The role of market orientation and innovation capability in export performance of emerging market SMEs

Abstract

Purpose: Internationalisation is an attractive growth strategy for emerging-market SMEs. This study extends the existing base of knowledge on proactive and reactive market orientation and innovation capability by testing its impact on the export performance of emerging marketing SMEs in a Latin American context. Latin American SMEs show peculiar characteristics which require a specific understanding of their internationalisation.

Design/ methodology/ approach: Data was collected through a survey answered by managers of 155 Mexican SMEs. The research model was tested using Partial Least Squares (PLS).

Findings: The results of this study indicate that innovation capability and reactive market orientation are drivers of export performance in emerging markets. Proactive market orientation has been found to have an indirect effect on export results.

Originality: Recent studies have focused on emerging market enterprises and their necessity to develop capabilities to achieve internationalization. This paper helps managers by providing insights on the main capabilities to develop to help their SMEs to achieve better export performance.

Keywords: proactive market orientation, reactive market orientation, innovation capability, export performance, emerging-market SMEs

Article classification: Research paper

1 Introduction

Enterprises from emerging markets have been internationalising rapidly due to the increasing levels of liberalization, privatization, and globalization (Ramamurti, 2009). Exporting is an often-used mode of internationalisation in emerging markets (Luo and Tung, 2007). The role of SMEs and their international activity is ever more critical to foster economic growth (Dutot, Bergeron and Raymond, 2014). According to the Organization for Economic Co-operation and Development (OECD, 2018), SMEs play an important role in the contribution to foreign trade in emerging markets. The participation of SMEs in foreign trade can increase the productivity of the firms since the expansion of the market allows exploiting economies of scale (Love, Roper and Zhou, 2016). Nevertheless, emerging-market SMEs face substantial obstacles like informational barriers, insufficient financial resources, difficulties in the distribution processes, and lack the necessary market orientation in foreign markets (Samiee and Chirapanda, 2019), which can result in a suboptimal export performance (OECD, 2018; Nakos, Dimitratos and Elbanna, 2019).

The growing participation of Mexican SMEs in internationalisation could contribute to the economic development of the country and region. The United States-Mexico-Canada Agreement (USMCA), which entered into force on July 1, 2020 has a specific focus on promoting SME participation in international trade, as well as business growth in local markets (USMCA, 2020). According to the Latin American Association of Internet (ALAI, 2020), innovation and digital development are the main drivers of economic growth, social and human development in Latin America. A recent study by the Mexican Association of Online Sales (AMVO, 2020) shows that even though Mexican SMEs have been able to increase their exports through digital channels, they still face barriers in strategy definition and implementation. In the light of these challenges, both academics and governments claim that gaining a better understanding of the internationalisation process of emerging-market SMEs, especially in a Latin American context, is a critical endeavour (Bianchi and Wickramasekera, 2016; Bianchi, Glavas and Mathews, 2017; Hermans and Reyes, 2020). Literature has investigated emerging markets firms' internationalisation from different management perspectives. However, studies from the marketing perspective are still scarce (İpek, 2020).

In this study, we consider that dynamic marketing capabilities such as market orientation and innovation capability can help SMEs to adapt to international market requirements and take advantage of opportunities through the creation or reconfiguration of operational capabilities (Atuahene-Gima, 2005; Murray, Gao and Kotabe, 2011; O'Cass and Ngo, 2012). Some studies have highlighted the role of market orientation in the internationalisation process of SMEs (Armario, Ruiz and Armario, 2008; Cadogan, Kuivalainen and Sundqvist, 2009). In emerging markets, the quality and quantity of innovation and the availability of technologies, know-how, and intangible assets often lag behind compared to developed markets (Wu *et al.*, 2016). Although there exists a broad range of literature reviewing the drivers of export performance, prior studies applied in emerging markets have focused more on European and Asian companies (Lin, Huang and Peng, 2014; Zehir, Köle and Yıldız, 2015) rather than on Latin American ones. The effect of innovation capability on export performance can be related to the home country development level and shows a stronger relationship in developed countries than in developing countries (Bıçakcıoğlu-Peynirci *et al.*, 2019). In this sense, it is important to examine the links between the drivers of market

orientation, innovation and export performance within a SME context taking into consideration the specific situation of emerging-market SMEs in Latin America.

This study aims to contribute to the existing body of knowledge about the impact of market orientation and innovation on export performance by analysing the specific situation of emerging-market SMEs. Consistent with the call for papers of Bettis, Helfat and Shaver (2014), this study aims to replicate previous studies and provide insights for an emerging-market SME context, considering the specific example of Mexican SME. This is especially important as Latin American markets show peculiar institutional characteristics that shape firm behaviours and distinguish them from other emerging markets (Hermans and Reyes, 2020). In this regard, the present study contributes to theory development in international business by considering the institutional diversity across the emerging-market region of Latin America (Hermans and Reyes, 2020), and thus, helps to strengthen the empirical credibility of the concepts of dynamic marketing capabilities and export performance (Bettis, Helfat and Shaver, 2016).

In the next section, we present the literature review on emerging markets SMEs, market orientation, and innovation capability. Next, we develop the research hypotheses and propose a model of market orientation, innovation capability, and export performance. We analyse the findings of the study and conclude with a discussion of the results, the limitations of the study, and suggestions for future research.

2 Literature review

SMEs play an essential role in emerging market economies as they are the principal generators of employment and economic growth (Kula and Tatoglu, 2003), contributing up to 60 percent of total employment in emerging markets (UNCTAD, 2019). Unlike firms from developed countries, emerging market firms operate in environments characterized by less-developed infrastructures and institutions constraining the development of internal capabilities for innovation (Cuervo-Cazurra, 2008). Emerging-market SMEs face significant barriers connected to their limited financial and managerial resources. Innovation in emerging markets mostly occurs when firms perceive clear opportunities or when they are pressed by suppliers and clients (Kula and Tatoglu, 2003).

Latin American SMEs face a different context to other enterprises in emerging markets characterised by pendular swings in the political economy, government intervention, underdeveloped capital markets, interfirm relationships, and polarised labour markets (Hermans and Reyes, 2020). Even though market liberalisation processes have been more extended in Mexico than in other American countries, a return to increased intervention and control can be observed (Hermans and Reyes, 2020). According to ALAI (2020), enabling and non-restrictive policies for innovation and development are required to enhance the development of Latin American SMEs. Furthermore, underdeveloped capital markets inhibit Latin American SMEs to grow and internationalise as they rely more on internally generated funds and therefore depend on a strong domestic performance (Maquieira, Preve and Sarria-Allende, 2012). Regarding interfirm relationships, Latin American firms tend to rely on informal agreements and favour family relations over interfirm relationships (Fainshmidt *et al.*, 2018). Another important factor that challenges the internationalisation of Latin American SMEs is the labour market situation; even though wages are below OECD

averages, they hardly offset the low productivity level and inefficiencies in marketing and logistics (Hermans and Reyes, 2020).

2.1 Market orientation

Due to the constraints discussed above, Latin American SMEs suffer from weaknesses in planning, training, finance, and organization of internal information. Considering these limitations, an emerging body of literature explores how market orientation and innovation capability may help to improve Latin American SMEs' export performance.

From a dynamic capability view, unique resources or capabilities can be used to drive subsequent strategies and support the continued development of new capabilities needed for international expansion (Teece, Pisano and Shuen, 1997). Dynamic marketing capabilities help firms to discover opportunities in new markets through the acquirement and integration of information (Morgan, Katsikeas and Vorhies, 2012), and the subsequent adaptation of products and services to offer added value to customers (Bruni and Verona, 2009; Fang and Zou, 2009). The consideration and analysis of the specific SME context have been highlighted as an area of interest to extend the existing literature on market orientation (Raju, Lonial and Crum, 2011; Hernández-Linares, Kellermanns and López-Fernández, 2018).

Market orientation has received significant attention from academics and managers due to its role in driving a firm's performance (Morgan, Vorhies and Mason, 2009; Frösén *et al.*, 2016). Market orientation focuses on learning from customers, competitors, and inter-functional coordination, evaluating the acquired information internally, and utilising it in strategy formulation (Narver and Slater, 1990). Market orientation allows firms to gather market intelligence about customer needs and disseminate this information throughout the organisation (Frösén *et al.*, 2016; Nakos, Dimitratos and Elbanna, 2019). In the case of SMEs, a firm's sensing capability and knowledge management practices have been found to have a positive influence on SME performance (Tseng and Lee, 2014). Furthermore, the dimensions of market intelligence generation and dissemination have been found to positively influence emerging-market SME export performance (Acikdilli *et al.*, 2020).

Market-oriented firms can better recognise and respond to changes and opportunities in international environments (Rose and Shoham, 2002). Recent studies revealed that market orientation is particularly relevant in exporting as it permits firms to learn about foreign markets and to adjust marketing strategies to better satisfy customer needs (Murray, Gao and Kotabe, 2011; Boso, Story and Cadogan, 2013). Jäkel (2019) found that export performance can differ across export markets due to changes in consumer tastes. Emerging-market SMEs need to adopt market orientation to survive the increasing competition and gain competitive advantages (Zhou, Yim and Tse, 2005). Market orientation enhances an SME's proactive behaviour in foreign markets and the resource commitment to seize market opportunities (Armario, Ruiz and Armario, 2008). According to Länsiluoto *et al.* (2019), market orientation can be a determinant of nonfinancial performance in SMEs. For emerging-market firms, market orientation is one of the most important strategic factors to consider when entering foreign markets (Liu, Li and Xue, 2011).

2.2 Innovation capability

Authors like Narver, Slater and MacLachlan (2004) argued that there is an incomplete understanding of market orientation as many enterprises ignore the detection and satisfaction of future, unexpressed customer needs by only focusing on reactive market orientation.

Furthermore, Narver, Slater and MacLachlan (2004) introduced the distinctive dimensions of proactive and reactive market orientation, whereas reactive market orientation allows companies to detect current needs, proactive market orientation is needed to detect the customers' future needs. Nevertheless, few studies explicitly analyse separately the effects of reactive and proactive market orientation on performance (Atuahene-Gima, Slater and Olson, 2005). In this study, proactive and reactive market orientation are considered separately to amplify the existing knowledge on drivers of SME internationalisation in a Latin American emerging-market context. Innovation capability is regarded as a necessary requisite for value creation (Lawson and Samson, 2001), which depends on the managerial support to implement innovation activities and research and development (Gibson and Naquin, 2011). According to Vicente, Abrantes and Teixeira (2015), innovation capability is a broad concept that encompasses different dimensions of innovation: new product development, innovativeness, and strategic and technological aspects. New product development implies the commitment to innovation and the understanding and anticipation of customers' needs (Nijssen *et al.*, 2006; Sousa and Lages, 2011). Innovativeness is understood as the opening towards new ideas that contribute to the development of new processes and products (Hurley and Hult, 1998) and improved results in foreign markets (Yam *et al.*, 2011; Dibrell, Craig and Neubaum, 2014). The implementation of innovation activities requires a strategy (Lawson and Samson, 2001). Strategy development that causes changes in a company's culture, stimulates creativity, and generates new ideas is driven by the opportunities in the international environment (Dibrell, Craig and Neubaum, 2014). Technological innovation helps enterprises to create scientific and technical knowledge to develop new products or improve existing ones (Kyläheiko *et al.*, 2011).

Innovation is a particular challenge in emerging markets (Cuervo-Cazurra, 2008). Cuervo-Cazurra *et al.* (2019) found that innovations, where firms adapt to the unique needs of emerging economies, enable them to differentiate their products and create a competitive advantage. Since most firms from emerging markets are young SMEs that tend to lack substantial financial, human, and physical resources, intangible capabilities like market orientation and innovation capability are especially important when expanding into foreign markets (Liu, Li and Xue, 2011). Innovation capability can help emerging markets SMEs to develop competitive advantages and start exporting activities (Golovko and Valentini, 2011; Love, Roper and Zhou, 2016). Innovation capability allows SMEs to produce new ideas and make changes in the products, processes, and management systems which allow them to have a better chance to survive in the market environment (Serna, Martínez and Martínez, 2016). According to Cassiman and Golovko (2011), successful product innovation encourages SMEs to enter export markets.

3 Hypothesis development

3.1 Market orientation and innovation capability

In a SME context, market orientation has been found to influence positively in firm performance (Länsiluoto *et al.*, 2019) and international performance (Armario, Ruiz and Armario, 2008). More specifically, Serna, Martínez and Martínez (2016) affirm that a learning orientation of Mexican SMEs influences positively performance. Reactive market orientation allows the development of products and services to meet the needs articulated by customers (Slater and Narver, 1998). Reactive market orientation is driven by demand in a foreign market and allows the emerging-market SME to identify and develop new

opportunities according to the needs expressed by customers. Verhees and Meulenberg (2004) find that customer market intelligence influences product innovation in SMEs. Market-oriented SMEs have a market-centric focus that supports innovation (Didonet *et al.*, 2016). According to Mashahadi, Ahmad and Mohamad (2016), reactive market orientation plays an important role in building exploitative and explorative innovation capability of exporting SMEs. Zehir, Köle and Yıldız (2015) provide empirical results for the positive influence of reactive market orientation in innovation capability on SMEs in Turkey. Furthermore, Genc, Dayan and Genc (2019) provide evidence for emerging-market SMEs of the United Arab Emirates which confirms the positive impact of market orientation in innovation.

Therefore, companies pursuing a reactive market orientation generally generate information related to their existing knowledge base and improve their understanding through existing clients (Atuahene-Gima, Slater and Olson, 2005). Accordingly, we propose the positive relationship of reactive market orientation in innovation capability in Latin American SMEs.

Hypothesis 1: Reactive market orientation positively influences innovation capability of emerging-market SMEs.

Satisfying current needs is often not sufficient to achieve a differentiating advantage since the expressed needs can be met easily by competitors (Narver, Slater and MacLachlan, 2004). Proactive market orientation complements reactive market orientation in order to explore new market knowledge, generate capabilities and redefine activities in dynamic markets to satisfy the latent customer needs and create and maintain competitive advantages (Narver, Slater and MacLachlan, 2004; Wang, Hu and Hu, 2013; Cuervo-Cazurra *et al.*, 2019). Proactive market orientation is generated through the observation of customer behaviour and the collection of information about customer problems (Atuahene-Gima, Slater and Olson, 2005). Companies with a proactive market orientation seek opportunities in the market that allow them to explore new solutions to meet the non-articulated needs of the main users by offering new products and services (Blocker *et al.*, 2011; Herhausen, 2016). As a result, we present the following hypothesis:

Hypothesis 2: Proactive market orientation positively influences innovation capability of emerging-market SMEs. Reactive and proactive market orientation are critical capabilities in the collection and generation of information that involve interactions between people and departments within an organisation (Jaworski and Kohli, 1993). Some studies analysing the ambidexterity of market orientation, which refers to the simultaneous use of reactive and proactive market orientation, find a positive relationship between the two variables (Voola and O'Cass, 2010), (Blocker *et al.*, 2011; Herhausen, 2016). Furthermore, Blocker *et al.* (2011) show that the interaction of reactive and proactive market orientation helps to create a higher value for the company. In this sense, we argue that reactive market orientation has a positive impact on proactive market orientation by strengthening the company's attempt to serve future customer needs (Voola and O'Cass, 2010; Blocker *et al.*, 2011; Herhausen, 2016). Thus, we postulate the third research hypothesis:

Hypothesis 3: Reactive market orientation positively influences proactive market orientation of emerging-market SMEs.

3.2 Market orientation and export performance

Market orientation has been found to be helpful in achieving growth (Reijonen *et al.*, 2012) and improvements in business performance in SMEs (Udriyah, Tham and Ferdous Azam, 2019). According to Rose and Shoham (2002), market orientation allows an organization to predict, react, and capitalize on changes in its environment, having an influence on its export performance. The influence of the export market orientation of SMEs on their international performance (Alotaibi and Zhang, 2017). SMEs with higher market orientation tend to internationalize more and have a better performance in foreign operations (Racela, Chaikittisilpa and Thoumrungroje, 2007). Nakos, Dimitratos and Elbanna (2019) found empirical evidence of the positive relationship between international market orientation and international performance of SMEs. However, Liu, Li and Xue (2011) discovered a significant limitation of strong market orientation during the internationalisation process of emerging market firms: although a market-oriented emerging-market firm is likely to have a learning attitude leading to an increased understanding of international operations, firms with a high level of market orientation tend to focus too much on current customer needs. Boso *et al.* (2016) confirmed that emerging-market SMEs generate a higher export performance through market orientation. Acikdilli *et al.* (2020) showed that the dimensions of market intelligence, dissemination and responsiveness relate positively to the export performance of Turkish SMEs.

Although research has suggested a strong link between market orientation and export performance, few studies differentiate between reactive and proactive market orientation. Voola and O'Cass (2010) confirmed that both dimensions of market orientation, reactive market orientation, and proactive market orientation, are relevant sources of competitive advantage. According to Atuahene-Gima, Slater and Olson (2005), reactive market orientation leads to new combinations of information and knowledge that enhance product development and proactive market orientation allows firms new market and technology developments. Thus, based on the previous findings, we suggest that companies that develop market-oriented activities can improve their export performance.

Hypothesis 4: Reactive market orientation positively influences the export performance of emerging-market SMEs.

Hypothesis 5: Proactive market orientation positively influences the export performance of emerging-market SMEs.

3.3 Innovation capability and export performance

The ability of SMEs in terms of innovation and exporting has been discussed in the literature; small firms tend to have behavioural advantages such as rapid decision-making processes, willingness to take risks, and flexibility in responding to new market opportunities (Love and Roper, 2015).

Following the conceptualisation of Vicente, Abrantes and Teixeira (2015), innovation capability is composed of different dimensions. Some studies examine the relationship between innovation capability and export performance, but they mostly focus on the product innovation dimension (Lewandowska, Szymura-Tyc and Gołebiowski, 2016). Product innovation increases the probability of starting to export (Cassiman and Golovko, 2011) and has a positive effect on economic performance (Lages, Silva and Styles, 2009). Product innovation can induce non-exporting SMEs to enter a foreign market (Cassiman, Golovko

and Martínez-Ros, 2010). Love, Roper and Zhou (2016) find that radical new-to-the-industry innovations positively influence inter-regional exports

According to Jaworski and Kohli (1993), under highly competitive market conditions more considerable innovativeness efforts are needed to meet international customers' needs. Once SMEs overcome the export hurdle, managerial education in the sense of ensuring employee engagement in innovation and exporting has a positive effect in exporting (Ganotakis and Love, 2012; Love and Roper, 2015). The innovation capabilities' dimension of know-how development has been found to have a positive effect on the financial performance of SMEs (Saunila, 2014). Likewise, Lee, Choi and Kwak (2014) showed that for emerging markets SMEs, innovativeness is positively related to firm performance.

The technological dimension of innovation is found to be a determinant of innovation outputs (Love and Roper, 2015) and source of competitive advantages (Cepeda and Arias-Pérez, 2019). According to Azar and Ciabuschi (2017) organisational innovation sustains technological innovation and enhances export performance. Silva, Styles and Lages (2017) confirmed that technological innovation has a positive impact on the economic and strategic export performance of firms.

Previous studies showed that there is a strong positive causal relationship between the dimensions of innovation, exporting, and SME performance; SMEs that both innovate and export generate higher sales growth than firms doing either exporting or innovation alone (Golovko and Valentini, 2011; Love and Roper, 2015). Furthermore, Oura, Zilber and Lopes (2016) provide empirical evidence for the emerging market of Brazil confirming the positive relationship of innovation capability on export performance. In sum, research suggests that the development of the innovation capability in SMEs will contribute to higher export performance as this requires the implementation of innovations in different technological, commercial and logistic processes (Vicente, Abrantes and Teixeira, 2015).

Hypothesis 6: Innovation capability positively influences the export performance of emerging-market SMEs.

Fig. 1 shows the research model of the study and summarizes the hypotheses.

4 Research methodology

4.1 Research design and sample

We applied and tested our hypotheses with data obtained through a survey targeted to exporting Mexican SMEs in the manufacturing sector. The main goods exported from Mexico are manufactured goods (OECD, 2018a). The Mexican economy ranks ninth in the world's biggest export economies (OECD, 2018a). Exports are of vast importance as they represent 35.5 percent of the Mexican GDP (Euromonitor, 2018). Mexico is a particularly suitable context for this study as SMEs dominate the business landscape, and the international activity of SMEs is showing growth rates and future potential for development (Euromonitor, 2018; OECD, 2018b).

To get access to a suitable sample, we obtained contact data of exporting Mexican SMEs from the databases B2B Hecho en México Marketplace and the Directory of Exporters, and from the organization ProMéxico, which guides internationalising enterprises in Mexico. As a result, we obtained a census consisting of 396 SMEs that fulfil the criteria of (1) being classified as a SME, (2) perform exporting activities, (3) sell manufactured goods via online

and offline channels. The firms were contacted initially by email providing a link to answer the survey online. In order to increase the response rate, companies were subsequently contacted by phone and also visited personally. The questionnaire was answered by general managers or marketing, sales, and export managers, following the practice of previous studies (Bianchi and Wickramasekera, 2016; Kachouie, Mavondo and Sands, 2018).

4.2 Measuring instruments and questionnaire design

The questionnaire was developed based on an extensive literature review including empirical and conceptual studies. Our research model is composed of three constructs: market orientation, innovation capability, and export performance. Based on the selected scales we developed a questionnaire containing 48 questions in 4 sections, descriptive variables, market orientation, innovation capability, and export performance (see Table I). Demographic variables were not further considered due to the lack of variability of the sample.

We measured the constructs of our model through scales that had been validated in previous literature (see Appendix 1). We used five-point Likert scales, where 1 indicates complete disagreement and 5 complete agreement. The dependent variable of export performance was measured through the EXPERF scales proposed by Zou, Taylor and Osland (1998). The export performance was measured through a second-order construct that included widely used dimensions in the measurement like financial export performance, strategic export performance and satisfaction with the export performance (i.e., Zou, Fang and Zhao, 2003; Freeman, Styles and Lawley, 2012). The two dimensions of market orientation were measured using the scales of Narver, Slater and MacLachlan (2004), which have been often used and tested in the literature (Beck *et al.*, 2011). Reactive market orientation is an independent variable whereas proactive market orientation is a dependent variable as it is affected by reactive marketing orientation. Given the complexity of the construct, we measured innovation capability through the second-order multidimensional scale proposed and applied to the exportation context by Vicente, Abrantes and Teixeira (2015). Innovation capability takes the role of a dependent variable that is influenced by reactive and proactive market orientation.

4.3 Data collection and analysis

We obtained 155 valid questionnaires, which corresponds to a response rate of 39 percent. The participating SMEs pertain to the sectors of fashion and apparel (48 percent), furniture and decoration (24 percent), electronics (11 percent), books (10 percent), and others (7 percent). 85 percent of the SMEs have more the three years of export experience and more than 50 percent of the SMEs sell between 10 and 50 percent of their products in foreign countries.

The data collected was analysed using partial least squares structural equation modelling (PLS-SEM) through the statistical package SmartPLS (Ringle, Wende, and Becker, 2015). When deciding whether to use PLS-SEM or covariance-based structural equation modelling (CB-SEM), it is important to consider that PLS-SEM achieves greater statistical power at smaller sample sizes, compared to CB-SEM (Hair *et al.*, 2017). Given the characteristics of the respondents, our model has a relatively small sample size. Furthermore, PLS-SEM has an advantage over CB-SEM as it does not assume normality of data distribution, which is rare in social sciences research (Hair *et al.*, 2017). The use of PLS-SEM is ever more

extended in empirical research in the fields of management and marketing (Hair et al., 2012a; Hair et al., 2012b). Besides, PLS-SEM handles well complex multi-item measures like innovation capability and allows the combination of reflective and formative measurement models like innovation capability and market orientation (Becker, Klein and Wetzels, 2012; Hair, Hult, Ringle, 2017).

5 Results

5.1 Evaluation of the measurement model

We employed a PLS-SEM algorithm to assess the reliability and validity of the reflective and formative constructs (Hair, Hult, Ringle, 2017). As a first step, we analyse the reflective higher-order constructs of innovation capability and export performance. Based on confirmatory factor analysis, Table II shows that both reflective first-order constructs have convergent validity as the standardized loadings are above .70 and the Average Variance Extracted (AVE) values are higher than .50 (Hair, Hult, Ringle, 2017). Furthermore, internal reliability is verified as the composite reliability (CR) and Cronbach's Alpha values are higher than .70 (Hair, Hult, Ringle, 2017).

The results show that the values for CR and AVE are within the desirable limits (Table III) (Wetzels, Odekerken-Schröder and Van Oppen, 2009; Hair, Hult, Ringle, 2017). According to Henseler, Ringle and Sarstedt (2014), in variance-based structural equation modelling the standard approaches of Fornell-Larcker criterion and the assessment of cross-loadings sometimes lack in detecting discriminant validity. Therefore, in this study, the discriminant validity is confirmed by using three different approaches (Hair, Hult, Ringle, 2017): (1) Fornell and Larcker criterion, (2) cross-loadings and (3) heterotrait-monotrait ratio (HTMT). The Fornell-Larcker approach confirms discriminant validity as each of the measured constructs shares most variance with the associated construct. Concerning the cross-loadings approach, the indicator's outer loadings are higher on the associated construct and therefore discriminant validity is confirmed. Lastly, discriminant validity is established by applying the HTMT approach as the HTMT value is below 0.9 for the reflective constructs (Hair, Hult and Ringle, 2016). In Appendix 2 the tables of the results of the different discriminant validity approaches are provided. With these results, we can affirm that the constructs are truly distinct from other constructs by empirical standards.

As a second step, we evaluate the formative measurement models following the procedure suggested by Hair, Hult, Ringle (2017). No collinearity problems were detected as all the variance inflation factor (VIF) values are below the threshold value of 5. The significance of each parameter is determined by evaluating the t-values (Hair, Hult, Ringle, 2017). After eliminating RMO2 and PMO5, all the formative indicators can be retained as their outer loadings are above .5 even though their outer weights are not significant (Hair, Hult, Ringle, 2017) (Table IV).

5.2 Structural model results

Once the reliability and validity of the outer models are established, we evaluate the structural model. Following the recommendations of (Diamantopoulos and Winklhofer, 2001), we confirm the absence of collinearity as all VIF values are below 5. The assessment of the model's quality is based on its ability to predict the endogenous constructs (Hair, Hult, Ringle, 2017). The R^2 values reflect the variance of the endogenous variable that is explained by the structural model (Hair, Hult, Ringle, 2017); the R^2 value shows a moderate effect on

export performance (.45) (Hair, Hult, Ringle, 2017). The quality of model fit is examined for predictive validity using the Stone–Geisser indicator (Q^2) and effect size f^2. The Q^2 for export performance has a predictive power of 24 percent. The f^2 values indicate the inclusion of constructs in the model, showing the weight of each construct in the model (Hair et al., 2017). The value for reactive marketing orientation (.173) indicates a medium degree of explanation, whereas innovation capability (.059) and proactive market orientation (.083) show weak degrees of explanation, as suggested by (Hair, Hult, Ringle, 2017).

Table V presents the results of hypotheses testing. Hypotheses 1 and 2 stipulated a positive influence of market orientation on innovation capability. Both reactive market orientation (H1) and proactive market orientation (H2) influence positively innovation capability. Our results also provide support for H3, which stated that reactive market orientation positively influences proactive market orientation. Furthermore, the results suggest that an emerging-market SME's reactive market orientation is positively associated with export performance (H4). The only hypothesis not supported in our study is H5, which proposed a direct path between proactive market orientation and export performance. However, the paths between proactive market orientation and innovation capability, and innovation capability and export performance were significant. The results demonstrate that innovation capability has a positive direct impact on export performance in emerging-market SMEs as hypothesized (H6).

6 Conclusions

6.1 Discussion

The primary objective of this study was to extend the existing base of knowledge on proactive and reactive market orientation and innovation capability by testing its impact on the export performance of emerging marketing SMEs in a Latin American context. With a study based on Mexican SMEs, we respond to the call for research on analysing the specific situation of Latin American SMEs to improve their participation in exports and extend the emerging-market literature by considering different regions and industries (Bianchi and Wickramasekera, 2016; Hermans and Reyes, 2020).

This paper contributes to the literature by replicating and confirming the importance of market orientation and innovation capability as drivers of export performance for SMEs in emerging markets. We considered the effect of both reactive and proactive market orientation on Latin American SME export performance separately. While previous studies found a positive relationship between reactive market orientation and international performance (i.e., Alotaibi and Zhang, 2017), studies that analyse the effect of both reactive and proactive market orientation on export performance are scarce. In this regard, the main contribution of this study is that in this emerging-marketing SME context, reactive market orientation has a direct impact on export performance of SMEs in emerging markets and proactive market orientation has no direct effect on export performance This result differs from the results of Petzold *et al.* (2019) which confirm a positive relationship of reactive and proactive market orientation on the performance of French and Canadian SMEs. A possible explanation could be the difference between SMEs of developed and emerging markets. In Latin American SMEs exist a predominance of families as owners that face important obstacles regarding their market orientation (Arregle *et al.*, 2017; Eddleston, Sarathy and Banalieva, 2019; Hermans and Reyes, 2020). Furthermore, the rejection of this hypothesis might be explained

by the nature of the proactive market orientation construct. Proactive market orientation focuses on the detection of latent needs of customers. This knowledge of latent needs should be translated to new product ideas to affect export performance.

Although there is no direct influence of proactive market orientation in export performance, an indirect effect through innovation capability has been supported. Both reactive and proactive market orientation affect innovation capability positively, and this, in turn, enhances export performance. This result extends the findings of Zehir, Köle and Yıldız (2015), which do not differentiate proactive and reactive market orientation. Therefore, although we cannot confirm a direct positive effect of proactive market orientation on export performance, our findings suggest that proactive market orientation affects export performance when emerging-market SMEs use the knowledge and information on customers' future needs and transform them into new products or processes. With our results, we confirm that variables that have been developed and proven in developed markets can be transferred to emerging markets.

Innovation capability has a direct and significant impact on export performance of emerging-market SMEs as Lee, Choi and Kwak (2014) concluded. Previous studies focused on analysing the correlation between a single dimension of innovation capability and export performance i.e., Lages, Silva and Styles (2009), rather than considering further dimensions. Relying on the multidimensional scales proposed by Vicente, Abrantes and Teixeira (2015), we confirm the notion that innovation capability is a multidimensional construct that improves export performance, and we extend these findings by applying the construct to an emerging-market SMEs context.

A remarkable finding of our study entails the complementarity of the dynamic marketing capabilities of market orientation and innovation to improve international performance

6.2 Managerial implications

We confirm that reactive and proactive market orientation and innovation capability are relevant for exporting activities in Latin American emerging markets. The findings of the present study provide vital insights for Latin American emerging-market SMEs to improve their processes and procedures and, consequently their export performance.

Firstly, we observe that Latin American SMEs should focus on obtaining information on markets and customers to be able to detect the changing needs of clients and implement solutions. Likewise, SMEs should consider the activities of their competitors and implement the acquired knowledge in their inter-functional processes.

Secondly, we recommend the development of the innovation capability to improve the processes of new product development and to invest in resources to develop strategic and technological innovations. Exporting SMEs can improve their export performance by pairing proactive and reactive market orientation and innovation capability. Such an approach would reduce export obstacles associated with emerging-market SMEs when seeking internationalization opportunities in foreign countries.

Furthermore, this study has implications for policymakers. Policymakers often lack in enabling innovations in manufacturing SMEs in emerging markets (Tesfom and Lutz, 2006). In line with the claims of ALAI (2020), Latin American SMEs need enabling and non-restrictive policies that encourage innovation to strengthen their international development.

6.3 Limitations and future research

Our paper has some limitations that suggest future lines of research. Regarding the sample, we recognize the heterogeneous nature of the data collection process as the companies are of different sizes and sub-sectors of the manufacturing industry. A stricter definition would have resulted in a smaller sample size. Notwithstanding, it would be interesting to replicate the study in the future with a broader population that encompasses companies from other sectors and countries to observe the similarities and differences between the results. Regarding the study design, the results could be enriched by including additional variables regarding the characteristics of the export companies and the configuration of their international strategy.

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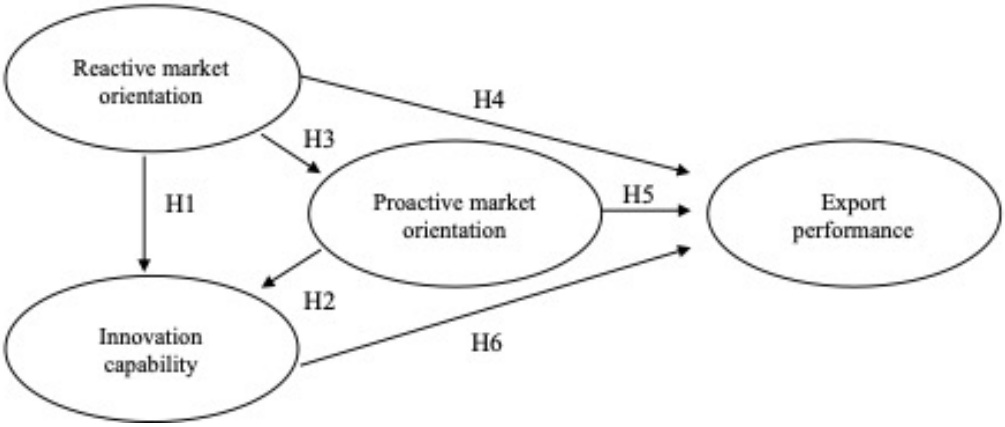

Figure 1: Research Model

Table I. Questionnaire design

Variables	Description
Descriptive variables	Identification and characterization of the SMEs: • Four filter questions to prove the eligibility • One question on sector affiliation and on principal client • One question on channel use • Four questions on export and sales
Market orientation	Measurement of market orientation constructs: • Eight questions to evaluate proactive market orientation (PMO) • Seven questions to evaluate reactive market orientation (RMO)
Innovation capability	Measurement of innovation capability construct: • Four questions on new product development (IC_NPD) • Three questions on innovativeness (IC_INNOV) • Three question on innovation strategy (IC_SC) • Three questions on technological innovation (IC_TEC)
Export performance	Measurement of export performance construct: • Three questions on financial export performance (EXP_FP) • Three questions on strategic export performance (EXP_SP) • Three questions on financial satisfaction of export performance (EXP_SE)

Table II: Innovation capability and export performance second-order results

Reflective factors		Indicators	Convergent validity		Internal consistency reliability	
			Loadings	AVE	CR	Cronbach's Alpha
Innovation capability	New product development	IC_NPD1	0.772	0.628	0.871	0.803
		IC_NPD2	0.785			
		IC_NPD3	0.845			
		IC_NPD4	0.767			
	Innovativeness	IC_INNOV1	0.853	0.731	0.891	0.816
		IC_INNOV2	0.851			
		IC_INNOV3	0.861			
	Innovation strategy	IC_SC1	0.852	0.667	0.857	0.750
		IC_SC2	0.771			
		IC_SC3	0.826			
	Technological innovation	IC_TEC1	0.836	0.761	0.905	0.842
		IC_TEC2	0.901			
		IC_TEC3	0.878			
Export performance	Financial export performance	EXP_FP1	0.878	0.776	0.912	0.856
		EXP_FP2	0.895			
		EXP_FP3	0.870			
	Strategic export performance	EXP_SP1	0.869	0.750	0.900	0.833
		EXP_SP2	0.891			
		EXP_SP3	0.837			
	Satisfaction with export performance	EXP_SE1	0.924	0.851	0.945	0.913
		EXP_SE2	0.932			
		EXP_SE3	0.912			

Table III: Innovation capability and export performance first-order results

Reflective factors		**Path**	**Error variance**	**CR**	**AVE**
Innovation capability	New product development	0.703	0.506	0.808	0.715
	Innovativeness	0.778	0.395		
	Innovation strategy	0.713	0.491		
	Technological innovation	0.667	0.555		
Export performance	Financial export performance	0.921	0.151	0.923	0.894
	Strategic export performance	0.883	0.220		
	Satisfaction with export performance	0.877	0.231		

Table IV: Measurement model for market orientation

Factors	Indicators	VIF	Outer Weight	Confidence Intervals		t value	p value	Outer Loading
		< 5		2.5%	97.5%			> 0. 5
Reactive market orientation	RMO1	1.417	0.263	0.013	0.489	2.213	0.027	0.578
	RMO3	1.588	0.053	-0.247	0.366	0.336	0.737	0.561
	RMO4	1.584	0.522	0.240	0.763	3.913	0.000	0.828
	RMO5	1.391	0.402	0.089	0.659	2.719	0.007	0.698
	RMO6	1.456	0.118	-0.158	0.367	0.868	0.385	0.525
	RMO7	1.453	0.079	-0.215	0.362	0.537	0.592	0.551
Proactive market orientation	PMO1	1.715	0.519	0.118	0.803	2.939	0.003	0.831
	PMO2	2.245	-0.122	-0.513	0.244	0.633	0.527	0.584
	PMO3	2.415	0.193	-0.245	0.655	0.836	0.403	0.725
	PMO4	1.776	0.053	-0.284	0.412	0.297	0.766	0.616
	PMO6	1.711	0.240	-0.095	0.541	1.479	0.139	0.610
	PMO7	1.590	0.230	-0.133	0.520	1.388	0.165	0.680
	PMO8	1.382	0.266	-0.075	0.561	1.664	0.096	0.616

Table VI: Test of hypotheses

Hypothesis	Direct effects	Path	t values	p values	Significance	Support
H1	Reactive market orientation→ Innovation capability	0.244	1.964	0.050	**	Yes
H2	Proactive market orientation→ Innovation capability	0.316	2.829	0.005	***	Yes
H3	Reactive market orientation→ Proactive market orientation	0.667	12.052	0.000	***	Yes
H4	Reactive market orientation→Export performance	0.351	3.731	0.000	***	Yes
H5	Proactive market orientation→ Export performance	0.100	0.974	0.330	ns	No
H6	Innovation capability → Export performance	0.245	2.938	0.003	***	Yes

*p<0.1; **p<0.05; *** p<0.01 (two-tailed)

Appendix 1. Measurement scales

Export performance (Zou et al. 1998)

Financial export performance

Our export activity has been very profitable.

Our export activity has generated a high volume of sales.

Our export activity has achieved rapid growth.

Strategic export performance

Our export activity has improved our global competitiveness.

Our export activity has strengthened our strategic position.

Our export activity has significantly increased our global market share.

Satisfaction with export activity

The performance of our export activity has been very satisfactory.

Our export activity been very successful.

Our export activity has fully met our expectations.

Reactive market orientation (Narver et al. 2004)

We constantly monitor our level of commitment and orientation to serving international customer needs.

We freely communicate information about our successful and unsuccessful international customer experiences across all business functions.

Our strategy for competitive advantage is based on our understanding of international customers' needs.

We measure international customer satisfaction systematically and frequently.

We are more focused in international customers than our competitors.

I believe this business exists primarily to serve international customers.

Data on international customer satisfaction are disseminated at all levels in this business unit on a regular basis.

Proactive market orientation (Narver et al. 2004)

We help our international customers anticipate developments in their markets.

We continuously try to discover additional needs of our international customers of which they are unaware.

We incorporate solutions to unarticulated international customer needs in our new products and services.

We brainstorm on how international customers use our products and services.

We innovate even at the risk of making our own products obsolete.

We search for opportunities in areas where international customers have a difficult time expressing their needs.

We work closely with lead users who try to recognize international customer needs months or even years before the majority of the market may recognize them.

We extrapolate key trends to gain insight into what international users in a current market will need in the future.

Innovation capability (Vicente et al. 2015)

New product development capability

We develop new products for export to exploit R&D investment

We speedily develop and launch new products for export

We manage overall new product development systems for export market well

We successfully launch new products for exports

Innovativeness

Our company frequently tries out new ideas

Our company seeks out new ways to do things

Our company is creative in its methods of operation

Innovation strategy

Internal cooperation is an important part of innovation strategy implementation

Formulating innovation strategy increases employee skills

Improving employee commitment, morale, or both is part of our innovation

Technological innovation

Our technological capabilities are top class

The success of our R&D activities is based on long-term know-how

We have invested heavily in certain R&D projects

Appendix 2. Discriminant validity procedures

Fornell and Larker (1981)

	Financial export performance	Strategic export performance	Satisfaction with export performance	Innovativeness	New product development	Innovation strategy	Technological innovation
Financial export performance	**0.881**						
Strategic export performance	0.727	**0.923**					
Satisfaction with export performance	0.744	0.625	**0.866**				
Innovativeness	0.241	0.322	0.330	**0.855**			
New product development	0.312	0.315	0.374	0.296	**0.793**		
Innovation strategy	0.178	0.276	0.291	0.559	0.297	**0.817**	
Technological innovation	0.234	0.271	0.232	0.347	0.371	0.228	**0.872**

Cross Loadings

	EXP_FP	EXP_SE	EXP_SP_	IC_NPD	IC_INNOV	IC_SC	IC_TEC
FP1	0.878	0.650	0.639	0.254	0.245	0.203	0.221
FP2	0.895	0.634	0.675	0.273	0.229	0.204	0.192
FP3	0.870	0.639	0.652	0.297	0.161	0.062	0.206
SE1	0.651	0.924	0.571	0.295	0.320	0.268	0.246
SE2	0.707	0.932	0.612	0.310	0.304	0.252	0.253
SE3	0.654	0.912	0.544	0.267	0.266	0.243	0.252
SP1	0.631	0.555	0.869	0.359	0.290	0.247	0.262
SP2	0.646	0.512	0.891	0.302	0.336	0.305	0.190
SP3	0.654	0.555	0.837	0.309	0.233	0.204	0.151
V1	0.113	0.144	0.129	0.772	0.194	0.176	0.482
V2	0.199	0.142	0.260	0.785	0.181	0.147	0.267
V3	0.292	0.275	0.365	0.845	0.204	0.235	0.280
V4	0.374	0.419	0.423	0.767	0.348	0.367	0.147
V5	0.206	0.250	0.260	0.246	0.853	0.487	0.260

V6	0.212	0.290	0.301	0.253	0.851	0.466	0.303
V7	0.199	0.285	0.286	0.261	0.861	0.482	0.327
V8	0.118	0.230	0.252	0.208	0.543	0.852	0.175
V9	0.164	0.252	0.210	0.206	0.428	0.771	0.196
V10	0.158	0.196	0.249	0.312	0.395	0.826	0.188
V11	0.214	0.208	0.229	0.344	0.281	0.181	0.836
V12	0.240	0.266	0.201	0.299	0.313	0.230	0.901
V13	0.158	0.235	0.178	0.330	0.314	0.184	0.878

HTMT

	Financial export performance	Strategic export performance	Satisfaction with export performance	Innovativeness	New product development	Innovation strategy
Financial export performance						
Strategic export performance	0.823					
Satisfaction with export performance	0.881	0.716				
Innovativeness	0.288	0.372	0.400			
New product development	0.373	0.361	0.454	0.361		
Innovation strategy	0.223	0.334	0.367	0.713	0.376	
Technological innovation	0.276	0.309	0.277	0.418	0.452	0.287