha-

size that the needs for market orientation will be higher for firms that have limited resources and capabilities, such as SMEs. Small firms tend to be market driven than market driving because they do not have resources and competencies to drive market, which is very expensive and takes long time to form. In the same vein, Pelham (1996; 2000) argues that there is a positive link between market orientation and business performance for small firms.

In contrast, hypothesis testing does not confirm that 'production capabilities' directly influences 'export market acceptance'. This result indicates that 'production capabilities' influences 'export market acceptance' through 'export-market oriented products'. Production capabilities alone cannot increase foreign market standards (e.g., foreign government regulations, consumer preferences, distributors' strategies). This result suggests that they must be firstly translated into products that have high characteristics following foreign market standards before being able to influence foreign consumer acceptance.

Conclusions

The main contribution of this research is to identify the determinants of SMEs' export performance. Using market-orientation perspective, this research unravels possibilities to predict export performance through export-market oriented products. This research also extends the findings in the past of the antecedents of product

market orientation. Several factors have been identified as the antecedents of market orientation, such as senior management characteristics (e.g., Kohli and Jaworski 1990; Jaworski and Kohli 1993); organizational features such as organization size (Calof 1994; Liu 1995), organizational culture (Dunn et al. 1994); organizational structure like centralization, departmentalization, formalization. Besides, organizational dynamics, such as conflict, connection, recruiting, training, and reward systems (e.g., Ruekert 1992; Kohli and Jaworski 1990) have been found as important factors to create products highly following market characteristics.

Following the high intensity of global competition, SMEs have to focus more on foreign customer satisfaction to win competition in the export market (Brouthers and Nakos 2005). This research argues that export marketing capabilities concept holds that the key to SMEs' success is through the determination and satisfaction of the foreign consumer needs, wants, and preferences. SMEs must pursue this process more effectively and efficiently than can competitors. This task will be more difficult for SMEs considering the fact that different local characteristics must be strategized (e.g., Morisson and Roth 1992; Roth and Morisson 1991). Thus, marketing and production capabilities are believed to be important factors to create high quality products as well as to determine export success. Export mar-

keting capabilities concept states that if SMEs want their products to be largely accepted by the foreign market, they must understand the different needs, wants, and demands internationally. This knowledge should be implemented during product design and development. Hence, having export marketing capabilities enhances the effectiveness of SMEs in developing and to implementing strategies and actions to win the competition in the foreign market.

This research points out that export market orientation needs supports from organizational factors. This research supports the finding of Tuominen et al. (1997) that capability is a determinant factor in market orientation. However the basic assumption of this research is that market orientation should be reflected and manifested into product characteristics following market factors (e.g., consumer tastes and preferences, industrial quality standards, competitor strategy). Export-market oriented products are the products that during new product development and creation follow market factors resulting from export market orientation activities. Export market orientation is considered a strategy to be market driven (Day 1994). It is not surprising that in export market orientation, foreign market factors become important as a primary consideration to all firms' strategies and actions.

Integrating this basic assumption

into the analysis of Indonesian SMEs' export performance, this research shows that capabilities play an important role in creating export-market oriented products. Both export marketing capabilities and production capabilities facilitate and enhance product market orientation. However, export marketing capabilities increase the SMEs' ability to improve production process to fabricate export products and services. Production process needs good and reliable market information. Moreover, the ability to develop international marketing also helps the production process and its quality following export market standards. Additionally, both export marketing capabilities and export-market oriented products increase the export performance, indicated by high degree of foreign market acceptance. This result confirms previous research that market orientation enhances firm's performance (e.g., Narver and Slater 1990).

However, this research has several limitations. *First*, the binary scale used in this research hides precise information concerning the respondent's answers. Even though this method is appropriate for facilitating SMEs' to fill out the questionnaire, more precise and accurate information is still needed. *Second*, there is no discriminant analysis for differentiating industrial effect. Since several industries have been included in this research, such as handicraft, furniture, food and beverages,

we need to identify SME behavior within each industry. *Third*, this research does not consider the development phase or stage proposed by Tambunan (2005). Accordingly, SMEs in Indonesia could be grouped into artisanal, active, dynamic, and advanced groups. Nevertheless, each cluster has its own characteristics with respect to managerial stages, export activities, marketing and production

levels, and entrepreneurial skills. However, this research also analyzes and evaluates how SMEs can develop its export marketing capabilities and their production capabilities. Next research should use both qualitative and quantitative methodologies to increase our understanding of SMEs' export activities.

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