The role of market orientation and innovation capability in export performance of small- and medium-sized enterprises: a Latin American perspective

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Abstract

Purpose – This study aims to extend the existing base of knowledge of proactive and reactive market orientation and innovation capability by testing their impact on the export performance of emerging-market small- and medium-sized enterprises (SMEs) in a Latin American context.

Design/methodology/approach – This paper is a replication study, and its data were collected through a survey answered by general, marketing, sales or export managers at 155 Mexican SMEs. The research model was tested using partial least squares.

Findings – The study results indicate that innovation capability and reactive market orientation are drivers of export performance in Latin American SMEs. Moreover, proactive market orientation has been found to have an indirect effect on export results.

Practical implications – This study highlights to managers of Latin American SMEs the importance of capability development and deployment to improve export performance.

Social implications – SMEs enabled by strategic and technological innovation based on current and latent customer needs can advantageously perform in foreign markets and can drive economic growth and social and human development in Latin America.

Originality/value – Recent studies have focused on emerging-market enterprises and the necessity of developing dynamic capabilities to achieve internationalisation. This study extends previous research by assessing the robustness and generalizability of drivers in export performance for manufacturing SMEs in Latin America. In particular, it provides empirical insights on the capabilities to develop by Latin American SMEs to achieve better export performance.

Keywords Innovation capability, Export performance, Proactive market orientation, Emerging-market SMEs, Reactive market orientation

Paper type Research paper

1. Introduction

Emerging-market enterprises have been rapidly internationalising owing to increasing levels of liberalisation, privatisation and globalisation (Ramamurti and Singh, 2009). An often-used mode for initiating the internationalisation process in emerging markets is exportation (Luo and Tung, 2007). For small- and medium-sized enterprises (SMEs), international activity is critical to foster economic growth (Dutot *et al.*, 2014). According to

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the Organisation for Economic Co-operation and Development (OECD, 2018a), SMEs play an important role in the contribution to foreign trade in emerging markets. SME participation in foreign trade can increase their productivity because the expansion of the market allows them to exploit economies of scale (Love *et al.*, 2016). Nevertheless, emerging-market SMEs face substantial obstacles such as informational barriers, insufficient financial resources, difficulties in the distribution processes and lack of the necessary market orientation in foreign markets (Samiee and Chirapanda, 2019), thus resulting in a suboptimal export performance (OECD, 2018; Nakos *et al.*, 2019).

For Mexican SMEs, growing participation in internationalisation could contribute to the country and region's economic development (OECD, 2019). The United States–Mexico–Canada Agreement (USMCA), which entered into force on 1 July 2020, is specifically focused on promoting SME participation in international trade and business growth in local markets (USMCA, 2020). According to the Latin American Association of the Internet (ALAI, 2020), innovation and digital development are the main drivers of economic growth and social and human development in Latin America. Furthermore, a recent study by the Mexican Association of Online Sales (AMVO, 2020) shows that although Mexican SMEs have been able to increase their exports through digital channels, they still face barriers in strategy definition and implementation. These challenges have caused both academicians and governments to claim that a better understanding of the internationalisation process of emerging-market SMEs, especially in a Latin American context, is critical (Bianchi and Wickramasekera, 2016; Bianchi *et al.*, 2017; Hermans and Reyes, 2020). Although literature related to emerging-market firms' internationalisation from different management perspectives exists, studies from the marketing perspective are still scarce (İpek, 2020).

In this study, we considered whether dynamic marketing capabilities such as market orientation and innovation capability can help SMEs adapt to international market requirements and take advantage of opportunities through the creation or reconfiguration of operational capabilities (Atuahene-Gima, 2005; Murray *et al.*, 2011; O'Cass and Ngo, 2012). Some studies have highlighted the role of market orientation in the SME internationalisation process (Armario *et al.*, 2008; Cadogan *et al.*, 2009). In emerging markets, the quality and quantity of innovation and the availability of technologies, know-how and intangible assets often lag than that in developed markets (Wu *et al.*, 2016). Although there is a broad range of literature that reviews the drivers of export performance, some prior studies related to emerging markets have focused more on European and Asian companies (Lin *et al.*, 2014; Zehir *et al.*, 2015) rather than on Latin American companies. 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 essential to examine the links between the drivers of market orientation, innovation and export performance within an SME context by considering the specific situation of emerging-market SMEs in Latin America.

Consistent with the call for replication studies of Bettis *et al.* (2016), this study replicates previous studies on market orientation (Rose and Shoham, 2002; Zhang and Zhu, 2016) and innovation capability (Vicente *et al.*, 2015) and provides insights for the Latin American SME context by considering the specific example of Mexican SMEs. This aspect is particularly important because Latin American markets show peculiar institutional characteristics that shape firm behaviours and distinguish them from other emerging markets (Hermans and Reyes, 2020). Therefore, this study can be considered a quasi-replication study that contributes to assessing robustness and generalizability by adapting the empirical setting to a specific manufacturing SME context across the emerging-market region of Latin America (Hermans and Reyes, 2020) and to adjusting the research design

(Bettis *et al.*, 2016). Therefore, the present study strengthens the empirical credibility of the measured dynamic marketing capabilities that can be developed in a Latin American SME context to achieve better export performance.

Section 2 presents a literature review of emerging-market, particularly Latin American, SMEs and their market orientation and innovation capabilities. Then, we developed the research hypotheses and proposed a model of market orientation, innovation capability and export performance. We analysed the study findings and concluded the study by discussing the results, stating the study limitations and specifying suggestions for future research.

2. Literature review

SMEs play an essential role in emerging-market economies because they are the principal generators of employment and economic growth (Kula and Tatoglu, 2003), contributing up to 60% of total employment in emerging markets (UNCTAD, 2019). Unlike firms from developed countries, emerging-market firms operate in environments characterised by less-developed infrastructures and institutions that constrain 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).

Although SMEs represent 99.5% of firms in Latin America and are important generators of regional employment, they are highly informal and reflect a crucial productivity gap (OECD, 2019). Latin American SMEs exist in a different context from other enterprises in emerging markets. They suffer pendular swings in the political economy, government intervention, underdeveloped capital markets, inter-firm relationships and polarised labour markets (Hermans and Reyes, 2020). Although market liberalisation processes have been extended in Mexico more than in other Latin American countries, a return to increased intervention and control can be observed (Hermans and Reyes, 2020). According to ALAI (2020), enabling and non-restrictive innovation and development policies are required to enhance the development of Latin American SMEs. Furthermore, underdeveloped capital markets inhibit Latin American SMEs from growing and internationalising because they rely more on internally generated funds; therefore, they depend on a strong domestic performance (Maquieira *et al.*, 2012). In addition, Latin American firms tend to rely on informal agreements and to favour family relations over inter-firm relationships (Fainshmidt *et al.*, 2018). Another important factor that challenges the internationalisation of Latin American SMEs is the labour market. Although wages are below OECD averages, they hardly offset the low productivity level and inefficiencies in marketing and logistics (Hermans and Reyes, 2020). Latin American firms tend to use commoditised strategies and compete with low prices and relatively undifferentiated, low-quality products. When internationalising, Latin American firms face larger challenges than their advanced economy counterparts because they often continue operating with this commoditised approach (Batsakis and Mohr, 2017; Cuervo-Cazurra *et al.*, 2019).

2.1 Market orientation

Owing to the constraints discussed above, Latin American SMEs suffer from a lack of planning, training, finance and organisation of internal information (Hermans and Reyes, 2020). Considering these limitations, an emerging body of literature explores ways in which market orientation and innovation capability may help improve Latin American SMEs' export performance.

From a dynamic capability viewpoint, unique resources or capabilities can be used to drive subsequent strategies and support the continued development of new capabilities needed for international expansion (Teece *et al.*, 1997). Dynamic marketing capabilities can be perceived to be an extension of dynamic capabilities that help firms to discover opportunities in new markets through the acquirement and integration of information (Morgan *et al.*, 2012) and the subsequent adaptation of products and services to offer added value to customers (Bruni and Verona, 2009; Fang and Zou, 2009). Market orientation can be considered as a dynamic marketing capability as it is identified as a marketing asset that helps to develop the renewal of a firm's resources and capabilities through cross-functional coordination within the organisation (Barrales-Molina *et al.*, 2014). 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 *et al.*, 2011; Hernández-Linares *et al.*, 2018).

Market orientation has received attention from academicians and managers owing to its role in driving a firm's performance (Morgan *et al.*, 2009; Frösén *et al.*, 2016). It focuses on learning from customers, competitors and inter-functional coordination, thereby evaluating the acquired information internally and using 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 *et al.*, 2019). Narver *et al.* (2004) introduced the distinctive dimensions of proactive and reactive market orientation; reactive market orientation allows companies to detect current needs, whereas proactive market orientation is needed to detect the customers' future needs. In this study, proactive and reactive market orientations are considered separately to amplify the existing knowledge on drivers of SME internationalisation in a Latin American emerging-market context.

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 *et al.*, 2011; Boso *et al.*, 2013). Jäkel (2019) found that export performance can differ across export markets owing to changes in consumer tastes. Emerging-market SMEs need to adopt market orientation to survive the increasing competition and gain competitive advantages (Zhou *et al.*, 2005). Market orientation enhances an SME's proactive behaviour in foreign markets and the resource commitment to seize market opportunities (Armario *et al.*, 2008). According to Länsiluoto *et al.* (2019), market orientation can be a determinant of non-financial performance in SMEs. For emerging-market firms, market orientation is one of the most important strategic factors to consider when entering foreign markets (Liu *et al.*, 2011).

2.2 Innovation capability

Innovation capability is regarded as a necessary requisite for value creation (Lawson and Samson, 2001). It depends on managerial support to implement innovation activities and research and development (Gibson and Naquin, 2011). According to Vicente *et al.* (2015), innovation capability is a broad concept that encompasses different innovation dimensions: 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 *et al.*, 2014). The implementation of innovation activities requires a strategy (Lawson and Samson, 2001). Strategy development that changes a company's

culture, stimulates creativity and generates new ideas is driven by opportunities in the international environment (Dibrell *et al.*, 2014). Technological innovation helps enterprises create scientific and technical knowledge that develops new products or improves existing ones (Kyläheiko *et al.*, 2011).

Innovation is a particular challenge in emerging markets (Cuervo-Cazurra, 2008). In a qualitative study, Cuervo-Cazurra *et al.* (2019) suggested that innovations, where firms adapt to the unique needs of emerging economies, enable them to differentiate their products and create a competitive advantage. Because most firms in emerging markets are young SMEs that tend to lack substantial financial, human and physical resources, intangible capabilities such as market orientation and innovation capability are especially important when expanding into foreign markets (Liu *et al.*, 2011). Innovation capability can help emerging-market SMEs develop competitive advantages and begin export activities (Golovko and Valentini, 2011; Love *et al.*, 2016). Innovation capability allows SMEs to develop new ideas and change the products, processes and management systems that will allow them to have a better chance of survival in the market environment (Serna *et al.*, 2016). According to Cassiman and Golovko (2011), successful product innovation encourages SMEs to enter export markets.

3. Hypotheses development

3.1 Market orientation and innovation capability

In an SME context, market orientation has been found to have a positive influence in firm performance (Länsiluoto *et al.*, 2019) and international performance (Armario *et al.*, 2008). More specifically, Serna *et al.* (2016) affirmed that Mexican SMEs learning orientation positively influences performance. Likewise, an SME'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).

Reactive market orientation – driven by demand in a foreign market – allows the development of products and services that meet the needs articulated by the customers (Slater and Narver, 1998). It allows the emerging-market SME to identify and develop new opportunities according to the needs expressed by customers. Verhees and Meulenberg (2004) found that customer market intelligence influences product innovation in SMEs. Market-oriented SMEs have a market-centric focus that supports innovation (Didonet *et al.*, 2016). When Latin American firms better understand customer needs in emerging markets, there is an opportunity to break away from commodity-based positions in global value chains and price dependence through product innovation (Cuervo-Cazurra *et al.*, 2019). According to Mashahadi *et al.* (2016), reactive market orientation plays an important role in building exploitative and explorative innovation capabilities in exporting SMEs. Zehir *et al.* (2015) provided empirical results for the positive influence of reactive market orientation in innovation capability on SMEs in Turkey. Furthermore, Genc *et al.* (2019) provided evidence for emerging-market SMEs in the United Arab Emirates, confirming the positive impact of market orientation in innovation.

Therefore, companies that pursue a reactive market orientation generally generate information related to their existing knowledge base and improve their understanding through existing clients (Atuahene-Gima *et al.*, 2005). An INSEAD/OECD research project about innovation in Latin America identified adequate information systems as one of the most important characteristics when seeking to strengthen innovation capability (Casanova *et al.*, 2016). Latin American firms that adapt to emerging-market customer needs can create

a competitive advantage through product innovations that fulfil customer needs at a low price point without sacrificing functionality and features (Cuervo-Cazurra *et al.*, 2019). Accordingly, we propose the positive relationship of reactive market orientation in innovation capability in Latin American SMEs. We thus propose the following hypothesis:

H1. Reactive market orientation positively influences the innovation capability of emerging-market SMEs.

Satisfying current needs is often not sufficient to achieve a differentiating advantage because the expressed needs can be met easily by competitors (Narver *et al.*, 2004). Proactive market orientation complements reactive market orientation to explore new market knowledge, generate capabilities and redefine activities in dynamic markets. This aspect satisfies the latent customer needs and creates and maintains competitive advantages (Narver *et al.*, 2004; Wang *et al.*, 2013; Cuervo-Cazurra *et al.*, 2019). Proactive market orientation is generated by observing customer behaviour and collecting information about customer problems (Atuahene-Gima *et al.*, 2005). Companies with a proactive market orientation seek opportunities in the market 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).

When entering new markets, some Latin American enterprises diversified their products and strengthened their brands domestically to differentiate themselves and escape price competition (Brenes *et al.*, 2014). As the case-study analysis of Cuervo-Cazurra *et al.* (2019) suggests, proactive market orientation can offer Latin American SMEs the opportunity to compete on differentiated products by offering solutions that are based on the unexpressed customer needs. These unexpressed customer needs, detected through a proactive market orientation, can be implemented as new products or processes which are created through innovative capability. Consequently, we present *H2*:

H2. Proactive market orientation positively influences the innovation capability of emerging-market SMEs.

Reactive and proactive market orientation are critical capabilities when collecting and generating information that involves interactions between people and departments within an organisation (Jaworski and Kohli, 1993). Some studies analyse the ambidexterity of market orientation that refers to the simultaneous use of reactive and proactive market orientation and finds a positive relationship between the two variables (Voola and O'Cass, 2010; Blocker *et al.*, 2011; Herhausen, 2016). Furthermore, Blocker *et al.* (2011) showed that the interaction of reactive and proactive market orientation helps 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 *H3*:

H3. Reactive market orientation positively influences the proactive market orientation of emerging-market SMEs.

3.2 Market orientation and export performance

Market orientation can help in achieve growth (Reijonen *et al.*, 2012) and improve business performance in SMEs (Udriyah *et al.*, 2019). According to Rose and Shoham (2002), market orientation allows an organisation to predict, react and capitalise on changes in its

environment, which has an influence on its export performance. SMEs with higher market orientation tend to internationalise more and have a better performance in foreign operations (Racela *et al.*, 2007). Nakos *et al.* (2019) found empirical evidence of the positive relationship between international market orientation and the international performance of SMEs. However, Liu *et al.* (2011) discovered a strong market orientation limitation 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 more on the 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.

According to Cuervo-Cazurra *et al.* (2019), understanding customer needs helps Latin American firms develop products that are particularly well-suited to the conditions of emerging markets. Therefore, upgrading their capabilities to sell reputable, quality products can improve their international competitiveness.

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 and proactive market orientation – are relevant sources of competitive advantage. According to Atuahene-Gima *et al.* (2005), reactive market orientation leads to new combinations of information and knowledge that enhance product development, and proactive market orientation allows new market and technology development. Thus, based on the previous findings, we suggest *H4* and *H5*:

H4. Reactive market orientation positively influences the export performance of emerging-market SMEs.

H5. Proactive market orientation positively influences the export performance of emerging-market SMEs.

3.3 Innovation capability and export performance

The innovation and export ability of SMEs 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 *et al.* (2015), innovation capability has different dimensions. Some studies examined the relationship between innovation capability and export performance, but they focused mostly on the product innovation dimension (Lewandowska *et al.*, 2016). Product innovation increases the probability of starting to export (Cassiman and Golovko, 2011) and has a positive effect on economic performance (Lages *et al.*, 2009). Product innovation can induce non-exporting SMEs to enter a foreign market (Cassiman *et al.*, 2010). Love *et al.* (2016) found that radical new-to-the-industry innovations positively influenced inter-regional exports.

According to Jaworski and Kohli (1993), highly competitive market conditions require considerable innovativeness to meet international customer needs. Once SMEs overcome the export hurdle, managerial education in the sense of ensuring employee engagement in innovation and export has a positive effect on exporting (Ganotakis and Love, 2012; Love and Roper, 2015). The innovation capability dimension of know-how development has been found to have a positive effect on the financial performance of SMEs (Saunila, 2014).

Likewise, Lee *et al.* (2014) showed that for emerging-market 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 a 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 *et al.* (2017) confirmed that technological innovation has a positive impact on the economic and strategic export performance of firms.

The effect of Latin American enterprise innovation capability on international performance has been confirmed for multinational enterprises in previous studies. Researchers found that innovation capability can leverage the internationalisation process of Latin American enterprises (Losada-Otálora and Casanova, 2014). It can help exploit Latin American enterprise opportunities in developed markets (Bandeira-de-Mello *et al.*, 2016). Previous studies on SMEs show that both innovation and export can generate higher sales growth than firms doing either alone (Golovko and Valentini, 2011; Love and Roper, 2015). Furthermore, Oura *et al.* (2016) provided empirical evidence for the Brazilian emerging market that confirms the positive relationship of innovation capability on export performance. In sum, the research suggests that the development of the innovation capability in SMEs will contribute to higher export performance, which requires the implementation of innovations in different technological, commercial and logistic processes (Vicente *et al.*, 2015). We argue that Latin American SMEs that are able to use innovation capability into their products and processes are able to better fulfil their international customer needs. According to the following hypothesis, these SMEs perform better in exporting markets:

H6. Innovation capability positively influences the export performance of emerging-market SMEs.

Figure 1 shows the research model of the study and summarises the hypotheses.

4. Research methodology

4.1 Research design and sample

We applied and tested our hypotheses with data obtained through a survey targeted at exporting Mexican SMEs in the manufacturing sector. A questionnaire with appropriate

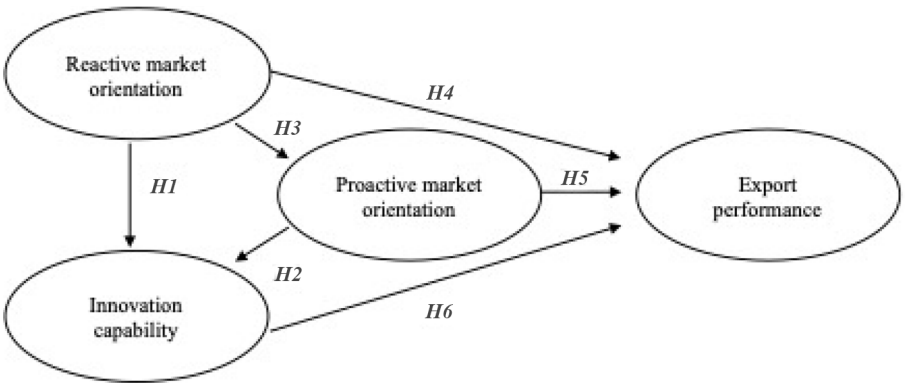

Figure 1.
Research model

questions, correct ordering of questions and strict selection criteria is recognized as an adequate method to accurately reflect the opinions of the participants (Newby *et al.*, 2003; Chen *et al.*, 2006). The main goods exported from Mexico are manufactured goods (OECD, 2018a). The Mexican economy ranks ninth in the world's export economies (OECD, 2018a). Exports are of vast importance because they represent 35.5% of the Mexican gross domestic product (Euromonitor, 2018). Mexico is a particularly suitable context for this study because SMEs dominate the business landscape. The international activity of SMEs shows growth rates and future potential for development (Euromonitor, 2018; OECD, 2018b).

To provide a suitable sample, we obtained contact data from exporting Mexican SMEs from the databases B2B Hecho en Mexico Marketplace and the Directory of Exporters and from the organisation ProMéxico, which guides internationalising enterprises in Mexico. Consequently, we obtained a census of 396 SMEs that fulfil the criteria of being classified as an SME, performing exporting activities and selling manufactured goods via online and offline channels. The firms were contacted initially by email that provided a link to answer the survey online. To increase the response rate, the companies were subsequently contacted by phone and also visited in person. The questionnaire was answered by general managers or marketing, sales and export managers, following the practice of previous studies (Bianchi and Wickramasekera, 2016; Kachouie *et al.*, 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 was composed of three constructs: market orientation, innovation capability and export performance. Based on the selected scales, we developed a questionnaire containing 48 questions in four sections, i.e. descriptive variables, market orientation, innovation capability and export performance (Table 1). Demographic variables were not further considered owing to the lack of variability of the sample.

The constructs of our model were validated through scales from previous literature (Appendix 1). We used five-point Likert scales, where 1 indicated complete disagreement and 5 indicated complete agreement. The dependent variable of export performance was measured through the EXPERF scales proposed by Zou *et al.* (1998). Export performance was measured through a second-order construct that included widely used dimensions in measuring financial export performance, strategic export performance and satisfaction with the export performance (Zou *et al.*, 2003; Freeman *et al.*, 2012). The two dimensions of market orientation were measured using the scales of Narver *et al.*'s (2004) study that have been often used and tested in the extant literature (Beck *et al.*, 2011). Reactive market orientation is an independent variable, whereas proactive market orientation is a dependent variable because it is affected by reactive marketing orientation. Given the complexity of the construct, we measured innovation capability through the second-order multi-dimensional scale proposed and applied to the exportation context in the study by Vicente *et al.* (2015). Innovation capability is a dependent variable that is influenced by reactive and proactive market orientation.

4.3 Data collection and analysis

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

As our model involves testing several relationships and includes more than one dependent variable, structural equation modelling (SEM) was used as a method of model

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 1.
Questionnaire design

estimation. The specific statistical method used was partial least squares-SEM (PLS-SEM) through the package SmartPLS (Ringle *et al.*, 2015). When deciding whether to use PLS-SEM or a covariance-based structural equation modelling (CB-SEM), it was 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 because 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). Additionally, PLS-SEM handles complex multi-item measures such as innovation capability well, and it allows the combination of reflective and formative measurement models like innovation capability and market orientation (Becker *et al.*, 2012; Hair *et al.*, 2017).

5. Results

5.1 Evaluation of the measurement model

We used a PLS-SEM algorithm to assess the reliability and validity of the reflective and formative constructs (Hair *et al.*, 2017). As a first step, we analysed the reflective higher-order constructs of innovation capability and export performance. Based on confirmatory factor analysis, Table 2 shows that both reflective first-order constructs have convergent validity as the standardised loadings are above 0.70 and the average variance extracted (AVE) values are higher than 0.50 (Hair, Hult and Ringle, 2017). Furthermore, internal reliability is verified as the composite reliability (CR) and Cronbach's alpha values are higher than 0.70 (Hair *et al.*, 2017).

The results show that the values for CR and AVE are within the desirable limits (Table 3) (Wetzels *et al.*, 2009; Hair *et al.*, 2017). According to Henseler *et al.* (2014), in variance-based SEM 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 *et al.*, 2017): Fornell and Larcker criterion, cross-loadings and heterotrait-monotrait ratio (HTMT). The Fornell-Larcker approach confirms discriminant validity as each of the measured constructs

Reflective factors		Indicators	Convergent validity Loadings	AVE	Internal consistency reliability 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 2. Innovation capability and export performance second-order results

shares most variance with the associated construct. Concerning the cross-loadings approach, the indicator's outer loadings are higher on the associated construct and discriminant validity is, therefore, confirmed. Finally, discriminant validity is established by applying the HTMT approach because the HTMT value is below 0.9 for the reflective constructs (Hair *et al.*, 2016). In Appendix 2, the results tables of the different discriminant validity approaches are provided. These results can affirm that the constructs are truly distinct from other constructs by empirical standards.

Our second step evaluated the formative measurement models that followed the procedure suggested in the study by Hair *et al.* (2017). No collinearity problems were detected as all the variance inflation factor (VIF) values are below the threshold value of 5. To evaluate whether to maintain or eliminate an item, the significance of the outer weights is determined by evaluating the *p*-values (Hair *et al.*, 2017). After eliminating RMO2 and PMO5, all the formative indicators can be retained as their outer loadings show values above 0.5 although their outer weights are not significant (Hair *et al.*, 2017) (Table 4).

5.2 Structural model results

Once the reliability and validity of the outer models are established, we evaluated the structural model. Following the recommendations of Diamantopoulos and Winklhofer (2001), we confirmed 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 *et al.*, 2017). The R^2 values reflect the variance of the endogenous variable that is explained by the structural model (Hair *et al.*, 2017); the R^2 value shows a moderate effect on export performance (0.45) (Hair *et al.*, 2017). The quality of model fit is examined for predictive validity using the Stone-Geisser indicator (Q^2) and the effect size f^2. The Q^2 for

export performance has a predictive power of 24%. 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 (0.173) indicates a medium degree of explanation, whereas innovation capability (0.059) and proactive market orientation (0.083) show weak degrees of explanation, as suggested in the study by Hair *et al.* (2017).

Table 5 presents the results of hypotheses testing. *H1* and *H2* stipulated a positive influence of market orientation on innovation capability. Both reactive market orientation (*H1*) and proactive market orientation (*H2*) positively influence 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 hypothesised (*H6*).

6. Conclusion

In this study, we replicated existing studies on market orientation and innovation capability to test their influence in Latin American SME export performance. A study based on

Table 3. 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 4. Measurement model for market orientation

Factors	Indicators	VIF <5	Outer weight	*t* value	*p* value	Confidence intervals 2.5%	Confidence intervals 97.5%	Outer loading >0.5
Reactive market orientation	RMO1	1.417	0.263	2.213	0.027	0.013	0.489	0.578
	RMO3	1.588	0.053	0.336	0.737	−0.247	0.366	0.561
	RMO4	1.584	0.522	3.913	0.000	0.240	0.763	0.828
	RMO5	1.391	0.402	2.719	0.007	0.089	0.659	0.698
	RMO6	1.456	0.118	0.868	0.385	−0.158	0.367	0.525
	RMO7	1.453	0.079	0.537	0.592	−0.215	0.362	0.551
Proactive market orientation	PMO1	1.715	0.519	2.939	0.003	0.118	0.803	0.831
	PMO2	2.245	−0.122	0.633	0.527	−0.513	0.244	0.584
	PMO3	2.415	0.193	0.836	0.403	−0.245	0.655	0.725
	PMO4	1.776	0.053	0.297	0.766	−0.284	0.412	0.616
	PMO6	1.711	0.240	1.479	0.139	−0.095	0.541	0.610
	PMO7	1.590	0.230	1.388	0.165	−0.133	0.520	0.680
	PMO8	1.382	0.266	1.664	0.096	−0.075	0.561	0.616

Hypotheses	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

Notes: $^{*}p < 0.1$; $^{**}p < 0.05$; $^{***}p < 0.01$ (two-tailed)

Table 5.
Test of hypotheses

Mexican SMEs responded to the call for research that analysed the specific situation of Latin American SMEs in improving their participation in exports and extending the emerging-market literature by considering different regions and industries (Bianchi and Wickramasekera, 2016; Hermans and Reyes, 2020).

This study contributes to a better understanding of Latin American SMEs by focusing on the drivers of their export performance. A recent literature stream has been focusing on the development of capabilities in emerging-market firms (Williamson *et al.*, 2013). In a case study analysis, Cuervo-Cazurra *et al.* (2019) explain ways in which Latin American firms can upgrade their capabilities to escape commoditised market competition in international markets. We expanded this literature by providing empirical evidence on specific dynamic marketing capabilities that can help Latin American SMEs upgrade their operational capabilities to achieve export performance. We proposed that SMEs that are able to adapt to current and latent customer needs and to possess multiple dimensions of innovation capability are enjoying better export performance. Based on the existing theories of market orientation and innovation capability, our study replicates existing studies in a Latin American SME context. A finding of our study entails the complementarity of the dynamic marketing capabilities of market orientation and innovation to improve export performance in Latin American SMEs.

The results based on the answers given by 155 manufacturing SMEs illustrate three main conclusions. First, in a Latin American emerging-market 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 Robb and Stephens (2021) that reject a positive relationship of reactive market orientation on export performance and accept a positive relationship of proactive market orientation on the export performance of South African SMEs. A possible explanation could be the specific Latin American context. The relationship between proactive orientation and performance was found to be positive under low industrial pressure and not significant under high industrial pressure (Gao *et al.*, 2018). The scope of both studies has been different, and our study considers only manufacturing SMEs, whereas Robb and Stephens (2021) include SMEs from industries involved in durable consumer products, non-durable consumer products, service products and industrial products. Industrial pressure is higher when enterprises face a high degree of competition. Latin American SMEs might face higher industrial pressure than South African SMEs. These results show us that the specific context is an important

component to consider in emerging markets and further studies are needed to generalise the results and highlight the differences.

Second, although proactive market orientation has no direct influence on export performance, an indirect effect through innovation capability has been supported. Both reactive and proactive market orientation affect innovation capability positively. This factor, in turn, enhances export performance. This result extends the findings of Zehir *et al.* (2015) that 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 of customers' future needs and transform this information into new products or processes. Our results confirm that variables that have been verified in developed markets can be transferred to emerging markets.

Third, as concluded by Lee *et al.* (2014), innovation capability has a direct and significant impact on the export performance of emerging-market SMEs. Previous studies focused on analysing the correlation between a single dimension of innovation capability and export performance, i.e. Lages *et al.* (2009), rather than considering further dimensions. Relying on the multi-dimensional scales proposed by Vicente *et al.* (2015), we confirmed the notion that innovation capability is a multi-dimensional construct that improves export performance. We extend these findings by applying the construct to a Latin American emerging-market SME context.

The present replication study on market orientation and innovation capability can be useful for managerial guidance because they can benefit from more competitive products or processes when entering into foreign markets. Latin American SMEs can benefit from implementing business intelligence systems that can help them to observe customers and competitors and translate the acquired knowledge into products or process innovations. Market orientation and innovation capability help Latin American SMEs create value and escape price competition by offering differentiated products. Furthermore, this study has implications for policymakers. Policymakers are sometimes ineffective in enabling innovations in manufacturing SMEs in emerging markets (Tesfom and Lutz, 2006). In line with the claims of ALAI (2020), Latin American SMEs could benefit from enabling and non-restrictive policies that encourage innovation to strengthen their international development. As strong pillars of their economies, the international development of SMEs can work as drivers for economic growth and social and human development in Latin America.

There are some limitations that suggest future lines of research. Regarding the sample, we recognise the heterogeneous nature of the data collection process because 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. Further studies in other Latin American and emerging-market countries can help to improve the generalizability of our findings. The study results design 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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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.

Table A1. Fornell and Larcker (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**

Table A2.
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

Table A3.
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

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