Chapter 2
The Mediating Role of Innovation in Strategic International Marketing

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ABSTRACT
The purpose of this chapter is to empirically examine the mediating role of innovation in strategic international marketing. The theoretical model consists of four variables: firm commitment, innovation, promotion strategy, and firm performance. It is conceptualized that firm commitment influences innovation that mediates the promotion variable, which in turn affects firm performance. A mail-out survey to Australian firms involved in international marketing gathered 315 useable responses. The whole theoretical model was tested using the structural equation modelling, partial disaggregation method. The findings confirm significant relationships among the variables in the theoretical model. All major fit indices from structural equation modelling analysis show satisfactory results for both the measurement model and the structural model. The findings shed light on the deployment of resources and capabilities such as human and financial resources, innovation, and promotion strategy to enhance firm performance. The major contributions of this chapter are the establishment of the mediating role of innovation on promotion strategy and the variables from the resources and capabilities perspective affecting firm performance.

INTRODUCTION
The concept of innovation is now considered one of the most powerful ideas in the business world. Innovation is the means by which firms either create new wealth-producing resources or endow existing resources with enhanced potential for creating wealth (Drucker, 1998). Encountering severe price competition, the global firm Procter & Gamble has recognized they failed to differentiate itself through innovation (The Economist, 1999). Innovation is for all types of businesses; for instance, established businesses, public service institutions, and international ventures. One of the major advantages of being an innovation firm is the first mover advantage (Kanter, 1999). Firms

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can gain a competitive edge over their competitors because they can hold a position in their customers’ minds that the firms are providing valuable products. Innovation is more than just creating new inventive products. The new products have to outperform competitors’ products, or they would not be too widespread (Barwise & Meehan, 2004).

Empirical findings have confirmed the importance of innovation. Innovation is found to be one of the main factors to enhance a firm’s financial performance (de Brentani, Kleinschmidt, & Salomo, 2010; Franko, 1989; Mone, McKinley, & Barger, 1998; Wong & Merrilees, 2008b; Yalcinkaya, Calantone, & Griffith, 2007). Additionally, empirical research also found a statistical significant result of innovation affecting firm performance in the domestic marketing context (Rapp, Schillewaert, & Hao, 2008; Salavou, Baltas, & Lioukas, 2004; Wong & Merrilees, 2008b). Marketers involved in international business deal with not only internal issues such as resources and capabilities, but also with external environments in overseas markets. Both the internal issues and external environments can affect firms’ innovativeness. For example, turbulence of the technological environment in overseas markets can positively affect product innovation (Lee, 2010); firm size is statistically significantly related to innovation intensity (O’Cass & Julian, 2003); firm’s exploitation and exploration capabilities can influence product innovation negatively and positively, respectively (Yalcinkaya, et al., 2007). While all these studies shed light on the important role of innovation in international marketing, the role of innovation in international marketing, particularly in its relationship with the marketing mix, is still under-researched.

The purpose of this chapter is to examine the role of innovation in international marketing strategy. This chapter is expected to provide empirical evidence to fill the research gaps. The research question of this study is: “What is the role of innovation in international marketing?” In addition to innovation, other aspects related to a firm’s resources and capabilities such as firm commitment, promotion strategy, and firm performance are empirically tested using structural equation modelling.

THEORETICAL BACKGROUND

Since there are numerous ways of examining what affects firm performance, it is necessary to draw on a theoretical paradigm to establish the foundation for the development of a conceptual model. The resources and capability paradigm is adopted due to its ability to identify and explain factors which are controllable by marketing managers when trying to enhance firm performance (Wong & Merrilees, 2007).

The Resources-Based Perspective

The resources-based paradigm emphasizes a micro-level that consists of relatively similar firms in a state of recognized mutual interdependence (Caves & Porter, 1977). The industry in this micro-level sense is viewed as comprising of different firms, each having homogeneous members, but differing from one another. In consideration of the high level of heterogeneity observed in firm behaviour and the large variance in firm performance within industries which has not been explained by industry-level factors (Gehlhar & Regmi, 2009; Powell, 1992; Rumelt, 1991; Schmalansee, 1985), the focus on firm-level factors seems well justified. This change in focus from the macro-level towards the firm-level has important implications as it allows more scope to firms in regard to their strategic conducts. The recognition of heterogeneity within an industry makes the resource-based framework less deterministic than the structure-conduct-performance paradigm since group composition is partly the outcome of strategic actions made by firms.