

IMPACT OF CERTIFICATION AS MODERATOR ON EXPORT MARKETING STRATEGY WITH REFERENCE TO TAMIL NADU LEATHER INDUSTRY

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ABSTRACT

This research aims to investigate the relationship between export marketing strategy and export performance in Indian leather industry, as well as the influence of moderating role of environmental factors on the relationship between export marketing strategy and export performance. There has been a significant increase in the quantity and quality of international and export marketing research with respect to effective solutions towards export performance. However, an investigation on the impact of marketing strategy and export performance in a single industry is lacking. In addition, the influence of environmental factors to moderate the relationship between export marketing strategy and export performance has received little agreement. Personal interview, mail and phone interview methods were used to measure export marketing strategy, environmental factor variable certification, as well as export performance. The findings showed that the moderating effect of certification appeared to moderate a few relationships between product and promotion adaptation, distribution strategy, design strategy and target market specification on export performance.

Keywords: *Leather industry, Export marketing strategy, Environmental factors, Export performance, Certification.*

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INTRODUCTION

The importance of marketing strategy to achieve organizational profits has been proven in determining the company performance effectively. Many industries have formulated aggressive strategies by implementing creative strategies on their products or services in order to increase organizational profits and sustainable competitive advantage. Global competition has put great pressure on export-based companies to set new and effective strategies in order to compete in the world market. However, some of the strategies implemented are not as successful as expected. Therefore, the need to focus on export marketing strategy on export performance in a single industry would give better understanding, whilst adding new insights into international marketing literature.

Besides expanding business operations into global market, firms also need to consider external factors that might affect their business internationally. These external or environmental factors cannot be controlled by the firms. Therefore, the impact of environmental factors to export-based companies to enter export ventures would give significant influence to their performance.

OBJECTIVES OF THE STUDY

This study attempts to investigate export performance in the Tamil Nadu leather industry by examining the impact of export marketing strategy and the moderating effect of Certification as environmental factors on the relationship between export marketing strategy and export performance. The study contributes to add new insight of the moderating factors influenced the export marketing performance in Indian leather industry.

LEATHER INDUSTRY IN TAMIL NADU

The Leather industry is enjoying the status of a major foreign exchange earner in India nearly over last thirty years. Madras (now Chennai) was one of the important trading centers during the British days in India. Hides and skins were major items of trade. Much of the export consisted of raw hides and skins. Of the 25 tanneries reported in India in the early 20th century, 14 were said to be in Chennai. Source of this comparative advantage lies in large raw material base, cheap labour and rich craftsmanship. The leather industry is enjoying the status of a priority sector in India since the early seventies.

About 36 per cent of the production in the sector is exported from Tamil Nadu in the year 2009 -10. The sector accounts for 2.5 per cent of the global leather-related trade of Rs. 387,200 crores. An estimated 15 per cent of total purchase of leading global brands in footwear, garments, leather goods & accessories, in Europe, and 10 percent of global supply

is outsourced from India. However, Indian leather is yet to establish a brand reputation in the international market and the relative share of India in the World leather trade is gradually declining.

LITERATURE REVIEW

Export Marketing Strategy

In the international marketing research, there were several dimensions used by the researchers to indicate marketing strategy. Previous researchers acknowledged firm strategy (Aaby and Slater, 1989), export marketing strategy (Julian, 2003; Akyol and Akehurst, 2003; Zou and Stan, 1998; Cavusgil and Zou, 1994; Koh, 1991), export strategy (Aulakh *et al.*, 2000; Chetty and Hamilton, 1993), business strategy (Baldauf *et. al.*, 2000) or strategy (Cicic *et al.*, 2002; Thirkell and Dau, 1998). However, all of these dimensions are based on marketing mix (product, price, promotion, distribution) and some researchers add few variables in order to make it more meaningful dimensions in their studies.

Export strategy was found as one of the most frequently used variable previously (Chetty and Hamilton, 1993). Other studies in export marketing area have focused on the relationship between export performance and firm strategies toward export activities (O’Cass and Julian, 2003; Julian, 2003; Akyol and Akehurst, 2003, Cicic *et al.*, 2002; Steward and McAuley, 2000; Aulakh *et al.*, 2000). In the international marketing literature, there were a number of empirical studies emphasising on marketing strategy in export marketing with several constructive results. Studies done by Thirkell and Dau (1998), Cavusgil and Zou (1994), Koh (1991), and Madsen (1989) suggested that export marketing strategy has significant influence on export performance.

Since export marketing strategy has been considered as one of the key determinants on export performance (Cavusgil and Zou, 1994), not all of the marketing strategy elements will affect the export performance simultaneously. Study by Koh (1991) on the relationships among organizational characteristics, marketing strategy and export performance has found that only export pricing, direct buyer, and channel strategies of marketing strategy variations have effects on export performance. However, adapting marketing mix variables to the specific needs of developed country markets would enhance export marketing performance (Aulakh *et al.*, 2000). In contrast, a study by Julian (2003) to identify the key factors influencing export marketing performance found that export marketing strategy has no effect on the Thai firm’s export marketing performance.

Shoham and Kropp (1998) investigated international performance in the United States has found a negative impact between marketing mix on export performance except channel support. Product adaptation strategy improve export performance (Shoham, 1999) and little or no adaptation of product in foreign markets will contribute to the failure of export ventures (Ogunmokun and Li, 1999). Zou and Stan (1998) suggested in their meta analysis approach of 50 studies that product adaptation and strength, promotion intensity, channel relationship and price adaptation were the key determinants of export marketing strategy.

Based on past literature,

H1: There is a significant relationship between export marketing strategy and export performance.

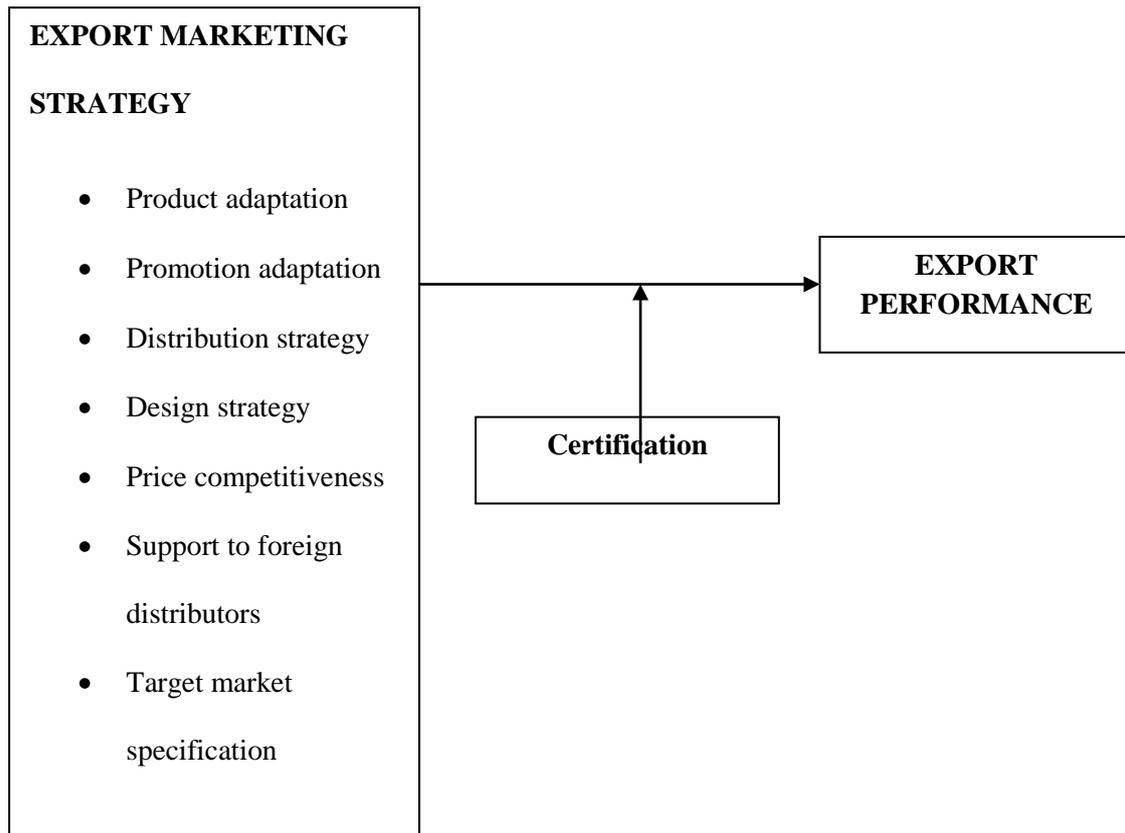
Environmental factors

The emergence of environmental concern as one of the critical factors in strategic business planning indicates the growth of environmental movement in the market place (Menon *et al.*, 1999; Subas C. Kumar., 1997). Both internal firm processes and external market and government policy factors affect firm and industry competitiveness (Hoff *et al.*, 1997).

A study by Kotha and Nair (1995) on strategy and environment as determinants of performance in the Japanese machine tool industry indicated that profitability and growth of performance were influenced significantly by the environment. Besides that, only environmental variables were related with firm growth of firm performance. Recent study by O'Cass and Julian (2003) showed that environmental characteristics have significant impact on overall export marketing performance. On the other hand, Abdul-Aziz *et al.* (2000) found that certification especially ISO certification will ensure the promotion adaptation into higher standard. Thus, the proposed hypotheses are:

H2: Certification moderates the relationship between export marketing strategy and export performance.

Figure 1 indicates the Research Framework



RESEARCH METHODOLOGY

A questionnaire was developed and tested in order to ensure the relevancy, clarity and applicability to the industry. From 200 export-oriented leather firms, 184 responses were usable to be analyzed for the study. Face to face and phone interview methods were used to measure the variables. Unit analysis for this study was the export oriented leather firms.

Export marketing strategy was measured based on Cavusgil and Zou (1994) and Julian (2003), which comprised of seventeen items including newly developed item for design strategy. This instrument consist of product adaptation ($\alpha=0.56$), promotion adaptation ($\alpha=0.56$), support to foreign distributor/subsidiary ($\alpha=0.83$), price competitiveness, distribution strategy ($\alpha=0.54$), design strategy ($\alpha=0.66$) and target market specification ($\alpha=0.71$). This instrument was measured using Five-point Likert scales ranging from 1 (none) to 5 (substantial).

Environmental factor was newly developed for the purpose of this study by using four items of certification. The Five-point Likert scales were used ranging from 1 (none) to 5 (substantial). Reliability test was conducted and resulted in 0.88 Cronbach's alpha for certification measurements.

Export performance measurement was adopted by using Cavusgil and Zou (1994) and Julian (2003) composite scale on strategic objective. Respondents were asked to indicate the relative importance attached to each objective by allocating a constant sum (100 points) to the individual objectives proportional to their importance. Respondents also were asked to indicate whether these objectives were met. The extent to which the initial strategic objectives were achieved was then computed as the weighted sum of the importance of initial strategic objectives. Then perceived success of the export venture on a 7-point Likert scale ranging from 1 (unsuccessful) to 10 (successful) was determined. Annual export sales growth rates over the three year period of the venture and whether the venture is profitable in each of the three years were asked to the potential respondents. Average annual sales growth rates as well as the overall profitability over the three years of the venture were computed to capture the measure of export marketing performance. For measuring export performance, these four indicators then were summed into a composite scale (Cavusgil and Zou, 1994; Julian, 2003). The statistical analysis used in this study consists of frequency analysis to determine the company profile. Correlation and multiple regression analyses were used to examine the relationship between the export performance and the factors of export marketing strategy and the variables of Certification in the industry. Finally, intercooled strata were used to determine whether the moderating variable is the major contribution to the model.

RESEARCH RESULTS

Respondents Profile

This study has indicated that 134 companies (72.83%) are registered under Private limited, 32 (17.39%) companies are under proprietorship, 14 (7.61%) and 4 (2.17%) of the companies are partnership and joint foreign owned respectively.

Around 75 (40.63%) leather manufacturers have less than 100 of total number of employees, 52 (28.13%) firms have between 100 to 300 employees, 32 (17.19%) firms have between 300 to 500 employees, 14 (7.81%) and 12 (6.25%) for the firms who have the total employees between 500 to 700 and 700 to 1000 employees respectively.

About 29.89% (55) of the respondents were experienced in international market around 11 to 20 years, 27.17% (50) have experienced within 5 to 10 years in international market, 32 companies (17.39%) experienced less than 5 years, and 11.96% (22) and 13.59% (25) for those companies who have experienced within 21 to 30 years and more than 30 years respectively.

More than half or 101 companies (54.69%) have served 6 to 24 countries, 31.25% or 58 companies served between 1 to 5 countries in export market. 14 companies or 7.81% have served between 40 to 59 countries, six companies (3.13%) have served between 25 to 39 countries, and finally, six companies (3.13%) served more than 60 countries.

Correlation Analyses

Table 1, shows the correlations between the dependent of export performance (EXPERF), independent of product adaptation (PROADAP), promotion adaptation (PROMO), price competitiveness (PRICE), target market specification (TGTMKT), support to foreign distributors (SUPPDIST), distribution strategy (DISTSTRA), design strategy (DESIGN) and the moderating effect of Certification(CERT).

The result indicated that only product adaptation and distribution strategy were correlated with export performance at 0.05 significant level. Promotion adaptation, target market specification and distribution strategy were found correlated with product adaptation at 0.01 significant level. Besides that, target market specification and distribution strategy were correlated with promotion adaptation at 0.01 significant level while design strategy correlates with promotion adaptation at 0.05 significant level. Finally, target market specification was correlated with distribution strategy at 0.01 significant level and at 0.05 significant level with certification.

Table 1: Correlation analyses between export marketing strategy, certification and export performance

VARIABLES	MEAN	sd	1	2	3	4	5	6	7
8									
EXPERF	15.4813	3.0500	1.00						
PROADAP	14.0625	2.382998	0.257*	1.00					
PROMO	14.2500	2.09307	0.187	0.780**	1.00				
PRICE	4.5781	0.97272	-0.039	0.238	0.115	1.00			
TGTMKT	4.9063	1.06486	0.208	0.428**	0.459**	0.237	1.00		
SUPPDIST	6.8438	4.49768	0.132	0.004	0.11	0.199	-0.023	1.00	
DISTSTRA	9.3125	2.29475	0.262*	0.391**	0.416**	0.124	0.636**	0.216	1.00
DESIGN	13.4375	2.77675	0.061	0.137	0.284*	0.087	0.213	0.095	0.319*
CERT	23.8438	3.77636	-0.173	0.140	0.013	0.194	0.261*	0.055	0.145
	0.144								

* Correlation is significant at the 0.05 level (2-tailed)

** Correlation is significant at the 0.01 level (2-tailed)

The impact of export marketing strategy on export performance

As can be seen from Table 2, multiple regression analyses is used to see whether there are relationships between export marketing variables on export performance in the industry. The results have shown that there is no statistically significant relationship between export marketing strategy and export performance. Thus, proposition 1 was rejected.

Table 2: Regression analyses between export marketing strategy and export performance

Parameter	B	Std. Error	t	p-value
Constant	11.711	3.681	3.182	0.002
Product adaptation	1.145	0.780	1.467	0.148
Promotion adaptation	-0.337	0.824	-0.409	0.684
Distribution strategy	-0.138	0.663	-0.209	0.835
Design strategy	-0.176	0.667	-0.264	0.793
Price competitiveness	-0.497	0.420	-1.182	0.242
Support to foreign distributors	0.321	0.274	1.169	0.248
Target market specification	0.753	1.527	0.493	0.624
F	1.326	(p-value =0.255)		
R ²	0.142			

The moderating effect of Certification

Table 3 shows contradicting result from Table 2. It shows that certification has been found to moderate the positive relationships between product adaptation ($p=0.061$), distribution strategy ($p=0.003$) and design strategy ($p=0.003$), while certification has moderate negative relationships between promotion adaptation ($p=0.016$) and target market specification ($p=0.003$) on export performance in Tamil Nadu leather industry. However, the relationships between price competitiveness and support to foreign distributors were not moderated by certification. Thus, it provides partial support to proposition 2b.

Table 3: Regression analyses between export marketing strategy and the moderating effect of certification on export performance

Parameter	B	Std. Error	t	p-value
Constant	12.205	3.593	3.397	0.001
Product adaptation	-5.161	3.456	-1.493	0.142
Promotion adaptation	7.236	3.494	2.071	0.044**
Distribution strategy	-8.424	2.760	-3.052	0.004**
Design strategy	-7.314	2.530	-2.891	0.006**
Price competitiveness	2.293	1.807	1.269	0.211
Support to foreign distributors	2.003	1.165	1.719	0.092**
Target market specification	19.002	6.036	3.148	0.003**
Product adaptation*Certification	1.426	0.743	1.920	0.061**
Promotion adaptation*Certification	-1.803	0.724	-2.492	0.016**
Distribution strategy*Certification	1.949	0.620	3.141	0.003**
Design strategy*Certification	1.566	0.510	3.071	0.003**
Price competitiveness*Certification	-0.536	0.377	-1.423	0.161
Support to foreign distributors* Certification	-0.361	0.234	-1.539	0.130
Target market specification* Certification	-4.243	1.341	-3.165	0.003**
F	2.890	(p-value = 0.003)		
R ²	0.452	**=0.05, *=0.10		

This result has shown that the moderating role of certification gives a major contribution to the model of this study by using additional F-test formula:

$$F = \frac{(R^2_{new} - R^2_{old}) / df}{(1 - R^2_{new}) / df}$$

$$F = \frac{(R^2_{new} - R^2_{old}) / \text{number of new regressor}}{(1 - R^2_{new}) / n - \text{number of parameter in the new model}}$$

Since in the first model the R-squared value is 0.142 (n = 184) and in the second model after including the entire moderator the R-square increased to 0.452 (n=184). Using the above formula, the additional F-value for moderator effect can be calculated as below;

$$F = \frac{(0.452 - 0.142) / 7}{(1 - 0.452) / 184 - 14}$$

F = 13.7883 (Additional F –value for moderating variable)

The critical value for F-test at 5% (1%) alpha level with 7 and 170 for numerator and denominator.

$$F_{0.05;7,170} = 2.0638$$

$$F_{0.01;7,170} = 2.7460$$

Since the Additional F-value is *greater* than the F-critical value, then enough evidence to say that the contributions of certification as a moderating variable in the model is significant.

Discussion and implications

The objective of the research is to examine the impact of export marketing strategy and the moderating effect of certification on export performance in Tamil Nadu leather industry. This study found that all export marketing strategies have no direct relationship with export performance in the industry. Julian has supported this result which suggested that export marketing strategy has no effect on the Thai firm's export marketing performance. Majority of firms are using the same strategy in their marketing activities implementation. Most of strategies implemented are similar domestically and internationally. They do not consider foreign market requirements as well as their needs.

This study shows interesting finding, certification moderates the positive relationship between product adaptation, distribution strategy and design strategy on export performance. If product adaptation set by leather firm emphasis on certification, performance will be increased in export market. Most of foreign buyers tend to look for environmental friendly leather products which have been certified by certain bodies locally before exporting. This is to maintain buyer's requirements and increase the value-added of leather products. Furthermore, this result is slightly similar to Cavusgil and Zou which found that legal environment is the most important factor in a firm's decisions to adapt their products upon entry. An established and efficient distribution system will ensure the security of good sales in export performance. Currently, global markets are more environmental conscious. For instance, 'greening of industry' places emphasis on business responsibility and accountability to variety of stakeholders. This will contribute into high quality in terms of raw materials and design of leather products. This is consistent with Lee and Zhou (2000) in their study which suggested that there is a significant association between quality practices and strategy, which eventually influence business practices and performance.

Uniquely, this study also found that certification moderates the negative relationship between promotion adaptation and target market specification on export performance for Indian leather and leather goods industry. This means that, if the promotion adaptation set by leather firms emphasizes on certification, export performance will be decreased. Aggressive promotion programmes implemented by the leather exporters will give an opportunity to the competitors to take advantage from the promotion efforts to offer their products in export market. Sales will be broken down into smaller percentage among suppliers, which inherently cause the first exporter's performance to fall.

In addition, longer process of certification, which means more stringent of licensing approval, documentation and high government bureaucracy will adversely affect promotion adaptation and target market specification in that particular country which directly resulted in low performance of export market. A study by Jensen and Pompelli (2000) suggested that product promotion, advertising, and market research are perceived as the most important modes of assistance, in locating and identifying potential buyers for products. However, stringent certification process hinders the success of promotion strategy in achieving high performance for export market in the Indian leather industry.

The result also shows that certification do not moderate the relationship between price competitiveness and support to foreign distributors on export performance. Normally, in marketing strategy, the need to certify the pricing is very minimal especially in leather industry which most of the prices given were based on cost of raw material. Similarly, support to foreign distributors is based on manufacturers or exporters tolerance.

Therefore, certification process should be shortened in order to facilitate smooth implementation of marketing programmes in the international market. In addition, product quality must be maintained in order to enhance promotion adaptation activities. This contention was supported by Lee and Zhou (2000) who noted that firms which are more likely to do business globally and link officially with foreign firms tend to be more quality-conscious.

Other aspects that need to be focused in leather manufacturing are the improvements of marketing support systems, efficiency of marketing operations such as market research, direct order entry systems, prospect qualification systems and communications with existing clients. The production of environmental friendly and value-added leather products will also help Indian manufactures to penetrate international market.

CONCLUSION

Overall, this study has shown that export marketing strategy has no direct relationship on export performance in Indian Leather industry. In addition, Certification does moderate positive relationship between product adaptation, distribution strategy and design strategy on export performance. In addition, it also moderate negative relationship of promotion adaptation and target market specification on export performance in Indian Leather industry. These findings add new insight on the export marketing literature especially on the moderating role of certification as a major contribution to this study.

FUTURE WORK

It is hoped that for future research, the need to consider other industries as well as cross sectional industries will be fruitful to examine the generalizability of the results. Also, in addition of certification into other dimensions such as government roles will give meaningful findings to export marketing area. Finally, the scales that have been used in export performance need to be standardized in order to increase the quality of data.

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