

# The Impact of market orientation and marketing capability on business performance with internationalized SMEs

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## ABSTRACT

### Objectives

SME growth and success has been seen as one of the most important factors in the economy. In Finland, much effort has been put to internationalization of SMEs as a way to grow. The Forest sector is particularly heterogeneous, in some industries the domestic market will not grow (for example, furniture sector) and, in turn, innovations in other industries enables the transition to international market (for example bioenergy).

Existing research has shown that market orientation and marketing capability have either direct or indirect effect on the business performance and success (Narver & Slater, 1990; Vorhies, Orr & Bush, 2011). It could be assumed that when operating on foreign markets, these concepts are even more important. Firm's global market orientation by itself is an idiosyncratic competence thereby supporting the firm's activities in its markets. Market orientation can be embodied as an antecedent of the internationalization process of a SME (Wright, Westhead & Ucbasaran, 2007).

The objectives of the present study are to analyse (1) the impact of market orientation and marketing capability on business performance with SMEs in the Forest sector and (2) the difference of this impact between internationalized SMEs and SMEs operating only in domestic markets in the Forest sector.

### Prior Work

Market orientation (MO) is the basis of marketing and strategic planning (Narver & Slater, 1990) and entails the processes of a firm implementing marketing concepts in practice (Kohli, Jaworski & Kumar, 1993). Three different elements have been identified in MO: customer orientation, competitor orientation and interfunctional coordination (Narver & Slater, 1990). Previous studies suggest that MO is positively associated with general performance in firms (Kirca, Jayachandaran & Bearden, 2005), although the relationship between MO and performance can be moderated or mediated by different factors (see González-Benito et al., 2014; Kirca et al., 2005; Liao et al., 2011).

According to Day (1994), capabilities are complex bundles of skills and knowledge accumulated in the firm and applied in organizational processes. The emphasis on dynamic capabilities highlights the importance of strategic level adoption of MO. Vorhies & Harker (2000) found in their study that firms with high MO also had higher levels of the six marketing capabilities, these being marketing research, product development, pricing, distribution, promotion and marketing management. Wilden & Gudergan (2015) found that marketing capabilities are positively associated with firm performance in highly competitive environments. In sum, it appears MO and marketing capability are linked, and have a connection with firm performance.

There is not any single theory to explain the internationalization of the firms and it is better explained with an integrated combination of different approaches (Chetty & Campbell-Hunt, 2003). The most powerful theory is the resource-based view (RBV), which argues that when firms follow a global strategy, they favour high control modes, especially if they possess valuable resources and capabilities (Ekelero & Sivakumar, 2004). Market orientation is a valuable, rare, not interchangeable and imperfect imitable resource, which is considered to be one of the internal capabilities that can potentially bring about a sustainable competitive advantage (Hult,

Ketchen & Slater, 2005; Zhou et al., 2008). Knight & Cavusgil (2004) argued that the basis from which the company interrelates with various external markets is offered by market orientation. Market orientation can be embodied as an antecedent of the internationalization process of a SME as: 1) Market orientation develops and facilitates the process of learning within foreign markets; and 2) highly market-oriented companies develop more robust capabilities (channel bonding, market sensing and customer linking) which allows the acquisition of foreign market knowledge as well as designing an appropriate market feedback (Wright, Westhead & Ucbasaran, 2007).

### **Approach**

The data for this study comes from Finnish SMEs operating in the Forest sector. The data was gathered through a mail survey on spring 2016. Altogether 101 firms answered the questionnaire and the response rate was 24 %. 31 % were internationalized SMEs and 69 % operated only on domestic markets.

MO was measured using 20-item MARKOR-scale (Kohli, Jaworksi & Kumar, 1993; Farrell & Oczkowski, 1997). Cronbach's alpha for market orientation scale was .77. Marketing capabilities were measured using adapted scale from Vorhies and Harker (2000). It consisted of 24 items (Cronbach's alpha for the scale .94). Business performance was measured by Chapman and Kihn's (2009) 10 item survey instrument. The Cronbach's alpha was .88.

The data was analyzed using SPSS 22 and Amos. First a linear regression analysis was made. Analysis showed that market orientation did not have a direct effect on the performance but marketing capability did. Therefore, second, an indirect effect was tested using path analysis with Amos. The final empirical path model was tested separately for internationalized SMEs and SMEs operating only on domestic markets. In the final model marketing capability mediates the effect of MO on performance.

### **Results**

Within internationalized SMEs, MO has an indirect effect on success, mediated by marketing capability. For this empirical model, all the fit measures are good (NFI = .98; CFI = 1.00; RMSEA = .000; CMIN/DF = 0.943,  $p=.332$ ). The empirical model explains 36 % of the variance in the performance. MO has a significant and direct effect on marketing capability and explains 74 % of the variance in marketing capability. Marketing capability has a significant and direct effect on performance (standardized regression weight .60,  $p=.000$ ). The standardized indirect effect of MO on performance is .52.

The model differs from the model of SMEs operating only on domestic markets. Within these firms, the model fit is not good (NFI = .94; CFI = .95; RMSEA = .201; CMIN/DF = 3.776,  $p=.052$ ). The model explains only 15 % of the variance in the performance. The effect of marketing capability on performance is smaller than with internationalized SMEs, although it is significant (standardized regression weight .39,  $p=.000$ ). The standardized indirect effect of MO on performance is also smaller than with internationalized SMEs (.29). With domestic SMEs MO has a significant and direct effect on marketing capability and explains 54 % of the variance in marketing capability.

Marketing capability mediates the effect of market orientation with both groups: internationalized SMEs and SMEs operating only on domestic markets. Marketing capability has a direct effect on business performance. However, the model fit is not good with domestic SMEs and standardized effects are smaller. Marketing capability and market orientation seem to be even more important factors when operating in foreign markets than in domestic markets.

### **Implications and value**

The results of this study are in line with previous research: market orientation and marketing capability have an effect on business performance (Kirca et al., 2005). In this study, market orientation has an indirect effect on performance mediated by marketing capability. Also other studies have shown that the effect of market orientation on performance can be mediated by different factors (González-Benito et al., 2014; Liao et al., 2011).

Marketing capability had more value in explaining the business performance with internationalized SMEs than with SMEs operating only on domestic markets. This is in line with Wilden & Gudergan (2015), who found that environment has an effect on the importance of marketing capability. SMEs operating on foreign markets have more challenges with the environment than SMEs operating only on domestic markets.

The value of this study is to show the importance of marketing capability and market orientation in the context of internationalization of SMEs in the Forest sector. Market orientation can be embodied as an antecedent of the internationalization like Wright et al. (2007) suggest, but it can also be seen as an antecedent of marketing capability with internationalized SMEs.

## 1 INTRODUCTION

The growth and success of SMEs has been one of the most important issues in Finland in recent years. Especially in the Forest sector, internationalization has been seen as a prerequisite for growth. The degree of internationalization varies across the sectors: e.g. in a study of Kettunen (2013), the share of export was over 50 percent in sawmill industry and in other sectors the share of export was usually under 10 percent.

Existing research has shown that market orientation and marketing capability have either direct or indirect effect on business performance and success (Narver & Slater, 1990; Vorhies, Orr & Bush, 2011). It could be assumed that when operating on foreign markets, these concepts are even more important. Firm's global market orientation by itself is an idiosyncratic competence thereby supporting the firm's activities in its markets. Market orientation can be embodied as an antecedent of the internationalization process of a SME (Wright, Westhead & Ucbasaran, 2007).

The objectives of the present study are to analyse (1) the impact of market orientation and marketing capability on business performance with SMEs in the Forest sector and (2) the difference of this impact between internationalized SMEs and SMEs operating only on domestic markets in the Forest sector.

## 2 THEORETICAL FRAMEWORK

### Factors influencing the internationalization of SMEs in the Forest Sector

The growth and internationalization of the forest sector, and especially wood products, has been studied in the Strategic program of the forest sector. It reveals, that the obstacles to growth and internationalization for the small firms are mainly internal, whereas the operational environment mainly sets the boundaries to bigger firms. Within the wood product industry, the internal barriers are formed by lack of co-operation and networking; shortages in sales and marketing know-how; building a brand; the dearth of internationalization planning and dearth of exports promotion; lack of strategic and internationalization knowledge; business development and capability of revision in the firms; family business may withdraw too much; what the spirit and will to growth in the firm is. Operational environment includes things like the collative agreements and high level of labor costs; how to finance internationalization; how to recognize financing and advisory services (small firms); the disappearance of basic industry from Finland; cheap imported goods; subsidy politics of the EU deforms competition in the European internal markets. Interviews resulted in own strong working and making in the firm, technically high quality products, strong product planning/ design, personnel, competence and family firms as internal strengths. (Kettunen, 2013.)

Continuous lack of resources and lack of knowledge formed barriers to the internationalization of the wood product industry. Internationalization in the firms should be seen as a strategic goal and clear action plan should be made how the goal can be reached. When the needed competence of the personnel are estimated, also experience from international business could be included. Customer orientation in the products and keeping up a good service level are essential factors also in the export countries. A product that is successful in domestic markets may need some changes when it is taken to other market area. Also the service needs to work in external markets. It is important to succeed in charting the right marketing channels and find an effective way for distribution and sales. (Kettunen, 2013.)

Competing by quality in the Forest sector requires standardization, CE marking, planning tools and data models. If there is only one supplier to wood products or parts, there is a risk for the buyer especially in construction. Therefore competition and many suppliers is also a positive thing. Also the processing, distribution channels and product know-how needs to be in order. (Heino, 2011; Hurmekoski, Jonsson & Nord, 2015.) In the field of wood product industry there are several associations, which aim at influencing the regulations, rules and their interpretation, standardizing products and networking.

### Market orientation

Market orientation (MO) is the basis of marketing and strategic planning (Narver & Slater, 1990) and entails the processes of a firm implementing marketing concepts in practice (Kohli, Jaworski & Kumar, 1993). Marketing concept means how a firm can find needs and wants in the market and use these needs as a basis of product/service development better than competitor (Slater & Narver, 1998). Three different elements have been identified in MO: customer orientation, competitor orientation and interfunctional coordination (Narver & Slater, 1990). Customer and competitor orientation refer to active information generation from customers and competitors through monitoring market needs and wants. Interfunctional coordination refers to the firm's ability

to disseminate this information throughout the firm in a way that creates value to the customer through products and services. Jaworski and Kohli (1993) identify three phases in the process: 1) generating market information from customer's present and future needs, 2) sharing market knowledge within the firm and 3) answering to customer's present and future needs. In Homburg and Pflesser's (2000) view, MO consists of different perspectives such as values, norms, artifacts and behavior. MO can thus be seen as an embedded cultural state which has an effect on the different activities in firms. However, MO can also be viewed as a strategic option, deliberately chosen in order to enhance performance.

In terms of MO, firms can be classified in different ways. Some scholars view MO as a continuum along which firms can be placed, i.e. firms can adopt different levels of MO. Others view MO as dichotomous: a firm either is or is not market oriented (Harris, 1999). MO has also been viewed as a resource in a learning organization (Hunt & Morgan, 1995), in which case MO is considered a resource for generating information to help the firm to develop products and services with better value for the customer. Hurley and Hult (1998) argue that, for growth and productivity, it is not MO itself that is relevant but rather the development of the firm's competencies through MO.

Market orientation has attracted wide research efforts over the past years, with the studies highly concentrated on MO's effect on business performance. Prior research indicates that MO is related to business performance either directly or indirectly (e.g. Verhoef et al., 2011; Narver & Slater, 1990; Pelham, 2000; Maydeu-Olivares & Lado, 2003; Matsuno, Mentzer & Özsomer, 2002; Shin & Aiken, 2012). Also studies using meta-analyses confirm the positive effect of MO to business performance (Cano, Carrillat & Jaramillo, 2004; Kirca, Jayachandran & Bearden, 2005). The same result has been found also in microenterprises by Spillan et al. (2013).

Contradictory results exist concerning the effect of MO on profitability. Narver & Slater (1990) find that MO has a substantial positive and direct effect on profitability in both commodity products businesses and noncommodity businesses. However, Pelham (1997) suggests that MO has an indirect effect on profitability through firm effectiveness and growth/share (Pelham, 1997). Also Slater & Narver (1994) confirm MO's effect on sales growth. In addition, Pelham (2000), in a study of MO in small firms, finds that it has a critical role in implementing a growth strategy. In conclusion, MO has either direct or indirect effect on profitability and has a role in growth.

## **Marketing capability**

According to resource-based view (RBV), a firm can be viewed as a bundle of resource, and competitive advantage is based on possession of valuable and rare resources. Little utilized in the field of marketing (Srivastava, Fahey & Christensen, 2001), the RBV has been later complemented by a view emphasizing dynamic capabilities (DC), which highlights the ability of a firm to adjust its processes so as to utilize resources effectively in a dynamic business environment; in the DC view competitive advantage stems not just from resources but rather from new resource configurations based on dynamic capabilities (Cavusgil, Seggie & Talay, 2007). According to Day (1994), capabilities are complex bundles of skills and knowledge accumulated in the firm and applied in organizational processes.

Day (1994) categorized marketing capabilities as outside-in -capabilities (e.g. market information, customer relations), inside-out -capabilities (logistics, cost control) and integration capabilities (pricing, product/service development). He considers in particular the capabilities connected to understanding the markets and customer focused marketing capabilities central for market oriented firms. Hooley et al. (1999) see capabilities in three different levels; they argue that the capabilities presented by Day (1994) are in the operational level but more important capabilities are in the firm's cultural and strategic level.

Reijonen and Komppula (2010) found that although market orientation and in particular customer orientation have been adopted to some degree among Finnish SMEs, there are considerable gaps in marketing capabilities. Since marketing process tend to develop on firm level, capabilities also evolve individually, potentially producing unique ways of utilizing competencies. Srivastava, Fahey and Christensen (2001) emphasize the creation of customer value based on knowledge and relationship resources within innovation, value chain and customer relationship management processes. As markets become increasingly complex, dynamic capabilities are also increasingly important: the ability to learn from market information, to experiment flexibly, to market in a way that builds relationships (Day 2011).

The emphasis on dynamic capabilities highlights the importance of strategic level adoption of MO. Vorhies and Harker (2000) found in their study that firms with high MO also had higher levels of the six marketing capabilities, these being marketing research, product development, pricing, distribution, promotion and marketing management. In further study on customer focused marketing capabilities, an impact on financial performance

from capabilities in brand management and customer relationship management was found (Vorhies, Orr & Bush, 2011). The latter enables efficient deployment of relationship resources and the former of reputational resources. Also Wilden & Gudergan (2015) found that marketing capabilities are positively associated with firm performance in highly competitive environments.

Foley ja Fahy (2009) argue that market orientation and marketing capability are linked. Recent research has shown that marketing capability mediates the effect of market orientation (Shin & Aiken, 2012; Merrilees, Rundle-Thiele & Lye, 2011). This was also found in Finnish SME's; especially with growth firms, market orientation had an indirect effect on business performance mediated by marketing capability (Joensuu et al., 2015). In sum, it appears MO and marketing capabilities are linked, and have a connection with business performance.

## **Internationalization**

In the theory of the internationalization of firm there is no single explanatory factor, so the researchers propose that internationalization must be considered a combination of several different perspectives (Chetty & Campbell-Hunt, 2003). With the advent of globalization and the knowledge economy, an important issue lies in the strategic capabilities that enable the internationalization of SMEs. The ability to internationalize has become a competitive necessity for many firms, enabling survival and growth under globalization (Acs et al., 2003; Knight, 2000; Couerderoy et al., 2011). Correspondingly, this phenomenon has received increasing attention from scholars who have sought to characterize the internationalization process and export behavior of SMEs (Moen & Servais, 2002), be it incremental as in the Uppsala model and the network approach (e.g. Johanson & Vahlne, 2009) or radical as in the 'born-global' firms (e.g. Freeman & Cavusgil, 2007), and to identify the antecedents and consequences of internationalization (Coviello & McAuley, 1999; Higon & Driffield, 2011; Ruzzier et al., 2006; Sousa et al., 2008).

Small and medium size enterprises (SMEs) play an important role in international markets. SMEs are usually limited in their resources and international experience. Strategy and entrepreneurship scholars argue that firms succeed by building and retaining a competitive advantage. For example, Ireland, Hitt and Simon (2003) integrated theories from strategy and entrepreneurship disciplines to explain how firms develop and sustain these advantages. They noted that firms succeed by identifying and exploiting new opportunities and by deploying their resources in ways that allow them to create value. Some of these opportunities lie in the foreign markets, requiring strategies that leverage SMEs' skills and capabilities.

Internationalization may be a complex and expensive process, which requires careful assessment of opportunities and the development and implementation of several strategies (George, Wiklund & Zahra, 2005). For this reason, the internationalization cannot be explained by one theory. In studying entrepreneurship from a strategic perspective, researchers have used the resource-based view (RBV) to focus on entrepreneurial capabilities. RBV proposes that the firm's resources and capabilities are the source of its competitive advantage. In different firms the resources are various and often used underpowered (Barney, 1995). The resource-based view presents that the firm can get a competitive advantage only if it can take advantage of a particularly valuable resources, which none of its competitors will not be able to easily imitate. Only the use of such resources can lead to a permanent gain a competitive advantage (Hamel & Prahalad, 1990).

A number of researchers have adopted a resource-based, or capabilities perspective, to empirically address the issue of the internationalization of SMEs. Among the first were Dhanaraj and Beamish (2003) who found the product development and market development capabilities of SMEs to successfully predict their internationalization performance. The market orientation is a valuable, rare and difficult to imitate resource. It is considered as one of firm's internal capability, which may create a sustainable competitive advantage (Hultu, Ketchen & Slater, 2005; Zhou et al., 2008). Knight and Cavusgil (2004) submit that market orientation provides the basis for firm's commitment to external markets. Market orientation can be internalized firm's internationalization process one of the antecedents of internationalization particularly when 1) market orientation develops and promotes learning process in foreign markets, and 2) firms which have high market orientation develop strong market capabilities, such as distribution networks, market knowledge and customer relationships, which provide for the firm special knowledge of foreign markets (Wright, Westhead & Ucbasaran, 2007). Although researchers have focused on understanding the variety of factors affecting SMEs' internationalization, market orientation have not been the focus of these studies.

### 3 METHODOLOGY

The data for the research was collected as a part of a project "Growth for Wood Product Industry", which is implemented in co-operation of Seinäjoki University of Applied Sciences and Finnish Forest Centre. The project is funded by European Agricultural Fund for Rural Development.

#### Measurement constructs

Market orientation was measured using 20-item MARKOR-scale (Kohli, Jaworksi & Kumar 1993; Farrell & Oczkowski 1997). Cronbach's alpha for the measurement instrument was 0.77.

Marketing capabilities were measured among eight capabilities: market research, pricing, product/service development, distribution, marketing communications, marketing planning and management, customer relations and branding. Capabilities concerning market research, pricing, product/service development, distribution, marketing communications and marketing management were measured using items from Vorhies and Harker (2000). For customer relations and branding, items from Vorhies et al. (2011) was added for the instrument. The final instrument consisted of 24 items. Cronbach's alpha was 0.94. Seven point Likert scale was used.

Business performance was measured by Chapman and Kihn (2009). Their 10-item instrument is originally developed by Govindarajan and Fisher (1990). For this study, the original measurement instrument was adapted to Finnish SMEs and the final instrument uses 9 items and covers non-financial and financial factors. Items related to profit, equity ratio, liquidity, turnover, development of new products, market share, market development, personnel development and political-public affairs. Respondents were asked to rate their business performance relative to competitors during the past three years with five point Likert scale. Cronbach's alpha was 0.88.

#### Respondents and analysis methods

The questionnaire was sent during spring 2016 to 504 (=N) customer firms of Forest Centre. 425 firms located on Southern Ostrobothnia and 79 firms in Central Ostrobothnia. All firms were registered to work in the field of wood processing industry. The answering percent was low and therefore the firms were called and asked to answer the questionnaire either in the internet or by returning the questionnaire via mail. In the third round Forest Centre sent a request to answer the questionnaire via email to Central Ostrobothnian firms.

When the firms of retired entrepreneurs and firms who had gone in bankruptcy were removed from the original N, the potential group of respondents downsized from 504 to 363. After the reminders we received all together 101 answers, resulting to the answering percent of 28. 20 answers were given from Central Ostrobothnia (answering percent 32) and Southern Ostrobothnia 80 answers (answering percent 27). In addition, one respondent did not answer to the question of location. 31 % of the respondents were active in international markets, 69 % had only domestic affairs.

Data was analyzed using SPSS 22 -software and Amos. Multicollinearity tests were used to show that there was no problem with collinearity. Linear regression analysis was made to test the relationships between variables. Regression analysis showed that market orientation did not have a direct effect on business performance, but marketing capability did. After that, path analysis was made using Amos. Path analysis is an extension of the regression model in which also indirect paths can be tested. The final model was tested separately for firms operating only in domestic markets and for firms operating in international markets. In the model, marketing capability fully mediates the effect of market orientation on business performance. Goodness of fit measures (NFI, CFI, RMSEA ja CMIN/DF) were used for model evaluation (Byrne 2010).

### 4 RESULTS

Figure 1 presents the empirical model and table 1 presents the model estimates with internationalized firms. Market orientation have an indirect effect on business performance mediated by marketing capability. The goodness of fit measures are good (NFI=0.98, CFI=1.00, RMSEA=0.000, CMIN/DF=0.943, p=0.332). The model explains 36 percent of the variance of business performance. Market orientation has a direct and significant effect on marketing capability. Market orientation explains 74 percent of the variance of marketing capability. Marketing capability has a direct and significant effect on business performance (standardized regression weight 0.60). The indirect effect of market orientation is significant (standardized regression weight 0.52).

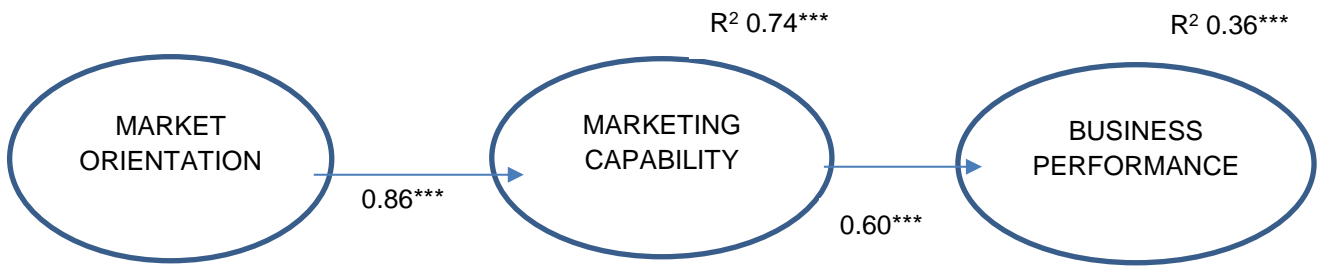


Figure 1. Empirical model for internationalized firms.

Table 1. Estimates and standardized regression weights of the model (internationalized firms)

	Estimate	S.E.	C.R.	P	Stand.regr. weight
Marketing capability ← Market orientation	1.099	.125	8.770	***	.86
Business performance ← Marketing capability	.413	.103	4.002	***	.60

\* p< .05. \*\* p< .01. \*\*\* p<.001

Figure 2 presents the empirical model and table 2 presents the model estimates with firms operating in domestic markets only. The estimates of the model differ from the model estimates for internationalized firms. Goodness of fit measures are not adequate for this model (NFI = .94; CFI = .95; RMSEA = .201; CMIN/DF = 3.776, p=.052). The model explains only 15 percent of the variance of business performance. The effect of marketing capability is smaller than in the model tested for internationalized firms. However, it still has a significant effect on business performance (standardized regression weight 0.39, p=0.000). Also the indirect effect of market orientation on business performance is smaller (standardized regression weight 0.29) than in the model tested for internationalized firms. However, market orientation has a direct and significant effect on marketing capability and it explains 54 percent of the variance of marketing capability.

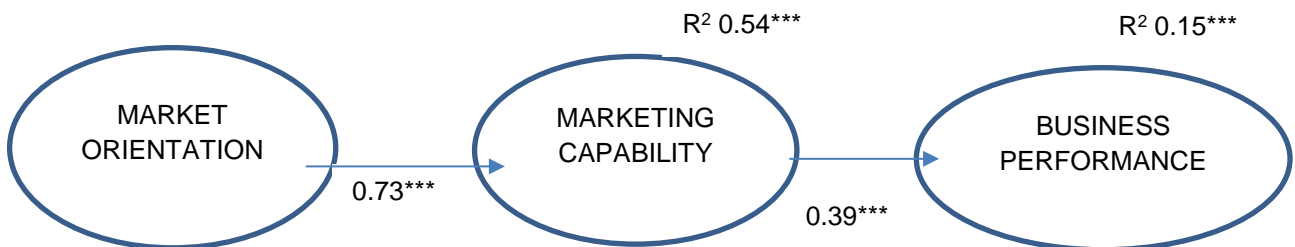


Figure 2. Empirical model for firms operating only in domestic markets.

Table 2. Estimates and standardized regression weights of the model (firms operating in domestic markets)

	Estimate	S.E.	C.R.	P	Stand.regr. weight
Marketing capability ← Market orientation	.883	.101	8.714	***	.73
Business performance ← Marketing capability	.297	.088	3.369	***	.39

\* p< .05. \*\* p< .01. \*\*\* p<.001

Marketing capability mediates the effect of market orientation on business performance with both groups: with internationalized firms and also with firms operating only in domestic markets. Marketing capability has a direct effect on business performance. However, model fit is not good in the model tested for firms operating in domestic markets and the standardized regression weights are smaller than in the model tested for internationalized firms. It seems that marketing capability and market orientation are even more important factors for firms operating in international markets. It could be assumed that firms operating in domestic markets have more knowledge about the market situation because the market is more stable.

## 5 CONCLUSIONS AND DISCUSSION

The aim of this study was to analyze (1) the impact of market orientation and marketing capability on business performance with SMEs in the Forest sector and (2) the difference of this impact between internationalized SMEs and SMEs operating only in domestic markets in the Forest sector.

First, it can be said that both market orientation and marketing capability have an effect on business performance both with firms operating in domestic markets and firms operating in international markets. However, market orientation and marketing capability have even greater effects on business performance with firms operating in international markets. This indicates that SMEs aspiring international markets should pay attention on how knowledge of customers and competitors is acquired and used in the development of marketing operations. This, in turn, has a direct connection to the firm's success.

The study demonstrates that market orientation (i.e. how firms acquire and use knowledge of customers and competitors) affects directly to marketing capabilities and thus indirectly to the performance. A firm can consequently develop marketing capabilities by enhancing market orientation and with it be more successful. The study supports previous research; for example, Kirca et al. (2005) stated that market orientation and marketing capabilities affect the performance of the firm. The study confirms also that market orientation has indirect link to performance. Gonzales-Benito et al. (2014) and Liao et al. (2011) noted that different factors may mediate the effects of market orientation.

Operating environment is relevant when assessing the effects of marketing capabilities on performance. In foreign markets operating firms need more marketing capabilities than firms operating only in domestic markets. This is in line with study of Wilde and Gudergan (2015) in which the effect of the competitive environment on the importance of marketing capabilities was indicated. A market oriented firm aims to achieve and get access to market intelligence when it comes to the competitors, customers, technology, government, and other environmental factors in a very systematic and proactive approach. Market orientation and marketing capabilities contribute to the superior firm performance (Morgan et al., 2009.) Morgan et al. (2009) also found that market orientation has a direct effect on firm's return on assets (ROI), and that marketing capabilities directly impact both ROA and perceived firm performance. As Knight and Cavusgil (2004) stated, market orientation is the basis for how the firm is linked to foreign markets and thus, it can be considered one of the prerequisites for the firm's internationalization process. With it the firm learns from markets and develops capabilities to help firm succeed.

The study demonstrates that applying growth and internationalization of SMEs in wood product industry it should be primarily given attention to the development of firm's market orientation which, in turn, develops firm's marketing capabilities. Market orientation is as Wright et al. (2007) suggested, one of the factors that influence the internationalization of the firm but at the same time it can be seen as a determinant of marketing capabilities, which in turn, is very important for firm's performance in the international markets.

There are two major perspectives on the process of internationalization of SMEs. The first perceives the internationalization of SME as being a sequential process that leads from a domestic market to international markets in accordance with a "learning process", whereby knowledge of the new markets is acquired and resources are increasingly committed to those markets (Johnson & Vahlne, 1990, 1997; Cavusgil, 1980). The second perspective, derived from the international entrepreneurship literature, contends that firm can be "born global" (Knight & Cavusgil, 1996). The current state of research suggests that in mature industries in which environment change is minimal, the sequential perspective on internationalization is more appropriate, whereas, in growing industries, the second perspective provides a better understanding of the internationalization as phenomenon. In conclusion, the wood product industry is a business area closer to the former than the latter perspective. Due to the fact it can be concluded that the sequential internationalization process proceeds through the development of market orientation and learning processes by which capabilities such as marketing capabilities are developed.



Research has also shown that the possession of certain competencies can facilitate the development of a company's internationalization strategy, especially in the earlier stages of the process (Li, Li & Dalgic, 2004). The present study contributes to this line of research by investigating whether market orientation, understood as a specific corporate competence, constitutes as an antecedent to internationalization in SMEs in wood product industry.

From the behavioral perspective, market orientation has been defined as "the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it" (Kohli & Jaworski, 1990). As such, market orientation can also be understood as a resource. In the theory of resource-based view market orientation is an intangible property of the firm that enables the firm to manage market information and deliver value to its customers (Hunt and Lambe, 2000). But the acquisition of such knowledge in a single, specific context is not as relevant as the acquisition of the ability to analyze, understand, and respond to a range of contexts. Companies learn to learn (Armario, Ruiz & Armario, 2008). According to Day (1994), market-oriented companies develop "inside-out" capabilities, which connect the internal processes that define organizational capabilities with the external environment, thus allowing the company to be competitive by creating solid relationships with customers, distributors, and suppliers. These distinctive capabilities can be characterized as "market-sensing" and "customer-linking and channel-bonding." In this sense, these refer to marketing capabilities that in this study proved to be linked to the firm's business performance in the international markets.

The major contribution of this study was to show how market orientation and marketing capabilities as distinctive competencies, support a firm 's activities in foreign markets. In the wood product industry context, noteworthy findings were the positive influence of a firm's overall market orientation on its marketing capabilities and their positive relationship with firm's internationalization process. Capabilities in transformation and learning (as developed from market oriented behaviours) facilitate the process of turning information about foreign markets into an appropriate market response.

Every empirical research has certain limitations that restrict the generalizability of the findings. In this case, it is possible that if the study was conducted on other regions and countries in the world, the magnitude and direction of the relationship in the model may be different. The degree of economic development may account for distinct SME behaviour. This study was conducted with Forest sector, so the results could be different with other sectors. Although the study has provided strong evidence in the support for the model, the relative small number of respondents represent another potential concern. However, the sample is fairly representative of the population and there was no evidence on nonresponse bias. Moreover, given the confirmatory nature of the study, the sample can be considered sufficient.

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