Managers' Perceived Risk, Experiential Knowledge, Marketing Capability and International Performance: A Study of Chinese International Enterprises

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Mass globalization and rampant softening of local economic conditions has made international expansion the inevitable choice for many maturing enterprises. It is therefore critical for international enterprises to understand dynamic and complex market variables when considering how to acquire competitive advantages. This study finds that the marketing capabilities constructed and fostered by Chinese international enterprises can positively affect international performance. In addition, managers' perceived risks and experiential knowledge of the international markets have a positive influence on the formation of the enterprise's marketing capabilities. Another important finding suggests that managers' experiential knowledge positively influences the firm's international performance.

INTRODUCTION

The process of globalization, rooted in the context of world economic and social development, remains fundamental to current marketing strategy despite the current international financial crisis, increasing trade protectionism, and with anti-globalization movements on the rise. It is therefore imperative to understand the factors contributing to marketing capabilities and international performance in transnational corporations and international enterprises.

Among the increasing number of international enterprises, the performances of Chinese enterprises are especially intriguing subjects during a period of world financial crisis as these firms are experiencing rapid adaptive internationalization programs. According to a recent report, "China's outbound direct investment by non-financial firms jumped 16.8 percent to $90.2 billion [in 2013] from 2012" (Wang & Qing, 2014). While Chinese enterprises continue to aggressively invest in foreign countries, many Chinese firms are still largely unfamiliar with consumers' needs as well as the existing sales and distribution systems in other countries. This lack of understanding, coupled with growing market competition and the challenge of the current international economic environment, poses a tremendous hurdle for the international expansion of Chinese enterprises. Thus the ability to adapt to the changeable environment and creating value for customers have both become the key issues for these enterprises to gain competitive advantage and increase market share (Srivastava et al., 2001).

Möller and Anttila (1987) discuss the role of marketing capabilities in creating value for customers and gaining sustainable competitive advantage; developing a conceptual framework and proposing practical dimensions in marketing capabilities. In this regard, a growing stream of research illuminates marketing capabilities as indispensable in gaining competitive advantage (Day, 1994; Hooley et al., 1998; Vorhies, 1998; Vorhies et al., 2005; Vorhies et al., 2009). Scholars have also recently examined marketing capabilities in the area of enterprise internationalization based on the combination of resource based value theory, dynamic capabilities theory, and theories of knowledge. For example, Kotabe et al. (2002) investigated the influence of marketing capabilities as a mediating variable between transnational expansion and the firm's level of financial performance. Similarly, Morgan, Zou, Vorhies, and Katsikeas (2003) analyzed the positive influence of knowledge and experience upon marketing and promotion capabilities for exporting enterprises. Furthermore, Blesa and Ripolles (2008) delineated the influence of marketing capabilities on international commitment, foreign market entrance modes, and international performance.

Despite the wide breath of studies on marketing capabilities, there is little research examining the relationship between marketing capabilities and international performances (Yeniyurt et al., 2005; Blesa & Ripolles, 2008). To reduce the current theoretical gap concerning marketing capabilities of international enterprises, and to bring to light the practical problems of Chinese international enterprise performance, this research focuses on Chinese international enterprises by discussing how managers' perceived risks and experiential knowledge influence the form of marketing capabilities in international enterprises. Furthermore, the relationship between marketing capabilities and international performance is examined and a marketing capabilities theory is proposed providing managerial implications for international enterprises.

LITERATURE REVIEW

With regards to international business research, many scholars rely on the construct of perceived risks to define and measure environmental uncertainty. Cvetkovich and Eale (1992) argue that "perceived risks" predict problematic issues and allow decision-making by individuals based on uncertain information. Kennedy et al. (2001) propose that perceived risks are readily identified by individuals' comments on contextual risks and are therefore considered as subjective estimates of uncertainties. Miller (1992) believes risks vary across macro-environmental uncertainties, industry uncertainties, and enterprise-based uncertainties in international markets making international performance unpredictable and increasing the risk to the enterprise. With the utilization of Miller's (1992) proposition, this study is grounded in the understanding that perceived risks are managers' subjective judgments on uncertainties in international markets and those perceived risks provide an estimate on the risks' impact on the enterprise's international operations.

A Knowledge-Based View (KBV) of companies contends that an enterprise is a knowledgeable social group (Demesetz, 1991; Kogut & Zander, 1996). Knowledge is believed to be among the most important strategic resources and is comprised of different levels as well as varying types of knowledge within the group (Morgan et al., 2003). Nonaka (1994) suggests that knowledge can be either explicit or tacit in nature. Explicit knowledge can be expressed to others, transferred by languages, words, and data, and shared across various mediums. Tacit knowledge, on the other hand, is the implicit experience that exists within individuals or within an organizational structure or business culture; therefore it cannot necessarily be described through spoken language or written materials. Explicit knowledge is thus easily transferred while tacit knowledge is hard to understand, codify, or imitate and is also difficult to disseminate (Gao & Tang, 2010).

Morgan, Zou, Vorhies and Katsikeas (2003) proposed similar knowledge groups within their study, reiterating that both types of knowledge (explicit and tacit) are important basic factors for export enterprises. One of these proposed knowledge groups contains explicit information about target markets, competitors, channels, and the marketing environment. A second knowledge group is described as the collection of tacit experiences regarding export activities and previous operations within the international market environment (Morgan, Zou, Vorhies & Katsikeas, 2003).

The act of retaining and developing knowledge can be accomplished at both the personal and organization levels within the enterprise (Cook & Yanow, 1993; Huber, 1991: March, 1991). Based on this line of research, many scholars believe that the majority of organizational knowledge exists in human capital (Hitt, 2001). These authors identify experiential knowledge as a type of tacit knowledge and, for the purposes of this study, is formally defined as the managers' experiences in international operations and within the international marketing environment.

Day (1994) regards marketing capabilities as a kind of process integration that increases the value of goods and services, allowing the firm to adapt to market conditions, exploit market opportunities, and address competition through collective knowledge, skills, and resources. Day (1994) also suggests that marketing capabilities consist of outside-in capabilities, inside-out capabilities, and spanning capabilities. Outside-in capabilities include skills and abilities that help enterprises react effectively to market changes. Inside-out capabilities focus on resources and activities within the enterprises, such as financial management, cost management, technology, and logistics integration. Spanning capabilities include information sharing, information dissemination within the organization, and the integration of market knowledge into internal processes and activities (such as new goods and services development). These capabilities provide a bridge between inside-out and outside-in capabilities of the firm and require a deep understanding of both external forces and intrinsic capabilities.

Hooley, Greenley, and Fahy (2002) add network capabilities to the aforementioned marketing capabilities with the inclusion of the capacity to create common trust and commitment among partners as well as know-how and tangible assets. Morgan, Vorhies, and Mason (2009) integrated the marketing capabilities model presented by Day (1994) and the market-based assets framework proposed by Srivastava et al. (1998) suggesting that marketing capabilities are made up of market sensing, brand management, and customer relationship management.

To provide an additional perspective, Katsikeas (1994) contends that the four most important marketing capabilities are production capacity, marketing and promotion capability, product superiority, and competitive pricing. Based on the traditional "4-P" theory of marketing and Katsikeas' (1994) research, Zou et al. (2003) suggest that export marketing capabilities include, but are not limited to pricing, product development, distribution, and communication capability.

Morgan, Zou, Vorhies, and Katsikeas (2003) add that marketing planning capabilities and marketing executive capabilities are two important structural capabilities for marketing. Marketing planning capabilities are regarded as processes that integrate enterprise exclusive marketing capabilities such as product, advertisement, and channel management while blending resources such as brand assets and channel relationships. Marketing executive capabilities are regarded as custom and usage processes which are used by enterprises to convert export strategy into action and resource distribution (Bonoma, 1985; Nobel & Mokwa, 1999). This study utilizes the definitions of marketing capabilities provided by Morgan, Zou, Vorhies, and Katsikeas (2003) and proposes that marketing capabilities in international enterprises consist of marketing planning capabilities and marketing executive capabilities, which integrate marketing related resources and capabilities in the firm by managers in order to fulfill the marketing strategy and gain competitive advantage.

PROPOSED FRAMEWORK AND HYPOTHESES

External environmental variables influence many different levels of the enterprise; therefore variation in the environment influences the formulation of organizational strategies (Duncan, 1972; Hrebiniak & Joyce, 1985). For example, turbulent environments influence the structure of the organization as well as managers' perceived uncertainties of the management tasks (Duncan, 1972; Miles & Snow, 1978). Strategy scholars in both marketing and management have extensively studied environmental impacts on marketing capabilities (Vorhies, 1998). Within the context of management strategy, Miller (1988) analyzed how different dimensions of the enterprise's environment influence the managements' perceived knowledge and their choice of strategy. The author posits that the dynamic environment influences strategy directions, which rely on the specific source of the firm's marketing capabilities. When perceived risks are high, management will collect more market information (Menon & Varadarajan, 1992), allowing managers to better assess market changes such as customers' preferences and match the marketing plans to these observed changes.

For most enterprises, market information is not only an important source of environmental knowledge which managers need (Kohli & Jaworksi, 1990; Menon & Varadarajan, 1992). It must also be disseminated to individuals and teams in order to facilitate a better use of intrinsic personal and team information (Kohli & Jaworksi, 1990; Jaworski & Kohli, 1993; Slater & Narver, 1995). In managing an uncertain environment, market information is particularly important for individuals or teams and will be transformed over time as employees or team members acquire knowledge and skills. Staff or team members can creatively apply this knowledge to address the problems and opportunities that are present within the market environment. This will, in turn, gradually establish a practice of knowledge application, making the manager more aware of the gradual evolution of the environment and its effect on the capabilities of the firm (Grant, 1991; 1996). With this premise in mind, the following hypothesis is proposed.

H1: Managers' perceived risks have a positive influence on the marketing capabilities of international enterprises.

Knowledge-based theory contends that knowledge exists within both the individuals and at the organization levels (Brown & Duguid, 1991; Cohen, 1991). Morgan et al. (2003) studied the marketing capabilities of export enterprises and suggest that experiential knowledge with regards to export business is accumulated mainly by the individuals responsible for business development; therefore it is an important part of enterprise knowledge. If companies seek to convert the personal level of empirical knowledge into a business asset, they must develop their own practices and capabilities (Cohen & Bacdayan, 1994; Zander & Kogut, 1995).

Morgan et al. (2003) also proposed that if export enterprises want to build marketing capabilities, empirical knowledge must be transferred to the marketing plan and become part of the marketing execution. This proposition suggests that personal experience, knowledge of the business marketing plan, and awareness of marketing capabilities have a positive impact on implementation capacity. If international enterprises attempt to build marketing capabilities, managers who are responsible for international marketing must continue to accumulate knowledge in the international market, such as knowledge from consumers, competitors, suppliers, and other aspects of the market environment. Based on these ideas, the following hypothesis is proposed.

H2: Managers' experiential knowledge has a positive impact on marketing capabilities of international enterprises.

Applying internationalization process theory to businesses in the international market may be described as a continuous accumulation of foreign market knowledge (Eriksson et al., 1997; Johanson & Vahlne, 1977). Enterprises obtain market knowledge through the investment of resources in foreign markets (Johanson & Vahlne, 1977) directly affecting knowledge on how to further invest in decision-making and resulting actions. Chetty and Eriksson (2001) believe that certain market knowledge is acquired by operating in a foreign market. This experiential knowledge is market-specific and is therefore proprietary.

Erikkson, Johanson, Majkgard and Sharma (1997) suggest that international knowledge, knowledge of foreign business, and foreign institutional knowledge are all part of a firm's experience in the knowledge of foreign markets. Foreign business knowledge is primarily concerned with customers, competitors, and empirical market knowledge that maintains a close relationship with corporate marketing activities and marketing capabilities. Both experience and knowledge of these enterprises are usually manifested as tacit knowledge in the managers' minds. This not only reduces risk, but also allows businesses to integrate internal knowledge of means and resources with external opportunities.

Additionally Yeniyurt, Cavusgil, and Hult (2004) contend that business management knowledge is the basis of building sustainable competitive advantage for most international enterprises. This capability refers to knowledge development of foreign customers, competitors, and suppliers positively linking business strategy and financial performance. Li and Cavusgil (2000) discussed the ability of the enterprise market knowledge to affect export performance and a resulting positive impact on the company's financial performance. From this line of reasoning, the following hypothesis is proposed.

H3: Managers' experiential knowledge has a positive affect on the performance of international enterprises.

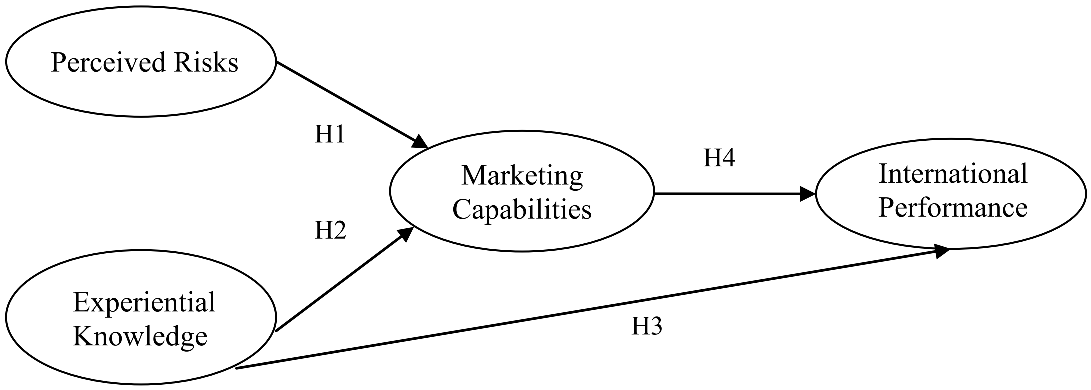
Jay (2003) found that marketing skills are not conducive to success in the market with regards to innovation, but does have a positive effect upon the development of a firm's competitive advantage. Extensions of this study suggest that marketing capabilities have a positive effect on new product success in the market (Song & Parry, 1993; Calantone & di Benedetto, 1988; Schmidt, 1995). Blesa and Ripolles (2007), while investigating enterprise internationalization, contend that marketing capabilities have a positive effect on performance of international corporations. Morgan et al. (2003) propose that exporting firms convert marketing capabilities into the success of marketing plans and marketing execution suggesting marketing planning skills enable enterprises to successfully adjust their marketing plans according to market conditions in foreign markets.

Marketing execution capability further ensures the successful implementation of marketing plans in foreign markets (Zheng & Kavul, 2005); therefore an enterprise's marketing capabilities exert a direct, positive influence on the performance of export enterprises. Moreover, since marketing ability is primarily based on information from foreign markets and the management of that information (Fernhaber & McDougall, 2005), its dynamic nature allows companies to convert much of that information in approaching additional foreign markets, which help enterprises obtain superior performance. Based on this premise, the last hypothesis is proposed.

H4: Marketing capabilities have a positive affect on enterprise performance.

These conceptual relationships suggest the structural equation model portrayed in Figure 1. All of the aforementioned hypotheses are represented in the model and are appropriately labeled.

FIGURE 1
MODEL OF FACTORS IMPACTING INTERNATIONAL PERFORMANCE



METHODOLOGY

Measures

The variable of perceived risk is measured using Miller's (1992) method of perceived environment uncertainty (PEU) that was further revised by Werner, Brouthers, and Brouthers (1996). The integrated PEU2 scale is used to measure managers' perceived risks in international markets from the macro, medium, and micro perspectives. The experiential knowledge variable utilizes the Morgan et al. (2003) scale, which consists of three components, namely knowledge, experience, and skills of staff employed in an international marketing department. Marketing capabilities are measured using the Morgan et al. (2009) scale that includes the following dimensions: pricing capabilities, product capabilities, distribution capabilities, marketing communication capabilities, selling capabilities, marketing planning capabilities, and marketing implementation capabilities. As for the measurement of the variable of international performance, Zahra and Garvis (2000) and Jantunen et al. (2005) provide an international turnover proportion method that is utilized in this study.

All of the aforementioned scales were originally developed by Western scholars. As there are distinct cultural and interpretational differences between Chinese and Western respondents, the translation and back translation paradigm was utilized for literal and definitional clarity. First, two Chinese marketing doctoral students translated the scales mentioned above into Mandarin, compared the translation differences, and then revised them. Second, two different doctoral students translated the Mandarin translation into English again and compared the two versions of the English scales. The differences were then discussed in order to ensure the scales' translation accuracy. Third, three marketing professors were then consulted in an effort to further refine the scales. Fourth, semi-structured interviews were held with five marketing managers regarding the scales' content and expressions. Last, the instrument was pre-tested among sixty marketing managers to arrive at the final questionnaire version.

Sample Characteristics

The population for this study was managers working in Chinese international enterprises including export companies, overseas branch offices, joint ventures, and sole proprietorships. A random sample of managers was obtained and the questionnaires were distributed by mail, email, and in person. The geographic areas included in the study were the Zhujiang River triangle area, the Changjiang River triangle area, the circle Bo sea area, the three northeast provinces area, Guangdong, Zhejiang, Shanghai, Beijing, Tianjin, and Liaoning.

A total of 1,612 surveys were distributed, of which 532 were returned with 463 deemed as usable (28.72% usable response rate). All of the enterprises that were surveyed had participated in international operation ventures. 57% percent of the enterprises had at least 80% of their total revenue from international operations. Over 70% of the enterprises received at least half of their income from international sales. The sample included companies in manufacturing, processing, finance, chemicals, wholesale, and other various trade industries.

Validity and Reliability

Perceived risk, experiential knowledge, and marketing ability are three variables whose reliability and validity are tested in this study. Reliability was assessed by examining the values of internal consistency coefficients for each scale. Cronbach's alpha values test the internal consistency of the observed variables under the same latent variable and the effect of aggregation of variables. These reliability test results (see Table 1) show that the alpha values of perceived risk, experiential knowledge, and marketing ability lie above the 0.70 threshold (Nunnally, 1978).

Variable measures of validity were examined to assess content validity and construct validity (both convergent validity and discriminant validity). Given that the scales used in this article are from previously published studies, it is surmised that content validity has been established. To test convergent validity, the authors utilized confirmatory factor analysis on the potential factors. Based on the results, an average extracted variance of latent variables (AVE) was determined (see Table 1). The AVE's in this study are all greater than 0.50, which meets the Fornell and Larcker (1981) convergent validity of proposed standards.

TABLE 1
RELIABILITY AND VALIDITY OF VARIABLES MEASUREMENT

Latent Variable	Factor	Standardized Factor Loading	*p*	AVE	Alpha
Perceived Risks	Perceived Macro International Risks	0.859	0.00	0.716	0.88
	Perceived Medium International Risks	0.847	0.00		
	Perceived Micro International Risks	0.833	0.00		
Experiential Knowledge	Knowledge of Marketing Staff	0.862	0.00	0.801	0.92
	Experiences of Marketing Staff	0.916	0.00		
	Skills of Marketing Staff	0.907	0.00		
Marketing Capabilities	Price Capabilities	0.659	0.00	0.545	0.89
	Product Capabilities	0.768	0.00		
	Channels Capabilities	0.856	0.00		
	Marketing Transferred Capabilities	0.770	0.00		
	Sales Capabilities	0.618	0.00		
	Marketing Planning Capabilities	0.662	0.00		
	Marketing Executive Capabilities	0.805	0.00		

RESULTS

Structure equation modeling was used to test the hypotheses and analyze the data. In view of the single item measuring the international performances, the authors adopted a mixed path analysis of the PA-LV model and fixed the variance of the only variable to zero (Wu, 2009). Based on the model fit results illustrated in Table 2, the initial model has poor goodness of fit (Chi-square value = 56.967, RESEA = 0.061, GFI = 0.950, AGFI = 0.912, TLI = 0.894, NFI = 0.858, and CFI = 0.927). The standard path coefficient in the model is represented in Table 3.

Based on these SEM findings, the initial model was revised systematically and with theoretical justifications. First, the relationship between perceived knowledge and international performances was not significant (p = 0.354) in the initial model; therefore the path coefficient between perceived knowledge and international performance is rejected. Second, two covariants were added to the model, specifically between perceived knowledge and international performances as well as one to the residual error. According to the results conveyed in Table 2, it is shown that the model fit improved significantly with these modifications. The path coefficients of the revised mixed PA-LV model can be seen re represented in Table 3.

TABLE 2
FIT INDICES OF THE MIXED PA-LV MODEL

Fitting Index	Initial Model Index	Revised Model Index	Adaptive Standard Value	Adaptive Judgment for Revised Model
χ^2	56.967 (p = 0.003)	32.527 (p = 0.254)	P > 0.05	Y
df	31	28	——	——
χ^2/df	1.84	1.16	< 2.0	Y
GFI	0.95	0.972	> 0.9	Y
AGFI	0.912	0.945	> 0.9	Y
RMSEA	0.06	0.027	< 0.08	Y
TLI	0.894	0.980	> 0.9	Y
NFI	0.858	0.919	> 0.9	Y
CFI	0.927	0.987	> 0.9	Y

TABLE 3
PATH COEFFICIENTS OF THE MIXED PA-LV MODEL

Hypothesis	Relationship Between Variables	Initial Model Path Coefficient	Revised Model Path Coefficient	Hypothesis Test Results
H1	Perceived Risks → Marketing Capabilities	0.406	0.435	supported
H2	Experiential Knowledge → Marketing Capabilities	0.346	0.396	supported
H3	Experiential Knowledge → International Performance	0.241	0.317	supported
H4	Marketing Capabilities → International Performance	0.178	0.192	supported

DISCUSSION

These results show that hypothesis H1 is supported, suggesting that managers' perceived risks have an active and positive effect on forming marketing capabilities. After entering into the international market, it is a significant challenge for enterprises to survive and grow due to the complex and turbulent market environment that oftentimes is strange and unfamiliar to its managers. Additionally, international market managers perceive that risks are higher for international markets relative to equivalent risks in a domestic market.

In order to gain competitive advantage in the world market, enterprises have to cultivate marketing capabilities that focus on how to create value for consumers better in dynamic and culturally different environments. When managers' perceived risks are high, they will seek to obtain more information about consumers, competitors, and suppliers. Perhaps managers also make their marketing plans more conservative and taking cautious measures in order to make the plans execute successfully; therefore, managers' perceived risks could be both a threat to an enterprise as well as a necessary factor for building up marketing capabilities.

In addition, the findings show that both hypotheses H2 and H3 are also supported, indicating that managers' perceived knowledge is vital for successful international operation and is also beneficial to building up marketing capabilities, which, in turn, influence international performance. Managers' perceived knowledge develops from the experiences accumulated from international marketing activities such as product, price, channel, customer, and branding.

Additionally, managers' perceived knowledge includes cultural awareness and a strong sense of future competition. The managers with high levels of perceived knowledge are capable of assessing developing trends and have the acumen required to create a marketing plan that fosters a successful marketing strategy for the firm. From this point of view, experienced managers are considered as an important firm resource. They contribute to the identification and creation of marketing capabilities, which increases the international performance of the enterprise. At the same time, enterprises have a responsibility to transform individual mangers' experience and expertise into the firm's shared knowledge base. This task is imperative for the long-term strengthening of marketing capabilities and the development of competitive advantages.

While the relationship between marketing capabilities and firm performance has been previously studied, the majority of the conclusions support the notion that marketing capabilities have direct impact on firm performance. This study expands the research by assessing the relationship between marketing capabilities and firm performances within the specific context of the international enterprise. It is found that, when the environment is expanded to international enterprises, the primary assumption is confirmed. Thus, hypothesis H4 is supported. Enterprises that have excellent marketing capabilities must adjust their strategy according to the changes of the market in order to better create value for customers and successfully compete in international markets.

LIMITATIONS AND FUTURE RESEARCH

Although the conceptual model and all four of its hypotheses are supported by the findings, there are some limitations to the current study that must be addressed. First, measurements on marketing capabilities are somewhat constrained since their measurement scales are for mature enterprises and do not necessarily pertain directly to emerging international enterprises. In addition, different contextual meanings between Chinese enterprises and Western enterprises may arise when using scales developed for administration in the West. Only one method was used to measure international performance, which may not exhaustively reflect the significance and purpose of the enterprise's international operations; therefore the measurement for international performances may need to be viewed by multiple constructs.

In view of the research limitations and the rapid development of Chinese enterprises' international practices, it is suggested that future studies should address the following three aspects. First, further study on the measurement of marketing capabilities should be undertaken since marketing capabilities is abstract concept. This calls for additional understanding and refinement of the construct and its associated scales. Second, this study only tests the dimensions of perceived risks and experiential knowledge.

Other important factors may exist that contribute to the creation of marketing capabilities and gaining competitive advantage. Third, it is unclear whether the influence of marketing capabilities on enterprises' international performances is direct or indirect. In other words, there might be some intermediate variables or other factors that influence the relationship between marketing capabilities and enterprises' performances. All of these limitations create opportunities for further research to enhance the understanding of the influencing factors on international marketing performance.

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