Export intensity and marketing in transition economies: Evidence from China☆

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1. Introduction

Within one generation a profound change has taken place across much of the developing world. From the former socialist nations of Central and Eastern Europe to the still-Communist countries of East Asia, from the emerging economies of South Asia to the privatizing democracies of Latin America, economic life is being transformed by a policy shift in favor of markets and away from statism. In the name of market reform many governments are pursuing macroeconomic stabilization, the privatization of state-owned assets, increasing integration with world markets, clarification of property rights and other institutional reforms. Although progress has been variable across these economies in transition, reform policies in general have stimulated private efficiency and growth domestically while creating opportunities for trade and investment internationally.

One consequence of this transformation is the growing sophistication of domestic consumers. In the days of central planning, persistent shortfalls of product supply meant that sellers’ markets were common. From the customer’s perspective merely finding a desired good was a major source of satisfaction (Springer & Czinkota, 1999). But with the liberalization of trade and the opening of markets to foreign imports, consumers in transition economies are becoming better informed about product choices and more demanding in terms of product quality and value for money (Tsang, Nguyen, & Erramilli, 2004). This has created an incentive for domestic firms to upgrade their production and marketing skills. For production processes, foreign technology embodied in capital equipment and machinery is widely recognized as being essential and has been the focus of much scholarly interest (Chuang & Hsu, 2004; Feinberg & Majumdar, 2001; Ivarsson & Alvstam, 2005; Wright, Filatotchev, Buck, & Bishop, 2002; Young & Lan, 1997). However, much less attention has been given to the complementary issue of how firms upgrade their marketing know-how. This is despite the fact that in any transition economy setting characterized by a shift from government regulated- to market generated-demand, managers share the need to learn the skills of marketing (Akimova, 2000; Springer & Czinkota, 1999; Tsang et al., 2004).

Marketing know-how describes managers’ abilities to understand customers’ current and future needs and to deliver products which satisfy those needs more effectively than substitute products offered by rivals. This sort of marketing knowledge was seldom needed under central planning regimes when production targets were set by fiat and customers could be relied upon to purchase pre-determined quotas at pre-determined prices (Savitt, 2001; Springer & Czinkota, 1999). Unsold output might be exported to other members of a trading bloc but little marketing effort was required as these activities were delegated to external agents or state-owned trading companies. As long as there were guaranteed markets for output, managers had no reason to pursue strategies based on maximizing customer satisfaction. Indeed, in the absence of functioning markets, marketing management arguably had no relevance at all (Springer & Czinkota, 1999). With market reform, all that has changed. Activities which
were once dismissed as unnecessary, even parasitic, have become essential to the successful adaptation of firms in transition economies. The growing significance of marketing in transition economies underpins recent research examining new product development (Li, Liu, & Zhao, 2006), branding (Sonobe, Hu & Otsuka, 2004; Tokatlı & Kizilgün, 2004), product quality (Golden, Doney, Johnson, & Smith, 1995), market orientation (Akimova, 2000; Hooley et al., 2000; Liu, Luo, & Shi, 2002), and various other aspects of marketing know-how (Ellis, 2005; Fahy et al., 2000; Zou, Fang, & Zhao, 2003). However, while this stream of research establishes that the possession of marketing know-how is important, even while the transition process remains incomplete, the question of how such knowledge is acquired has received scant attention. Having inherited an institutional legacy characterized by opposition to markets and marketing, how do managers in transition economies acquire the increasingly valuable skills of marketing? Some have proposed that such skills might be cultivated from within, through learning by doing (Springer & Czinkota 1999), or by setting up local marketplaces to facilitate information sharing within communities (Sonobe et al., 2004). Others speculate that marketing know-how can be imported from advanced market economies, through the provision of managerial education (Marinov, Cox, Alvonitis, & Kouremenos, 1993), via the job training provided by foreign employers (Gamble, 2006), or by establishing links with management consultants (Savitt 2001) and joint venture partners (Steenisma, Thihanyaa, Lyles, & Dhanaraj, 2005; Tsang et al., 2004). These studies hint at the possibility that transition economy managers may acquire marketing know-how when dealing with foreign partners. However, little is known about the relationship between foreign market linkages and the acquisition of marketing know-how in transition economies.

In this paper we make an initial contribution towards this issue by examining the link between firms’ export intensity and the acquisition of marketing know-how. Export intensity is traditionally defined as the percentage of total sales earned from exports and is therefore one indicator of a firm’s dependence on foreign markets (Li, 2004; Verwaal & Donkers, 2002). A focus on export linkages offers potentially greater scope than extant research examining knowledge transfer implications arising from various forms of foreign investment, such as joint ventures. As vehicles for knowledge transfer, international joint ventures tend to be localized within specific regions and industries and accessible to only a small percentage of indigenous firms within a transition economy (UNCTAD, 2001). For the vast majority of transition economy firms, however, joint venturing represents an unattainable means for accessing foreign know-how.\(^3\) Export linkages, in contrast, present domestic firms with learning options that are less restricted by geography and industry. Despite that, the knowledge transfer implications of exporting remain relatively unexplored. The research question we address in this study is whether there is a relationship between the export intensity of transition economy firms and their acquisition of marketing know-how. Specifically, what are the marketing implications of being linked to foreign markets through export? And relatedly, what effect, if any, does marketing have on the overall performance of the transition economy firm? We examine these questions in the light of evidence collected from consumer electronics manufacturers located in southern China. China is the pace-setter amongst the world’s 32 transition economies in terms of its rapid economic growth and integration with global markets. China’s trade performance has been particularly significant with average annual growth rates of more than 25% for the five year period ending in 2007 (China Statistical Yearbook, 2008). Although China’s export volumes have dipped during the recent global financial crisis, it is reasonable to expect that lessons learned in China may be applicable to exporters located in other transition economies.

The outline of the paper is as follows. We begin by examining the literature on knowledge transfers to transition economy firms. We then develop conceptual links between export intensity and a number of types of marketing know-how. We next describe the methodology before interpreting the results in light of work done in other transition economy settings. Finally we identify some implications for managers and directions for further research.

2. Exporting and knowledge transfers: developing the link

Firms in transition economies face a common adaptation problem of having to compete within increasingly marketized environments during the economic transformation from sellers’ to buyers’ markets (Spriger & Czinkota, 1999). As market competition increases, transition economy managers face an increasing need to develop both their production and marketing know-how. Hence, whether different types of know-how and forms of technology can be transferred from advanced to emerging economies is a theme that has been explored in the literature on economic development (UNCTAD, 2001), economic geography (Cornish, 1997; Ivason & Alvstam, 2005; Potter, Moore, & Spires, 2002; Tokatli & Kizilgün, 2004), regional studies (Lubinski, 2003; Young & Lan, 1997), and international business (Cui, Griffith, Cavugni, & Dabic, 2006; Ellis, 2003; Feinberg & Majumd.ru, 2001; Ghosh & Bartlett, 1988; Harrison, 1994). Much of this work is focused on mature economy firms (e.g., Cornish, 1997; Lubinski, 2003; Potter et al., 2002) or on the transfer of technical know-how (Cui et al., 2006; Ivason & Alvstam, 2005; Potter et al., 2002; Young & Lan, 1997). For instance, in a study of 389 suppliers from four transition economies, Ivason and Alvstam (2005) found that component suppliers in developing countries were able to advance their production activities through supplying to a transnational corporation. Potter et al. (2002) also reported positive relationships between inward foreign direct investment and both local firms’ production technology and market competitiveness in their UK study. These studies provided evidence that knowledge may be transferred across borders via inter-firm linkages. However, previous work has largely been limited to just two vehicles for knowledge transfer, namely, wholly-owned subsidiaries (Cui et al., 2006; Ghosh & Bartlett, 1988; Young & Lan, 1997) and international joint ventures between foreign firms and domestic partners (Steenisma et al., 2005; Tsang et al., 2004; Wright et al., 2002). While this focus reflects the reality that multinational corporations from industrialized nations are dominant economic actors in the current era of globalization, the implication that transition economy firms are merely the passive recipients of benefits conferred upon them by outsiders is unwarranted. While only a minority of firms within a developing country will ever benefit from investments made by foreign multinationals, a majority of firms will at least have the opportunity to engage in export activities leading to knowledge transfer possibilities that are independent of the actions of foreign firms.

2.1. Exporting as a means for acquiring marketing know-how

Our central premise is that export links between transition economy firms and their foreign customers in more developed economies constitute conduits for the transfer of marketing and other kinds of know-how. International trade stimulates the diffusion of knowledge across borders in several ways. In the normal execution of an export order, the transacting parties will exchange information about the customer’s needs and product requirements, the seller’s design, manufacturing and packaging skills, and the distribution and
pricing possibilities that exist between them. Unintentional knowledge transfers may also take place in the form of knowledge embodied in the seller’s product or proprietary design specifications provided by the customer (Griliches, 1992; Tokatli & Kizilgün, 2004). In either case the routine conduct of export activities stimulates the generation and dispersion of marketing know-how between channel partners, leading to a more efficient export arrangement, a more effective matching of suppliers and buyers, and ultimately economic growth (Bharadwaj, Clark, & Kuliwiat, 2005; Drucker, 1958).

The potential for learning-by-exporting is substantial when compared with other means for acquiring know-how. In 2008, the volume of exports originating from transition and developing economies ($US$6.9 t) was almost ten times larger than the amount of capital invested in these economies by foreign firms ($US$7.35B) (UNCTAD, 2009). However, working against the potential benefits of being connected to foreign markets are the barriers to learning presented by cultural and geographic distance.

The mitigating effects of distance on knowledge diffusion have been explored in several strands of research. In the literature on industrial clusters, the improved access to specialized and tacit knowledge that is afforded by geographical proximity is thought to be an essential driver of industrial agglomeration (Lubinski, 2003). As the geographical distance between firms increases, opportunities for informal, interpersonal exchange diminish leading to a decline in knowledge spillovers (Cornish, 1997). The geographical boundedness of tacit knowledge is also thought to influence the transfer of technology between multinational firms and their suppliers. Suppliers which are geographically proximate to their multinational customers have been found to benefit from increased technical assistance leading to an improvement in their own capabilities (Ivarsson & Alvstam, 2003). Proximity can thus stimulate the local absorption of external technology. In the international business literature, distance to market is seen as a surrogate for the risks associated with entering new foreign markets (Benito & Gripsrud, 1992; Dow, 2000; Johanson & Wiedersheim-Paul, 1975). Firm internationalization is seen as being constrained by the imposition of learning and coordination costs associated with overcoming the geographic (Beckerman, 1956), cultural (Benito & Gripsrud, 1992) and psychic distance to foreign markets (Dow, 2000).

The theme underlying these studies is that distance is a surrogate for those geographic and cultural factors which collectively raise the costs of acquiring commercially valuable knowledge. But learning costs are independent of learning benefits and it is not difficult to envisage trading situations where the value of being connected to even remote markets exceeds the cost of maintaining those connections. For instance, in the context of software development, Cornish (1997) reasoned that would-be innovators might be better off working with sophisticated users in distant markets when domestic markets are small or primitive. Foreign markets become preferable as sources of market intelligence at the point where the quality and quantity of intelligence gleaned outweighs the cost of long distance communication and travel. The findings from one study conducted in China lend support to this line of reasoning. The market orientation of a group of 57 exporters were found to be positively correlated with their number of export markets served and their proportion of income earned from those markets (Ellis, 2005). The conclusion drawn was that external sources of market intelligence (i.e., sophisticated foreign customers) are more valuable than local sources to firms based in underdeveloped economies characterized by market imperfections and unreliable market signals. In view of the small sample size in Ellis (2005), these results need to be interpreted with some caution. Nonetheless, the findings shed light on the possibility of transition economy firms acquiring marketing know-how through exporting. Although learning will be constrained by geographic and cultural distance, transition economy firms must also account for the opportunity costs of failing to adapt to changes within their host economy. In summary, local economic conditions in transition economies provide managers with a learning incentive while non-local conditions in export market environments describe the opportunity to learn.

3. Hypotheses

3.1. Export intensity and marketing know-how

In mature open economies, customer demands tend to be more sophisticated and competition more multi-faceted than in those economies emerging from the regulatory shadow of statism. This suggests that transition economy managers exposed to multiple market environments will have greater opportunities to acquire valuable marketing know-how from customers in foreign markets. Other things being equal, a clothing manufacturer in southern China is more likely to learn about emerging market trends and changing customer preferences by dealing with buyers in Japan than by selling to customers in mainland China. The acquisition of marketing know-how—evidenced by the development of new and better products along with an increasing awareness of, or orientation towards customers’ latent and emerging needs—will be positively related to the firm’s dependence on foreign markets (its export intensity) and ultimately lead to improvements in the overall performance of the firm.

The independent variable we adopt is export intensity, which is a standard measure of a firm’s dependence on export markets for income (Verwaal & Donkers, 2002). We hypothesize that in transition economy settings, export intensity will be positively associated with firms’ degree of marketing know-how. In our study we focused on three aspects of marketing know-how deemed to be particularly relevant to transition economy firms: new product development, product performance and customer orientation. Although other forms of marketing know-how are also important, we chose these three constructs for several reasons. First, as we were studying consumer goods firms in a rapidly changing industry (consumer electronics), we expected that product and consumer-related indicators would provide good evidence of marketing know-how. Firms that were good at marketing could be expected to be more aggressive at developing new and better products that better matched customers’ preferences (Clark & Hayes, 1985; Zahra & Covin, 1993). Second, new product development and product performance have been considered critical aspects of marketing in a number of other studies (e.g., Atuahene-Gima, 1993; Greenley & Öktemgil, 1997; Vorhies & Harker, 2000; Vorhies & Morgan, 2005; Weerawardena, 2003; Zou et al., 2003). Finally, we included customer orientation as a third type of marketing know-how as it captures the degree to which a firm understands its customers’ current and emerging needs (Narver & Slater, 1990). It is difficult to conceive how a firm could be good at marketing in the absence of a customer orientation. The hypothesized relationships between export intensity and the three types of marketing know-how are explained below.

First, we anticipate that exposure to foreign markets will boost the new product development skills of transition economy firms. The pivotal role of new product development as a competitive strategy in global markets has long been recognized in the literature (Council on Competitiveness, 1991; Franko, 1989; Fusfeld, 1989; Mitchell, 1990; Zahra & Covin, 1993). Transition economy exporters often face intense global competition. At the same time, this foreign exposure is also likely to alert them to emerging market trends, new sources of supplies and industry standards (Ellis, 2005). Compared to non-exporters, exporters in transition economies are likely to face greater pressure to engage in product development in response to global competition, leading directly to the development of new products. As this outcome will be contingent upon the degree of foreign exposure,
we hypothesize a positive relationship between export intensity and new product development as follows:

**H1.** The export intensity of transition economy firms will be positively related to new product development.

Second, we hypothesize a link between export intensity and product performance for transition economy firms. Product performance is a function of how well the product satisfies customer needs relative to competitors’ offerings. Manufacturers with access to valuable marketing intelligence pertaining to emerging market trends and technological improvements will be better placed to develop products that satisfy customer needs. However, given that the quality of market intelligence is correlated with the level of economic development (Ellis, 2003), information obtained within transition economies is likely to be of relatively lower quality compared to that obtained from mature and open economies. For transition economy firms, better quality market intelligence is more likely to be found outside the local market. We anticipate that foreign exposure will stimulate improvements to the design of a firm’s product range as evidence by superior product performance (e.g., product quality and design, value for money) (Tokatli & Kizilgün, 2004). The greater the foreign exposure for transition economy firms, the better the product performance. We express this relationship formally, as follows:

**H2.** The export intensity of transition economy firms will be positively related to their product performance.

Third, we hypothesize that export links with foreign customers will have a positive effect on the cultivation of the customer orientation of transition economy firms. The geographic and cultural distance to market will be correlated with the risks and uncertainties faced by transition economy exporters (Benito & Gripsrud, 1992; Dow, 2000; Johanson & Wiedersheim-Paul, 1975). However, we take the view that the learning opportunities afforded to transition economy firms by exposure to foreign customers will generally exceed the costs of acquiring and responding to market intelligence at a distance. We expect that transition economy exporters will perceive foreign customers as potentially more valuable sources of market intelligence than domestic customers within the local economy, and will therefore express a greater commitment towards them (Ellis, 2005). We further expect that foreign customers will exert greater and more sophisticated demands than local customers, and that they will be quicker to reward firms that respond to their current and emerging needs (Narver & Slater, 1990). These two factors—access to better quality market intelligence and the hope of being rewarded for proactively responding to changes in customer needs—will stimulate the cultivation of an orientation towards the transition economy firm’s entire customer base. Expressed formally,

**H3.** The export intensity of transition economy firms will be positively related to their degree of customer orientation.

3.2. Marketing know-how and overall performance

Marketing know-how captures the level of marketing knowledge possessed by a company. In the resource-based literature, company knowledge has been viewed as a unique resource contributing to sustained superior performance (Barney, 1991; Day & Wensley, 1988; Wernerfelt, 1984). The predominant view in this literature is that marketing know-how enables firms to be more responsive to market changes leading to improvements in overall performance (Day & Wensley, 1988; Grant, 1991). Research conducted in transition economies has revealed a positive link between various marketing skills and firm performance (Ellis, 2005; Golden et al., 1995; Hooley et al., 2000; Zou et al., 2003). This link has been demonstrated when marketing has been defined in terms of new product development (Zou et al., 2003), product performance or quality (Golden et al., 1995) and customer orientation (Akimova, 2000; Liu et al., 2002). Yet this body of evidence remains fragmentary, particularly in contrast with the amount of work done in mature economies. In order to contribute to these limited findings, we hypothesize that marketing within transition economies will have a positive effect on both business performance and business growth, as follows:

**H4.** New product development will be positively related to the (a) business performance and (b) business growth of transition economy firms.

**H5.** Product performance will be positively related to the (a) business performance and (b) business growth of transition economy firms.

**H6.** Customer orientation will be positively related to the (a) business performance and (b) business growth of transition economy firms.

3.3. Controlling for ODM

Many manufacturers in the southern China are engaged in original equipment manufacturing (OEM). This describes an arrangement whereby a foreign party provides design specifications to a local contract manufacturer. The chief distinction between OEM and its original design manufacturing (or ODM) counterpart, is that in the latter case the manufacturer assumes greater responsibility for product and process design. As our hypotheses are premised on the assumption that exporters have full control over their own product design and manufacturing processes, we included ODM as a control variable in all the tests where marketing know-how was the dependent variable.

4. Methodology

4.1. The research setting: the Pearl River Delta

Much of China’s recent export success can be attributed to the rapid industrialization of the Pearl River Delta (PRD) region in Guangdong Province (Fig. 1). With only 3.4% of the nation’s population, the PRD accounted for 10.2% of China’s gross domestic product, 20.3% of its inward foreign direct investment, and 29.1% of its total exports in 2007 (China Statistical Yearbook, 2008; Guangdong Statistical Yearbook, 2008). Given its position at the leading edge of the world’s fastest growing large economy, it is reasonable to expect that lessons learned in the PRD may apply to firms in other transition economies.

The PRD Economic Zone of Guangdong Province is an agglomeration of fourteen Chinese cities and counties surrounding the Pearl River estuary in southern Guangdong and bordered to the south by the semi-autonomous Special Administrative Regions of Hong Kong and Macau. With a GDP of around US$334b in 2007 (Guangdong Statistical Yearbook, 2008), the PRD is similar in economic size to Indonesia and is larger than Malaysia, Singapore and Thailand. In 2007, PRD firms exported goods worth US$354b, an amount 40% greater than the volume of Taiwan’s outward trade.

4.2. Sample and data collection

China’s external trade is substantial in volume and highly regionalized in scope. At the forefront of the country’s trade boom is the PRD where per capita exports were US$6494 in 2006, in contrast with US$745 per person for the rest of the country (Guangdong Statistical Yearbook, 2008). On a per capita basis the PRD is in the first rank of those transition economies, such as Slovakia, Croatia and Lithuania that have opened their markets wide to global trade. Yet to
date there has been virtually no research examining the business practices of indigenous PRD manufacturers (as opposed to foreign-funded enterprises) engaged in ordinary exports. To remedy this deficiency we collected primary data from a sample of indigenous manufacturers of electronic and electrical goods. China accounts for approximately 40% of the world’s exports of consumer electronics (Enright, Scott, & Chang, 2005). Much of this trade originates in the Pearl River Delta.

We compiled a database of electronic and electrical manufacturers from two publicly available sources: the “Chinese Companies and Products Database” maintained by Wangfang Data Company in Hong Kong, and; the “Chinese Products and Services” list provided by the PRC Ministry of Commerce. Collectively these two databases contain information on well over 100,000 companies. From these two sources we were identified a large number of electrical and electronic firms located in several PRD cities. This list was then screened to eliminate duplicated entries, foreign-owned firms and their subsidiaries, and non-manufacturers. An initial phone call to each firm was used to solicit senior managers’ interest in the study and to further verify that those surveyed were domestic manufacturers and not foreign funded enterprises.

In view of restrictions limiting foreigners’ access to local firms, we employed an independent market research company, Zhongtang Sinomonitor, for the data collection phase of the study. With offices in several PRD cities Zhongtang was able to organize and conduct interviews at sites scattered across the Delta. Operational details relating to data collection were overseen by a company-appointed collaborator who took responsibility for arranging interviews, supervising the interviewing team, checking incoming questionnaires, and making follow-up phone calls to verify missing or questionable data. The interviewers recruited by Zhongtang were highly experienced, having done similar surveys for various Chinese and foreign firms. Training of the interview team was conducted by the lead author at Zhongtang’s office in Shenzhen.

Interviews were explicitly conducted with “the most senior manager responsible for the factory.” The aim was to target respondents who could talk knowledgeably about the firm’s marketing activities as well as its overall business performance. The majority (75%) of respondents identified themselves as owners/chairmen, CEOs/general managers, or department heads.

In total, 1712 firms were contacted to participate in the study. Of these, 233 managers agreed to be interviewed and 200 questionnaires were useable giving a final response rate of 11.7%. As there is no publicly available data for the PRD electronics industry, it was difficult to determine whether the respondents interviewed were representative of the study population. However, it was possible to compare respondents with those in the two databases on two dimensions: firm size and export intensity. T-tests revealed that interviewed firms employed significantly fewer workers (371 compared with 606 for the database mean) and earned less income from exporting (11% of total sales compared with 20% for the entire database). If the two databases are representative of PRD firms as a whole, the sample used in this study may under-represent larger, more export intensive firms operating in the Delta. However, we have no reason to suspect this non-response bias affects the validity of our findings as we made no predictions regarding the effects of firm size or export volumes per se. Manufacturers included in the final sample were located primarily in four Delta cities; Shenzhen (44 firms), Dongguan (56 firms), Guangzhou (64 firms) and Foshan (30 firms). Six firms were located in other PRD cities. The mean age of the firms in our sample was 6.6 years.

Fig. 1. The Pearl River Delta region of Southern China.
4.3. Measurement

Where possible, existing measures were used to operationalize constructs. Specific items and the measurement properties of the latent constructs are listed in Appendix A. Unless otherwise specified, the constructs were measured using scales ranging from 1 = “strongly disagree” to 7 = “strongly agree.” Export intensity was measured as the proportion of direct export to total income (Li, 2004; Versvaal & Donkers, 2002). Respondents were asked to indicate the proportion of total income earned from three geographic sources: mainland China, Hong Kong, and foreign markets. Export intensity was then calculated as the proportion of income earned outside mainland China. Data for this variable were log-transformed to improve normality. Following Zahra and Covin (1993), new product development (NPD) was measured using three items assessing product development strategies relative to major market competitors. The measurement scale for product performance was based on measures similar to those used by Golden et al. (1995) and McEvily and Chakravarthy (2002). Respondents were asked to compare three product attributes relative to competitors’ offerings, where 1 = “much worse than competitors” to 7 = “much better than competitors.” Customer orientation was measured using three items sourced from Narver and Slater (1990). This scale has been widely tested and shown to be reliable (e.g., Liu et al., 2002; Nakata & Zhen, 2006; Rindfleisch & Moorman, 2003).

Business performance was measured by asking respondents to indicate their relative degree of satisfaction across three broad performance indicators: sales growth, profits, and return on invested capital, with 1 = “highly dissatisfied” to 7 = “highly satisfied” (Hooley et al., 2000; Subramanian & Gopalakrishna, 2001). Business growth was defined as the sum of responses to three items measuring the average growth in sales, profit and return on investment over the past three years. Anchor points ranged from one (negative growth) to seven (greater than 20% annual growth) (Hult & Ketchen, 2001). Finally, three items from Davies and Ko (2006) were used to measure the control variable original design manufacturing (ODM).

Before proceeding to the hypothesis tests, confirmatory factor analysis (CFA) was conducted to assess the measurement properties of the items used to capture the six latent variables, namely, NPD, product performance, customer orientation, ODM, business performance and business growth. The CFA results for a six-factor model (CFI = .95, TLI = .94, RMSEA = .06, χ² = 246.41, df = 137, p < .001) showed a satisfactory fit. Calculation of the composite or construct reliabilities (CR) and the average variance extracted (AVE) for each latent construct (reported in the Appendix) revealed that the values for each construct exceeded conventional thresholds (.70 for CR and .50 for AVE) in every case.

With respect to convergent validity, the individual item reliabilities (the loadings) for all six constructs were statistically significant at p < .001. Seventeen of the nineteen standardized loadings met or exceeded the usual benchmark of .70, while the remaining two were very close (.68) and well above the less conservative benchmark of .60 (Capron, Mitchell, & Swaminathan, 2001). These results provide evidence of convergent validity of the measurement model.

Having demonstrated convergent validity and reliability, it remains to consider whether the measurement model reveals any problems with respect to discriminant validity. Examination of the results shows that the correlations between the constructs ranged from .20 to .66 (see Table 1). Those figures suggest that the measurement model has achieved satisfactory discriminant validity. However, a conservative check was made to ensure that for every pair of constructs the AVE for both constructs exceeded the square of the correlation between them. That test was passed by all pairs of constructs, with the most highly correlated pair of constructs (i.e., ODM and NPD) having AVEs of .59 and .69, well above the value of their squared correlation of .44.

Overall, the measurement model shows that the instruments being used to measure the latent variables have acceptable properties with respect to convergent validity, reliability and discriminant validity.

5. Results

Prior to testing the hypotheses, the inter-construct correlations were examined to ensure that there was some relationship between the variables of interest. Table 1 reveals that the correlations linking export intensity with NPD, product performance and customer orientation are all statistically significant and nontrivial in size according to Cohen’s (1988) effect size benchmarks. The table also shows that NPD, product performance and customer orientation are all positively associated with both business performance and growth.

In order to test the hypotheses, an SEM model corresponding to the conceptual framework was run, and the results are shown in Fig. 2. Detailed results for the hypothesis tests are also summarized in Table 2. The fit for the model was satisfactory, with CFI = .93, TLI = .92, RMSEA = .07, χ² = 313.17, df = 158, p < .001. Export intensity was found to be positively related to NPD (β = .18, p < .05), product performance (β = .18, p < .01) and customer orientation (β = .12, p < .10) as predicted. None of the individual effects was trivial in size according to Cohen’s (1988) conventions. The model, including ODM as the control variable, explained between 29% and 62% of the variation observed for each of the marketing variables. Collectively these results support the hypotheses linking export intensity with NPD, product performance and customer orientation.

For the performance-related hypotheses, the three predictors (NPD, product performance and customer orientation) together explained 16% of the variation in Business Performance and 26% of the variation in Business Growth. Four of the six coefficients linking the three marketing variables with the two performance variables were found to be positive and statistically significant. Business performance was found to have a statistically significant relationship with NPD (β = .27, p < .01) but not with customer orientation or product performance. Business growth had a statistically significant relationship with all three predictors: NPD (β = .19, p < .05), product performance (β = .28, p < .01), and customer orientation (β = .16, p < .05). Taken together, these results support the hypotheses linking NPD (H4) with both performance outcomes. However, product performance and customer orientation were only linked with business growth (H5b and H6b) and not with business performance (leading to the rejection of H5a and H6a).

6. Discussion

The issue we set out to examine was whether there is a link between the exporting intensity of transition economy firms and their acquisition of marketing skills. The results obtained from a sample of indigenous Chinese manufacturers located in the PRD reveal a positive association between export intensity and three aspects of marketing know-how. One interpretation for this result is that selling to foreign markets exposes transition economy firms to new product ideas, new process technologies and customer preferences that are more advanced
than those encountered at home. The greater this exposure, that is the greater the firm’s dependence on export markets, the greater the learning opportunity and the higher the level of marketing know-how achieved. This interpretation is consistent with Tokatli and Kizilgün’s (2004) case documenting the evolution of Turkish firm Erak Clothing. These authors found that the transformation of Erak Clothing from a low-value added contractor to an original brand-name manufacturer was a result of learning about production processes and product quality from demanding foreign buyers. As a consequence of selling jeans to retailers such as Eddie Bauer (US), Chevignon (French), Jop (German) and others, Erak Clothing acquired functional skills relating to “the design, marketing, branding, and retailing of products” (2004, p.232). Although there is little case-based data documenting this transfer process, we suspect that the transition economy firms in our study were learning marketing skills from their foreign customers. Support for this interpretation is found in the nontrivial effect sizes linking export intensity with all three marketing outcomes.

In addition to being better at developing quality products, firms with higher levels of export intensity were also found to be more customer-oriented. This finding reinforces the emerging view that markets can be discriminated in terms of their value as sources of market intelligence (Cornish, 1997; Ellis, 2005). Although distance to market hampers learning, the benefits of being exposed to foreign markets seems to outweigh the disadvantages in the special case of transition economy firms. Customers in mature, open economies particularly may be seen as reservoirs of valuable market intelligence. Recognizing this, and the fact that customers reward firms who meet their needs better than others, transition economy exporters tend to display higher levels of customer orientation than their domestic marketing counterparts. As expected, the degree to which firms are engaged in ODM has a substantial impact on their marketing know-how. Firms that are merely order-takers (i.e., relatively low levels of ODM), have little incentive to engage in product design and development, and relatively little motivation to monitor and respond to customer needs. It is only when transition economy firms have a proprietary interest in their products (i.e., relatively high levels of ODM), that marketing becomes important. Some of the strongest results we observed were the effect sizes linking ODM with the three marketing outcomes.

In transition economies, marketing skills will be valued to the degree to which they lead to gains in performance. Although the link between marketing and performance is taken as axiomatic in the mature economies of the west, there may be some doubts as to the value of marketing in transition economies. Consequently, a subsidiary aim of our study was to assess the strength of the relationship between the marketing know-how and overall business performance. For the most part, the results revealed that marketing know-how has a positive and nontrivial effect on performance. Of the six specific effects examined, only one was found to be statistically nonsignificant (the relationship between product performance and overall business performance). To put these results in the context of past research, the range in the observed effect sizes is fairly similar to those found in other studies linking marketing capabilities with firm performance in other transition economies (e.g., Ellis, 2005; Gu, Hung, & Tse, 2008; Hooley et al., 2000). The emerging conclusion from this body of work is that in transition economies marketing matters, even while the process of economic reform remains incomplete.

7. Theoretical contributions and managerial implications

Several theoretical and managerial implications emerge from the findings of this study. First, the positive relationship observed between export intensity and marketing know-how represents an

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**Table 2** Tests of the hypothesized model.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Coefficientsa</th>
<th>S.E.</th>
<th>t stats</th>
<th>p-values</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Export intensity → NPD</td>
<td>.18</td>
<td>.04</td>
<td>3.16</td>
<td>.002</td>
</tr>
<tr>
<td>H2: Export intensity → Prod perf</td>
<td>.18</td>
<td>.03</td>
<td>2.88</td>
<td>.004</td>
</tr>
<tr>
<td>H3: Export intensity → Cust orient</td>
<td>.12</td>
<td>.04</td>
<td>1.69</td>
<td>.091</td>
</tr>
<tr>
<td>H4a: NPD → Business perf</td>
<td>.27</td>
<td>.10</td>
<td>2.56</td>
<td>.011</td>
</tr>
<tr>
<td>H4b: NPD → Business growth</td>
<td>.19</td>
<td>.13</td>
<td>1.98</td>
<td>.047</td>
</tr>
<tr>
<td>H5a: Product perf → Business perf</td>
<td>.14</td>
<td>.17</td>
<td>1.36</td>
<td>.172</td>
</tr>
<tr>
<td>H5b: Product perf → Business growth</td>
<td>.28</td>
<td>.23</td>
<td>2.80</td>
<td>.005</td>
</tr>
<tr>
<td>H6a: Customer orient → Prod perf</td>
<td>.06</td>
<td>.10</td>
<td>.73</td>
<td>.466</td>
</tr>
<tr>
<td>H6b: Customer orient → Bus growth</td>
<td>.16</td>
<td>.14</td>
<td>1.99</td>
<td>.046</td>
</tr>
</tbody>
</table>

Fit statistics: CH² = 93, TLI = 92, RMSEA = .07, R² = 313.17, d.f. = 158, p = .000.

a Standardized regression weights.
original contribution to the literature on knowledge transfer. Previous work in this stream has mainly focused on just two vehicles for knowledge transfer: namely, wholly-owned subsidiaries (Cui et al., 2006; Ghoshal & Bartlett, 1988; Young & Ian, 1997) and international joint ventures (Steenstra et al., 2005; Tsang et al., 2004; Wright et al., 2002). The evidence of this study reveals that knowledge transfer possibilities are also present within export channels supporting our conjecture that export links serve as conduits for the transmission of new marketing know-how.

These results also offer promise for the high proportion of indigenous transition economy firms not currently exposed to multinational investors. The chief managerial implication arising is that marketing know-how can be acquired directly from foreign markets via exporting. Moreover, no special learning activity is required. In the routine execution of export orders transition economy firms stand to learn much that will be of value in their own cultivation of marketing know-how. Both intentional and unintentional knowledge transfers will be the result of conducting international exchange (Griliches, 1992). Although we concur with others that distance is likely to have a mitigating effect on learning (e.g., Benito & Gripsrud, 1992; Dow, 2000; Johanson & Wiedersheim-Paul, 1975), the findings of this study suggest that the benefits of being linked with distant markets may outweigh the cost of maintaining such linkages in the special case of transition economy firms.

The results further reveal that learning is positively related to the degree of foreign exposure, as measured by export intensity. From a learning perspective, transition economy managers would be thus well advised to seek out export marketing opportunities even at the expense of domestic opportunities. The greater their exposure to foreign markets, the more they stand to learn about marketing. This is because the quality of market intelligence originating in mature, open economies will be higher than the quality of information gleaned from customers within the still developing host economy.

The finding that marketing know-how has a positive effect on overall business performance supports the resource-based view that knowledge is a source of competitive advantage (Barney, 1991; Day & Wensley, 1988; Wernerfelt, 1984). These results also provide further evidence that marketing can be a profitable investment even during times of economic transition. The managerial implication is clear. Transition economy exporters who are able to translate market intelligence into new and better products, and who are able to cultivate a company-wide commitment towards understanding and satisfying the needs of their customers, can expect to outperform rivals in terms of overall business performance and growth.

8. Limitations and future research directions

Recently there has been a reemergence of the idea that marketing activity is integral to the economic growth and development of a society (Bharadwaj et al., 2005; Kotler, Jaturspitak, & Maesincen, 1997; Wilkie & Moore, 1999). The need for functioning markets, reliable price mechanisms and efficient distribution systems is perhaps most acute in the transition economies which are making a conscious effort to abandon central-planning and embrace market reforms. The chief lesson arising from this study is that export linkages with foreign customers provide informants with marketing know-how, the variable-oriented design we adopted cannot be used to explain the actual exchange of know-how that we suspect is taking place. Large N research is useful for generating statistical association between sets of variables, but is typically unable to unpack dynamic causal processes (Stoecker, 1991). A more appropriate approach for future research would be to investigate specific transfer cases with the aim of generating theory (Ragin, 1987). Case-oriented research is a desirable strategy in those settings where the phenomenon (knowledge transfers between managers and their foreign customers) cannot be easily understood apart from its context (transition economy exports). We have argued that exporting boosts marketing know-how, yet the act of exporting requires some prior marketing knowledge. Case study research, which can address the explanatory questions of “how” and “why”, is needed to untangle these causal connections (Yin, 1989).

Irrespective of the research design adopted (case- or variable-oriented), we also see a need to discriminate between trade links to different markets. If managers stand to benefit from selling to customers in more marketized settings, then the marketization gap separating the transition economy firm from its various export markets might also be considered in future studies. The testable hypothesis is that trade ties with advanced economies will offer greater learning benefits than exports to other emerging economies. Another testable implication is that the learning benefits of trade will disappear over time as the host economy matures and marketization gaps are narrowed.

We also expect that the cultural distance separating exchange parties will moderate knowledge transfers. The identification of customer’s “needs, desires, expectations and behaviors” is an activity fundamentally embedded in cultural understanding (Simonin, 1999, p.473). Large cultural gaps will make it difficult for managers to interpret signals from their foreign customers. Other potential moderators include channel length (direct links will be better than mediated ties with customers), channel control (exporters with responsibility for their own distribution will learn more than those relying on foreign agents), market diversity (the costs of managing many markets may outweigh the benefits), and market size (large markets will command greater attention from exporters).

In this paper we considered only those performance effects of exporting which are influenced by marketing know-how. Yet the performance implications of external trade warrant more careful examination in further studies on this topic. We anticipate that export intensity may have both direct and indirect effects on firm performance. There will be significant value to transition economy managers in explicating these diverse effects.

9. Conclusions

The growing importance of markets in transition economies creates an incentive for managers to acquire the skills of marketing. The chief lesson arising from this study is that export linkages with foreign customers can serve as conduits for the import of marketing know-how into transition economy firms. This finding complements an extant bias emphasizing the role of foreign investors by revealing that transition economy managers can independently organize and participate in the acquisition of marketing know-how. Transition economy firms are not merely passive beneficiaries of multinationals’ munificence. By pursuing export markets they engineer for themselves opportunities to engage in both intentional and unintentional knowledge transfers with positive consequences for their own marketing knowledge. The greater their degree of dependence on export markets, the greater their opportunity to learn and the greater the resulting knowledge transfers. The results also expand our understanding of how geography affects these transfers by showing how transition economy firms derive value from being linked to buyers in distant markets. Further research is now needed to explain the dynamic processes by which these transfers take place.
## Appendix A. Measurement properties of the latent constructs

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td>ODM business model (CR = .85, AVE = .59)</td>
<td></td>
</tr>
<tr>
<td>(1 = strongly disagree, 7 = strongly agree)</td>
<td></td>
</tr>
<tr>
<td>Our most important products were designed by ourselves</td>
<td>.84</td>
</tr>
<tr>
<td>In-house product design is an important part of our strategy</td>
<td>.83</td>
</tr>
<tr>
<td>We spend more than competitors on in-house product design</td>
<td>.72</td>
</tr>
<tr>
<td>We rely on our own product design capability</td>
<td>.58</td>
</tr>
<tr>
<td>New product development (CR = .87, AVE = .69)</td>
<td></td>
</tr>
<tr>
<td>(1 = strongly disagree, 7 = strongly agree)</td>
<td></td>
</tr>
<tr>
<td>We aim to introduce more new products than competitors</td>
<td>.80</td>
</tr>
<tr>
<td>We spend more on new product development than competitors</td>
<td>.87</td>
</tr>
<tr>
<td>Our new products give us a competitive advantage</td>
<td>.81</td>
</tr>
<tr>
<td>Product performance (CR = .80, AVE = .57)</td>
<td></td>
</tr>
<tr>
<td>How different from your major competitors are the following marketing elements of your firm? (1 = much worse than competitors, 7 = much better than competitors)</td>
<td></td>
</tr>
<tr>
<td>Our product quality and reliability</td>
<td>.76</td>
</tr>
<tr>
<td>Our product design/performance</td>
<td>.80</td>
</tr>
<tr>
<td>Value for money</td>
<td>.70</td>
</tr>
<tr>
<td>Customer orientation (CR = .85, AVE = .66)</td>
<td></td>
</tr>
<tr>
<td>(1 = strongly disagree, 7 = strongly agree)</td>
<td></td>
</tr>
<tr>
<td>Our firm has a strong commitment to serving the needs of our customers</td>
<td>.87</td>
</tr>
<tr>
<td>Our firm’s business objectives are driven by satisfying customers’ needs</td>
<td>.87</td>
</tr>
<tr>
<td>We pay close attention to the satisfaction of our customers</td>
<td>.88</td>
</tr>
<tr>
<td>Business performance (CR = .88, AVE = .72)</td>
<td></td>
</tr>
<tr>
<td>How satisfied are you with your firm’s performance in the following areas? (1 = highly dissatisfied, 7 = highly satisfied)</td>
<td></td>
</tr>
<tr>
<td>Sales growth</td>
<td>.79</td>
</tr>
<tr>
<td>Return on invested capital</td>
<td>.90</td>
</tr>
<tr>
<td>Profits</td>
<td>.85</td>
</tr>
<tr>
<td>Business growth (CR = .92, AVE = .79)</td>
<td></td>
</tr>
<tr>
<td>Please indicate your growth over the past three years on the following indicators: (1 = negative, 2 = no growth, 3 = 1-5%, 4 = 6-10%, 5 = 11-15%, 6 = 16-20%, 7 = 20%+)</td>
<td></td>
</tr>
<tr>
<td>Average sales growth</td>
<td>.86</td>
</tr>
<tr>
<td>Average profit growth</td>
<td>.91</td>
</tr>
<tr>
<td>Return on investment</td>
<td>.90</td>
</tr>
</tbody>
</table>

## References


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