

MARKETING ORIENTATION AND INTERNATIONAL INDUSTRIAL NETWORK INVOLVEMENT: An Exploratory Perspective

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Introduction

Over the past twenty years interest in smaller manufacturing enterprises (SME) has increased significantly. The contributions of these enterprises to economic growth through technological development and expansion into international markets have been noted and studied by economists and management specialists from both governmental and private sectors. Researchers from several disciplines have examined SMEs' growth as well as their involvement in industrial networks. Literature pertaining to SMEs in both of these streams of research is well documented. Over the past twenty years, according to several studies, SMEs have adjusted their managerial perspective more towards their markets and increased their involvement in foreign markets. Only a limited number of research studies, however, focus directly on the actual involvement of SMEs in international industrial networks. Additional concepts, theories, and studies are needed to fully understand the notion of SMEs' involvement in international industrial networks.

More definite studies are needed to examine the role of SMEs in international industrial networks, and more specifically, the involvement of various types of SME in such networks. It appears that SMEs with different levels of marketing orientation tend to have different

propensities for their individual involvement in international industrial networks. It is important to examine the levels of marketing orientation of SMEs and relate them, in some useful ways, to their propensities to enter into international industrial networks. In a broad and exploratory way, this is the main objective of this paper. More specifically, the objective of this study is to examine a sample of smaller traditional manufacturing enterprises, using collected data over the past twenty years, at four different levels of marketing orientation and speculate about their propensities to enter into international industrial networks.

The justification of this exploratory research perspective stems from the notion that it might be meaningful to explore whether or not emerging high technology enterprises follow the same development path as traditional industrial enterprises regarding the levels of marketing orientation as well as their propensities to enter into international industrial networks, i.e., comparing the old with the new. This proposition has important research and policy implications. Since it took a relatively long time for smaller traditional manufacturing enterprises to enter international markets, and eventually perhaps even longer, to enter international industrial networks, the following critical question arise. Do emerging high technology enterprises enter into international industrial networks much faster? Can research studies help us understand why? If they can, can policy makers concerned with growth and stimulation of the more traditional smaller manufacturing enterprises, based on knowledge gained from studies of the new high technology enterprises, assist them in minimizing the time traditional SMEs need to enter international industrial networks? Traditional SMEs will not necessary replace new high technology enterprises. Minimizing the time for traditional SMEs to enter international industrial networks could compel them to become more competitive. The exploratory research perspective for this study is formulated in such a way that both the more traditional SMEs as well as the newer high technology enterprises could be studied to determine their apparent different propensities to enter international industrial networks.

This paper is organized as follows. A short literature summary is presented first followed by a conceptual research framework designed to assess the propensity of smaller manufacturing enterprises, at various levels of marketing orientation, to enter into international industrial networks. This presentation is followed by an empirical exploratory analysis of longitudinal data derived from a panel of SMEs and collected over the past twenty years. Conclusions and suggestions for future research are also presented.

Literature review

The concept that firms move through levels of marketing orientation was first been suggested in the early nineteen sixties by Keith [1] who based his observation on his own managerial experiences at Pillsbury. This concept suggests that before a firm becomes fully marketing oriented it proceeds through three distinct stages of marketing orientation as described in Figure 3. According to this approximation, a typical firm starts out as being production oriented, moves to a form of sales orientation, and later reaches a level of limited marketing orientation which emphasizes improved distribution capabilities to reach its customers more efficiently. The final level, according to this approach, is when the firm reaches the next marketing orientation level where it focuses on the needs and wants of their customers. This concept is not without criticism. Although, since its introduction, this approach was very useful in examining operations of many types of marketing firms, including SMEs,. Over the years, several

researchers have examined this concept from varying different point of views. For example, Fullerton [2] has taken a very long point of view and argued that Keith's relatively short and limited managerial experience at Pillsbury does not necessarily correspond with the long historical perspective of organizational development and marketing orientation. Other marketing specialists including Kotler [3] offer more workable explanations of marketing orientation among firms evolving into contemporary marketing organizations.

In spite of the extensive discussion about the periods of time over which marketing orientation needs to be examined, several other points of view regarding levels of marketing orientations have been introduced in the literature. Gilbert and Bailey [4] proposed a model of dynamic change that could provide some basis for further research concerning marketing orientation. A similar approach was presented by Ericsson [5] and Bois [6] regarding management of human resources and information needs respectively. In all of these cases, the levels of marketing orientation could potentially be used as components of conceptual models used in attempting to explain how SMEs behave during their growth and how they can be classified on the basis of each individual level of marketing orientation.

Over the past twenty years, the concept of SMEs' internationalization has been well represented in the managerial literature. Numerous studies focusing on SMEs' export behavior addressed internationalization as an issue related to export operations [7, 8]. Many of the available studies suggested that as firms grow they have a tendency to view internationalization of their operations as different modes of their foreign market entry and development strategy [9]. Some of these approaches, including strategies among SMEs, have changed over the past twenty years. A summary of these concepts is presented in Figure 2. This summary presents three different interpretations for the concept of development of foreign markets as a proxy for internationalization-- one for 1975, 1985, and 1995.

From the perspective of SMEs, the theory of networks is also well developed and documented, for example, see Håkansson [10] or Axelsson [11]. Recent developments based on more popular view of SMEs and networks suggest that the future of SMEs depends not only on whether or not they participate in industrial networks, but their competitive survival mandates that they become a part of industrial networks [12].

This short summary of the literature concerning the three areas outlined above suggests that although there is an abundance of studies dealing with the concepts of (1) marketing orientation, (2) internationalization of SMEs, and (3) network theory, there appears to be a significant need to integrate these concepts. Studies focusing on the issue of integration of these three areas, or even issues related to the integration of these three areas, are nonexistent.

Conceptual research framework

This exploratory research attempt is designed to partly remedy the lack of studies that examine the propensity of SMEs to enter international industrial networks. For this purpose a conceptual research framework was developed and is presented in Figure 1. The framework is designed to test if SMEs with different levels of marketing orientation will have different propensities to enter into international industrial networks. A data set covering a twenty-year period, from 1975 to 1995, is used in this analysis [7]. The framework consists of four major components: (1)

levels of marketing orientation, (2) a longitudinal data set covering a panel of SMEs, (3) differences between those SMEs that plan for development of foreign markets and those that do not, and (4) SMEs' participation in international industrial networks.

The levels of marketing orientation used in this framework were derived from Keith [1] and are outlined in Figure 2. A research note on the representative discussion regarding the levels of marketing orientation is also presented in Figure 3. The longitudinal data derived from a panel of SMEs over a twenty-year period focuses specifically on smaller manufacturing enterprises and has been used as a basis for other studies [7,13]. The differences between those SMEs that plan for development of foreign markets and those that do not have been used frequently in studies over the past twenty years as a proxy variable for internationalization among SMEs [14, 15].

As part of this framework the levels of marketing orientation are represented in the longitudinal data by different proxy variables as presented in Figure 4. The *production level* of marketing orientation is represented in the data set by *efficient production techniques* as a perceived advantage by SMEs' managers. The *sales level* of marketing orientation is represented by *dynamic sales force* as a perceived advantage by SMEs' managers. The two marketing orientation levels, *marketing (distribution)* and *marketing (customer)* are represented by *efficient distribution* and *efficient marketing techniques* respectively. The differences between those SMEs that plan for development of foreign markets and those that do not are used as a means of classification of those SMEs that should have some degree of propensities to enter into international industrial networks.

Theoretical assumptions

The fundamental assumption in this study is as follows. SMEs with different levels of marketing orientation have propensities to enter into international industrial networks at different points in time. As they proceed from production orientation to marketing (customer) orientation, their propensities to enter international industrial networks increase significantly. At some point in time they will enter these networks because their need for marketing orientation, either in the form of need for a more efficient distribution or the need for customer orientation, will be realized. The SMEs that are most likely to do so are those that have systematically planned to enter foreign markets as part of their normal planning process. Although some of these SMEs may plan to develop foreign markets, they may not actually enter into international industrial networks.

Data set

The data set consists of a panel of 866 SMEs and was formulated in 1975. Ten years later in 1985, the original panel was reduced by normal attrition to 618. In 1995 the panel still contained 322 of the original SMEs. Consequently, between 1975 and 1985 the panel was reduced by 28.6 percent and between 1985 and 1995 by 47.9 percent, for an overall reduction between 1975 and 1995 of 62.8 percent. A comprehensive questionnaire based on in-depth exploratory interviews with 23 SMEs and insights from existing literature was developed for the 1975 study. The same questionnaire was used in 1985 and 1995. The questionnaire addressed a number of issues, including differences between exporting and nonexporting SMEs. The response rate was 52 percent in 1975, 47 percent in 1985, and 31 percent in 1995. These response rates were judged

to be normal for the type of a questionnaire at the time when the study was conducted; for additional details see Tesar and Moini [7].

Analysis

The SMEs in the study were classified using the proxy variable for international industrial network involvement (*plan to develop foreign markets*). Those SMEs that planned for foreign market development were divided into four groups based on their level of marketing orientation using the appropriate proxy variables: production (*efficient production methods*), sales (*dynamic sales force*), marketing (distribution) (*efficient distribution*), and marketing (customer) orientation (*efficient marketing techniques*). Each pair of variables was tested for statistically significant differences.

The results in Table 1 indicate that in 1975 there was a statistically significant difference between those SMEs that were in the sales and marketing (customer) levels of orientation with respect to their propensity to enter into international industrial networks. There were no statistically significant differences between SMEs that were in the production and marketing (distribution) levels of orientation. These findings suggest that production oriented SMEs are focused on their internal operations and thus pay insignificant attention to broad international concerns. In the case of the marketing (distribution) level of orientation, it appears that SMEs in 1975 were concerned with improving their domestic operations with respect to distribution and customer identification, and they were not interested in international opportunities.

The findings were substantially different in 1985. As shown in Table 2 statistically significant differences were found among the three upper levels of marketing orientation (sales, distribution, and customer). There were no statistically significant difference found among SMEs on the production level of marketing orientation. These findings suggest that when SMEs enter the sales level of marketing orientation, they develop a propensity to enter into international industrial networks and continue to enter through the two levels of marketing orientation, i.e., distribution and customer.

The same findings were generated in Table 3 for SMEs in 1995. There is a statistically significant difference for the three top levels of marketing orientation (sales, distribution, and customer) and there is not a statistically significant difference for marketing orientation on the production level. These findings again suggest that participation in international industrial networks becomes important starting at the sales level of marketing orientation and continues on to the other levels.

The combination of all three outcomes based on the statistically significant differences were also tested together in Table 4. The results suggest that the differences between the three tests are not statistically significant. This further suggests that the results concerning the outcome similarities are consistent. Results for the 1985 and 1995 analysis clearly indicate that once SMEs reach the sales level of marketing orientation, their propensity to enter into international industrial networks begins to increase.

Conclusion

This paper presents an early version of exploratory research into SMEs' propensity to enter into international industrial networks based on a combination of theoretical constructs found in the international business literature. A conceptual research framework was developed for this exploratory research. It appears that this framework may potentially be used to refine future studies and further explore the concept of SMEs entering into broad international industrial networks both among smaller more traditional manufacturing enterprises as well as among new high technology enterprises.

The existing exploratory study has two shortcomings. First, it uses a data set generated over the past twenty years from a panel of SMEs for purposes that were slightly different from what a comprehensive study would require, given the research framework for this study. Second, in order to utilize some of the theoretical concepts used in this exploratory study, some of the variables had to be somewhat redefined and proxy variables had to be used. Although this did not significantly alter the intent of this exploratory research, it may reduce its accuracy.

The findings of this exploratory study, however, are important and suggest that by combining various theoretical constructs a new approach to examination of network entry and relationships could be developed. This is important for empirical research today in general and in international business research in particular.

Future research

Most of the studies focusing on internationalization, foreign market entry, and entry into international industrial networks in the past focused on smaller traditional manufacturing enterprises. The studies dealing with industrial networks in general focused on similar enterprises. The emergence of new high technology enterprises globally requires researchers to examine and replicate some of the earlier research issues, concepts, and theories among these new types of enterprises. This exploratory study has attempted to introduce a new research framework constructed around existing concepts and has attempted to test this with data generated from traditional SMEs. It would be important to determine whether or not the same research framework would apply to new high technology SMEs in the same way.

New research is needed to consider what has been researched in the past and relate it to contemporary issues found among new high technology enterprises. This would require not only reexamination of the earlier research but also generation of new data sets among the new high technology enterprises that could be used to test some of the results from the past studies.

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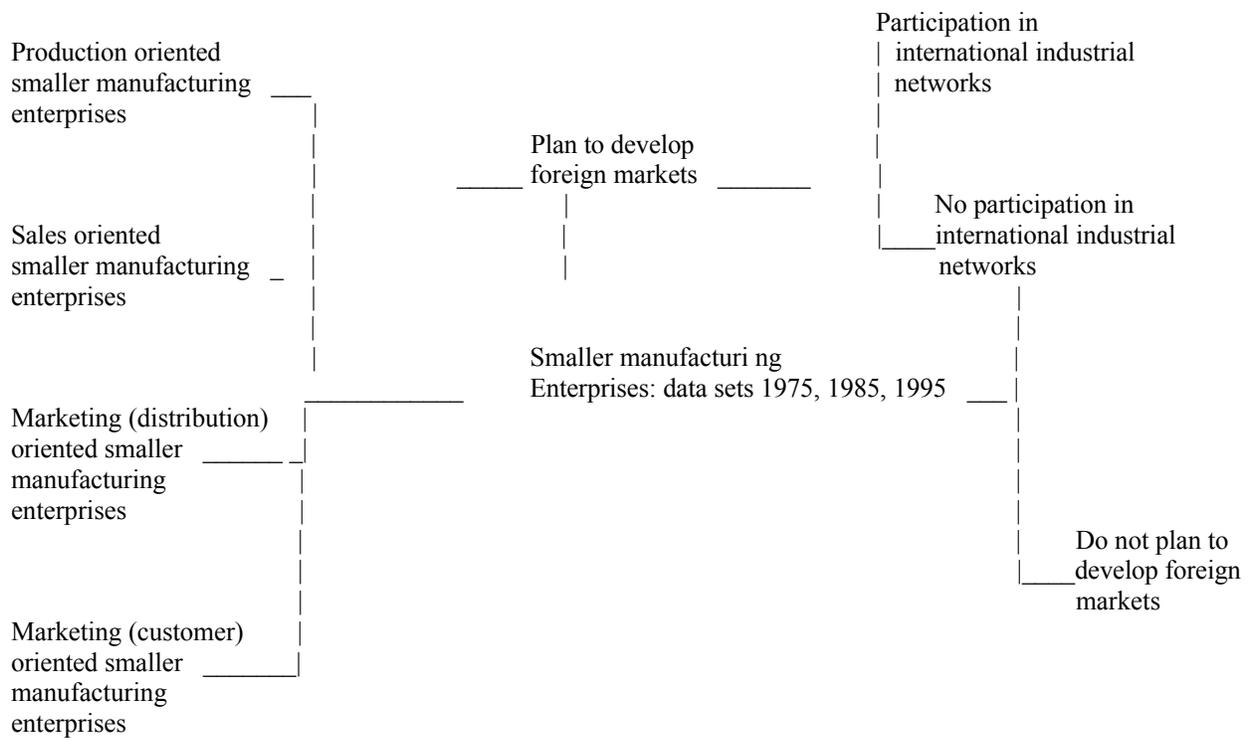


Figure 1
Schematic representation of conceptual research framework
to assess propensity of smaller manufacturing enterprises to
enter into international industrial networks

Figure 2
Concepts: Level of Marketing Orientation

Production oriented concept	<i>The availability of manufacturing resources and raw materials. The emphasis is placed on the efficiency and effectiveness of production. New product decisions were production oriented. (Keith)</i>
Sales oriented concept	<i>Abundant availability of output required effective and efficient sales effort. Sales organizations were responsible for disposing of all products. (Keith)</i>
Marketing (distribution) oriented concept	<i>An effective and efficient sales effort combined with ineffective distribution system did not allow the products to reach customers. Identification of customers became essential. (Keith)</i>
Marketing (customer) oriented concept	<i>A comprehensive focus on the needs and wants of customers (consumers) through the deployment of marketing management functions with emphasis on a long term perspective. (Keith)</i>

Source: Robert J. Keith, "The Marketing Revolution," *Journal of Marketing* (January, 1960), 35-8.

Note: The research on stages of marketing, or eras of marketing, has been discussed in the literature by several authors since the original article by Keith was published. However, from a rather short term perspective over the past forty years, the original interpretation of stages of marketing is still valid as a conceptual framework for exploratory research such as this. For additional interpretations of stages of marketing see: (1) D. E. New and J. L. Schlacter, "Abandon Bad R&D Projects with Earlier Marketing Appraisals," *Industrial Marketing Management*, 8, (November, 1979), 274-80; (2) A. L. Bancroft and R. S. Wilson, "Management Accounting for Marketing," *Management Accounting* (December, 1979), 25-30; (3) K. L. Bois, "The Manufacturing/Marketing Orientation and its Information Needs," *European Journal of Marketing*, 14, 5/6 (1980), 354-64; (4) T. T. Tyebjee *et. al.*, "Growing Ventures can Anticipate Marketing Stages," *Harvard Business Review*, 61 (January/February, 1983), 62-6; (5) D. Ericsson, "Management and Resource Administration," *International Journal of Physical Distribution & Materials Management*, 14, 1 (1984), 21-32; (6) R. A. Fullerton, "How Modern is Modern Marketing? Marketing's Evolution and the Myth of the 'Production Era'," *Journal of Marketing*, 52 (January 1988), 108-25; (7) R. Abratt and D. Sacks, "The Marketing Challenge: Towards Being Profitable and Socially Responsible," *Journal of Business Ethics*, 7 (1988), 497-507; (8) D. Gilbert and N. Bailey, "The development of Marketing-- A Compendium of Historical Approaches," *The Quarterly Review of Marketing* (Winter, 1990), 6-13; and (9) P. Kotler, *Marketing Management: Analysis, Planning, Implementation, & Control*, 7th edition.

Figure 3- Concept: development of foreign markets

1975 interpretation	<p>Development of foreign markets was closely associated with exporting. Some smaller manufacturing enterprises were either involved in some form of exporting either as passive or aggressive exporters. Exporting was perceived as a marketing option that carried a low level of risk in foreign markets and low levels of commitment to their customers. Close cooperation between smaller manufacturing enterprises and their clients in further development of their markets was nominal. Those enterprises that did not export either planned to export in the future and therefore planned for development of foreign markets, or were not interested in exporting at all and, consequently, did not plan for development of foreign markets. Sources: Robert O. McMahon, <i>et. al.</i>, "Organizing for International Marketing," <i>Northwest Business Management</i>, Winter, 1968, 20-33; David Zenoff, <i>International Business Management</i> (New York: Macmillan, 1971, 65; and Michael Y. Yoshino, "Marketing Orientation in International Business," <i>MSU Business Topics</i>, Summer, 1965, 58-64.</p>
1985 interpretation	<p>Development of foreign markets was interpreted not only as exporting but also as a general expansion into several markets using a variety of foreign market entry strategies such as joint ventures, licensing, direct investment, among others. Smaller manufacturing enterprises generally employed exporting as their preferred entry strategy into foreign markets. They realized that closer cooperation with their foreign customers is essential. They began to form alliances with them and, in some cases, entered into cross manufacturing, distribution, and marketing agreements. Intensive pressure from local, state, and federal governments intensified their efforts to be a part of the international environment. Those smaller manufacturing enterprises that were not part of the international business environment either planned to develop foreign markets, or those that were not competitive in foreign markets had a difficult time functioning in their own domestic business environment. Sources: P. Songchaikul and W. J. Bilkey, "Commonalities among Imports, Exports, and Foreign Direct Investment," in <i>Export Policy: A Global Assessment</i>, edited by M. R. Czinkota and G. Tesar (New York: Praeger, 1982), 43-60; M. Czinkota, "An Evaluation of the Effectiveness of U.S. Export-Promotion Efforts," in <i>Export Policy: A Global Assessment</i>, edited by M.R. Czinkota and G. Tesar (New York: Praeger, 1982), 63-71; and G. Tesar and J. S. Tarleton, "Stimulation of Manufacturing Firms to Export as Part of National Export Policy," in <i>Export Promotion: The Public and Private Sector Interaction</i>, edited by M.R. Czinkota.</p>
1995 interpretation	<p>Development of foreign markets was perceived in a broad context of internationalization leading to globalization. Smaller manufacturing enterprises were entering the global marketplace from necessity in the form of sourcing or purchasing and some were aggressively seeking market opportunities abroad. Even those smaller manufacturing enterprises that were reluctant to enter into foreign markets were frequently forced to do so because of pressure from their clients or customers. Participation in relationships (mostly U.S.) and networks (mostly Europe) influenced the planning process of numerous smaller manufacturing enterprises to actively consider foreign markets as viable options for their operations. Foreign market entry strategies differed significantly among smaller manufacturing enterprises depending on the external pressure from their suppliers, clients, or the relevant outside agencies. Those smaller manufacturing enterprises that did not position their operations for global markets became less and less competitive. Sources: Y. S. Yang, <i>et. al.</i>, "A Market Expansion Ability Approach to Identify Potential Exporters," <i>Journal of Marketing</i>, 56 (January 1992), 84-96; P. W. Liesch and G. A. Knight, "Information Internationalization and Hurdle Rates in Small and Medium Enterprise Internationalization," <i>Journal of International Business Studies</i>, 30 (Second Quarter 1999), 383-94; and J. Ruth and B. Simonin, "International Cooperative Strategies: Do Consumer Perceptions of Alliances and Countries-of-Origin Matter?" paper presented at the 1998 Annual meeting of the Academy of International Business, Vienna, Austria, October 7 to 10, 1998.</p>

Figure 4

Concepts: Level of Marketing Orientation-Definition of Proxy Variables

Level of marketing orientation	Proxy variable (perceived advantages)
Production	Efficient production methods
Sales	Dynamic sales force
Marketing (distribution)	Efficient distribution
Marketing (customer)	Efficient marketing techniques

Source: G. Tesar and A. H. Moini, "Longitudinal Study of Exporters and Nonexporters: A Focus on Smaller Manufacturing Enterprises," *International Business Review*, 7 (1998), 291-313; and H. B. Thorelli and G. Tesar, "Entrepreneurship in International Marketing: A Continuing Research Challenge," in *Marketing and Entrepreneurship: Research Ideas and Opportunities*, edited by G. E. Hills (Wesport, CT: Quorum Books, 1994), 255-68.

Table 1
Level of marketing orientation and international network involvement 1975

Marketing orientation	International industrial network involvement				
	Yes	No	Chi sq.	p < (1 d.f.)	n*
Production	48 (19%)	199 (81%)	.063	0.80	247 (52%)
Sales	33 (27)	89 (73)	5.317	0.02	122 (26)
Marketing (distribution)	40 (23)	135 (77)	1.553	0.21	175 (37)
Marketing (customer)	46 (28)	118 (72)	10.538	0.00	164 (35)

N = 473; *multiple responses

Table 2
Level of marketing orientation and international network involvement 1985

Marketing orientation	International industrial network involvement				
	Yes	No	Chi sq.	p < (1 d.f.)	n*
Production	56 (67%)	28 (33%)	3.231	0.07	84 (29%)
Sales	47 (57)	35 (43)	24.919	0.00	117 (41)
Marketing (distribution)	39 (42)	43 (58)	3.937	0.05	82 (28)
Marketing (customer)	54 (66)	28 (34)	23.523	0.00	82 (28)

N = 288; *multiple responses

Table 3
Level of marketing orientation and international network involvement 1995

Marketing orientation	International industrial network involvement		Chi sq.	p < (1 d.f.)	n*
	Yes	No			
Production	27 (45%)	33 (55%)	1.190	0.28	60 (59%)
Sales	22 (73)	8 (27)	18.968	0.00	30 (30)
Marketing (distribution)	26 (60)	17 (40)	12.260	0.00	43 (43)
Marketing (customer)	25 (60)	17 (40)	10.684	0.00	42 (42)

N = 101; *multiple responses

Table 4
Level of marketing orientation and international involvement 1975, 1985, 1995

Marketing orientation	International industrial network involvement		
	1975 N = 473	1985 N = 288	1995 N = 101
Production	48 (19%)	56 (67%)	27 (45%)
Sales	33 (27)	47 (57)	22 (73)
Marketing (distribution)	40 (23)	39 (42)	26 (60)
Marketing (customer)	46 (28)	54 (66)	25 (60)

Chi sq. = 2.01, p > 0.05 (11 d.f.) the differences are not statistically significant.