Leonidas C. Leonidou
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Advances in Global Marketing

A Research Anthology

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Preface

Scholarly work in international marketing activities made its appearance in the early 1960s, and since then has experienced exponential growth, with thousands of books, monographs, articles, and conference papers published on the subject. The aim of this book is to complement the voluminous, stimulating, and valuable knowledge accumulated up to now, with a concerted effort to contribute some new ideas, contemporary issues, and interesting topics that will help to move this important field of marketing and international business a step forward. To this end, we have sought to put together contributions from some of the most prolific researchers in the field and their associates, and produce a collection of readings touching upon some of the latest developments in international marketing. Our goal was to cast a wide net and attract scholarly perspectives from experts situated around the world. As a result, the book includes contributions by 53 authors, from 31 academic institutions located in 20 different countries, whose works are represented by the 19 chapters of the book. The book covers a wide array of issues, ranging from the firm's internationalization process and internal/external determinants of international operations to foreign consumer behavior and strategic international marketing aspects. The chapters use various forms, such as literature reviews/assessments, conceptual developments, quantitative research, or case studies, and cover many countries, including China, Denmark, Finland, Greece, Italy, The Netherlands, New Zealand, Norway, Portugal, Romania, Slovenia, and The United Kingdom. The various chapters offer useful summaries of extant knowledge, robust research methodologies, and interesting theoretical and managerial implications. They also raise challenging areas for future research in the respective fields examined. We believe this book will provide a useful reference point for business researchers, marketing educators, postgraduate students, business practitioners, and other parties interested in recent advances in global marketing. We hope you will find these contributions useful and enjoy reading the book!

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Introduction

This book contributes a range of new ideas and contemporary issues to the rapidly growing body of knowledge in international marketing. It provides an edited volume of 19 chapters written by 53 authors, which are organized into nine parts. Part I assesses the current status of the international marketing field with Chapter "International Marketing Research: A State-of-the-Art Review and the Way Forward", written by Leonidou, Katsikeas, Samiee, and Aykol. Based on a systematic review of 1,722 international marketing articles, published in the top six international business journals during the period 1995–2015, the authors (a) evaluate the profiles of authors involved in this line of research; (b) identify the major contributors in the field based on their productivity and impact; (c) assess the structural characteristics of the manuscripts published on the subject; (d) identify the articles with the greatest impact; and (e) analyze the specific research themes covered and their evolution over time. They also provide avenues for research going forward. The analysis reveals that the international marketing field has experienced significant growth and proliferation in the last two decades, as demonstrated by its continuous refinement, improved quality, and extensive topical coverage.

In Part II of the book, we have two articles focusing on the firm's international market engagement. Chapter "'Lean Start-up' Practices: Initial Internationalization and Evolving Business Models", written by Crick and Crick, sheds light on what lies behind a firm's first export order. Although this topic was introduced more than 50 years ago, the authors take a fresh look by drawing on the lean start-up literature and particularly focusing on the extent to which owner/managers employ evolving business models. Based on information collected from managers in ten newly internationalizing UK start-up firms, they highlight the varying degrees of lean start-up practices that are employed, with all firms considering specific aspects within their respective business model when initiating their internationalization process. Gnizy and Shoham have contributed Chapter "Reverse Internationalization: A Review and Suggestions for Future Research", which reviews the reverse internationalization phenomenon, a crucial strategic decision that warrants separate attention within the firm's internationalization process literature. Specifically, the chapter synthesizes prior knowledge on the process of reverse internationalization, its antecedents, and its consequences. The authors also criticize extant research on the firm's reverse internationalization and suggest ways to accommodate problems pertaining to the conceptualization and methodology used in investigating this issue.

Part III deals with the role of external agents in international marketing, which has been the object of two chapters. In Chapter "The Roles of INVs and Their Agents in the Organization of Marketing Tasks", Madsen and Rosenbaum introduce a 2x2 typology of international new ventures/born globals, which is based on the extent to which these firms organize their marketing tasks in relation to their existing distributors/agents. This is explored through four case studies conducted in the fashion apparel design industry. The findings stress that international new ventures operating in very similar market environments can adopt different approaches when organizing marketing tasks—with some using agents more to identify and develop relations with foreign retailers, while others choosing different methods to circumvent the need for agents. Chapter "Home Country Institutional Agents (HCIAs) as Boundary Spanners Supporting SME Internationalization", written by Lindsay, Rod, and Ashill, conceptualizes the process by which home country institutions (and particularly institutional agents) provide support to the internationalization efforts of SMEs, drawing on the concepts of boundary-spanning and brokerage. Based on interviews with the managers of 54 New Zealand SMEs internationalizing into India and China, the authors found that home country institutional agents were involved in (a) linking SMEs with knowledge and actors in the host countries; and (b) undertaking a range of important boundary-spanning activities inside the host country, directly or indirectly supporting the SMEs undertaking business there.

Part IV of the book comprises three chapters, which focus on the role of innovation in international marketing. In Chapter "Exploring Informal and Formal Learning Activities as Enablers of Learning-By-Exporting in Small and Medium Sized Firms", Moen, Benum, and Gjærum assess the extent to which export activities may improve innovation capabilities, by exploring the role of formal and informal learning activities. Using information received from 380 Norwegian SME exporters, they confirm a positive relationship between informal learning activities and firm innovation performance. In addition, although export share, psychic distance, and export scope are not found to have a direct effect on innovation performance, when high export scope is combined with informal learning activities this contributes to heightened innovation performance. Nakata and Antalis are the contributors of Chapter "Strengthening Innovation for Greater Exporting: A Strategic Path for Developing Country Firms" that investigates the path of more innovation for greater exporting to enhance the competitiveness of developing country-based firms. Based on interviews conducted among managers and experts in the wine industry of Romania, the authors identify a complex set of organizational/managerial (e.g., international market orientation, production costs, financial/human resources) and environmental (e.g., market development, market integrity, competitive intensity) factors that shape the innovation–exporting interaction in developing country-based firms. Chapter "Antecedents, Marketing

Capabilities Contingencies and Performance Consequences of Innovative Imitation Orientation: A Resource Orchestration Perspective", written by Sousa, Li, and He, focuses on the role of three organizational-level factors (i.e., export market openness, export competitive aggressiveness, and export market risk avoidance) on shaping innovative imitation orientation. Drawing on the resource orchestration perspective, the authors also propose that the firm's marketing capabilities interact with innovative imitation orientation to enhance export performance.

Part V consists of two chapters dealing with customer behavior in international markets. In Chapter "Comparative Thick Description: Articulating Similarities and Differences in Local Beer Consumption Experience", Usunier attempts to articulate similarities and differences in local consumer experience across multiple countries (taking as an example the consumption of beer), by applying the comparative thick description framework. Specifically, he shows how language can be used as a discovery tool, along with in-depth interviews and checking of researchers' interpretations by informants, to generate cognitive maps of consumption and taste experiences. In Chapter "Face Concerns And Purchase Intentions: A Cross-Cultural Perspective", Zhang, van Doorn, and Leeflang investigate the impact of product tangibility and social presence on the relationship between face concerns and purchase intentions for high-priced options. Using nationality (Chinese vs. Dutch) as a proxy to classify high versus low face concern, they show that, on average, Chinese consumers are more likely to buy a high-priced product than Dutch consumers, but do not differ with regard to high (versus low) product tangibility and social presence.

Part VI of the book focuses on issues pertaining to targeting or withdrawing from foreign markets, which has been the object of two chapters. Lages, Fonseca, and Paulino prepared Chapter "The VCW-Value Creation Wheel: A Framework for Market Selection and Global Growth", which explains the Value Creation Wheel (VCW), a practical framework for selecting attractive foreign markets, in order to explore the full potential of the firm's products and services. In doing so, they identify five phases, from the formulation of the problem to the final solution, namely, tap, induce, analyze, ground, and operate (TIAGO), which they apply to a real company case. The authors stress the importance of nurturing this framework with insights from key decision-makers (problem definition, selection of solutions and filters, final decision), as well as by the firm's key internal and external stakeholders. Sapouna, Dimitratos, Larimo, and Zucchella contributed Chapter "Market Withdrawal, International Orientation and International Marketing: Effects on SME Performance in Foreign Markets", which deals with the reverse phenomenon, namely that of the firm's withdrawal from foreign markets. Based on information collected from SME exporters located in Finland, Italy, and Greece, it was revealed that withdrawal from a foreign market negatively affects international performance, whereas international orientation and marketing resources/capabilities positively influence international performance. The empirical results also indicate that in the case of strong presence of international orientation, withdrawal decisions have a positive impact on international performance.

In part VII, three chapters deal with several strategic aspects of international marketing. Chapter "Integration Mechanisms as Enablers of International Standardized Strategies", written by Pfajfar, Shoham, Brenčič, and Virant, assesses the relationships between standardization of international marketing strategy and performance. Using a sample of Slovene exporters, it is revealed that each component of standardized strategy (product, price, place, and promotion) is driven by a different strength of integration modes, namely by formalization, centralization, information, and people. Hence, different integration emphases should be pursued to the extent that an exporter seeks to standardize strategies cross-culturally when target markets are similar. Chapter "Patterns of SME's Marketing Mix Combinations and their Characteristics in Export Markets", contributed by Larimo, Zucchella, Kontkanen, and Hagen, focuses on the long-standing debate of standardization versus adaptation of the firm's marketing mix strategy in foreign markets. Based on a two-country (Italian and Finnish) sample of SME exporters, five distinct patterns of export marketing mix strategies are identified, ranging from complete standardization to full adaptation. The authors identify similarities and differences between these patterns in terms of various home country, managerial, organizational, internationalization, market-related, and performance characteristics. Kotabe and Murray are the contributors of Chapter "Global Sourcing Strategy: An Evolution in Global Production and Sourcing Rationalization", which first examines the trend and nature of global sourcing strategy as it has evolved in response to the climate of the time since the 1980s. It also discusses how global sourcing levels must achieve a strategic fit with the environment in order to lead to superior international marketing performance. Finally, it provides a synthesis of these balance and fit perspectives to suggest how, over time, changes in the fit alter the required balance in global sourcing.

Part VIII of the book comprises two chapters that examine the issue of buyer–seller relationships in international markets. In Chapter "Foreignness in Export and Import Social Relationships: The Liability of Psychic Distance", Vida and Obadia provide a systematic review of the literature on foreignness in the context of exporter–importer relationships published during the period 1997–2016. They find that this stream of research is relatively scarce and dispersed, lacks theoretical guidance, and has low confirmation of the hypotheses set. They also identify several problems, such as inadequate conceptualizations, poor measurement scales, lack of managerial relevance of the indicators, and misspecification of the measurement instruments. In Chapter "International Franchising Relationships", Robson, Kadile, Watson, and Clegg shed light on international franchising relationships, an area that has received scant empirical attention by international marketing researchers. Based on a qualitative research among the foreign franchisees of a large U.K. franchisor, the authors identify key areas in which the two parties interact, namely logistics and supply chain, buying and merchandising, brand building, marketing and advertising, visual merchandising, communication, and support and monitoring. They conclude that the openness and willingness of the franchisor to listen to the franchisee allows the identification and discussion of problems facing the partnership and opportunities for adaptation, growth, and mutual profits.

Part IX highlights some special issues in international marketing, which are the object of two chapters. Chapter "Intercultural Service Encounters (ICSEs): Challenges and Opportunities for International Services Marketers" was written by Sharma, Tam, Kim, Zhan, and Su and reviews the literature on intercultural service encounters, that is, the interactions between customers and employees from diverse cultures. Some of the factors influencing intercultural service encounters identified in this review are cultural distance, intercultural competence, inter-role congruence, cultural attributions, service outcomes, and roles on customer evaluations. Their review of the pertinent literature reveals a number of gaps, such as the lack of generalizable findings, emphasis on certain cultural factors, limited real-life experiences of customers and employees, and the role of employee characteristics. Based on their analysis, the authors raise a number of questions to be addressed by future research. Leonidou, Skarmeas, and Saridakis were the contributors of Chapter "Ethics, Sustainability, and Culture: A Review and Directions for Research", which reviews and synthesizes the literature on the intersection between ethics and sustainability with culture. In doing so, they identify 47 studies with a focus on the subject, which use different approaches and measures of cultural variables, have very diverse unit of analysis, and derive information from a limited number of countries. Their review uncovers inconsistencies in research findings, reveals critical knowledge gaps, and presents opportunities for future research.

Part I
Current Status of International Marketing Research

International Marketing Research: A State-of-the-Art Review and the Way Forward

Leonidas C. Leonidou, Constantine S. Katsikeas, Saeed Samiee and Bilge Aykol

Abstract The chapter provides a systematic review of 1722 international marketing articles published in the top six international business journals during the period 1995–2015. The analysis focuses on five major areas: profiles of authors involved in international marketing research; major contributors of international marketing articles based on their productivity and impact; structural characteristics of articles published on international marketing; articles with the greatest impact in the international marketing field; and specific themes of international marketing research covered and their evolution over time. The analysis revealed that the international marketing field has experienced a significant proliferation during the investigation period as demonstrated by its continuous refinement, improved quality, and extensive topical coverage. Fruitful directions for future research on the subject are discussed.

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1 Introduction

Engaging in international marketing activities has been an issue of major concern for many firms due to the fact that it offers profit and growth opportunities, exploit economies of scale, diversify business risks, gain expertise and know-how, and improve competitive advantage (Czinkota & Ronkainen, 2013). This is particularly true in recent years, during which the business environment has become more globalized, competitive forces have intensified significantly, and the pace of technological growth has reached incredible levels (Hollensen, 2017). These developments have not remained unnoticed by business scholars, who since the early 1960s have embarked on studies researching international marketing issues that have taken many different directions and expanded exponentially during the last few decades. As a result, a plethora of articles have been published on the subject, which have contributed to making international marketing an established field of academic inquiry within the overall international business discipline (Leonidou, Barnes, Spyropoulou, & Katsikeas, 2010; Malhotra, Wu, & Whitelock, 2005, 2013).

Several attempts have been made in the past to review, assess, and consolidate the inventory of knowledge accumulated in international marketing, either covering broad developments in the field (e.g., Albaum & Peterson, 1984; Cavusgil & Nevin, 1981; Li & Cavusgil, 1995) or focusing on specific strands of research (Aaby & Slater, 1989; Bilkey, 1978; Miesenböck, 1988; Theodosiou & Leonidou, 2003). Despite their usefulness, these reviews do not account for recent developments in international marketing. Moreover, with a few exceptions, they do not show trends within the field. Furthermore, they pay little attention to the profile of contributors and characteristics of manuscripts written on the subject, as well as to the specific international marketing topics covered. Finally, they provide little guidance as to how research on the subject should evolve in the future.

The purpose of this chapter is to fill these gaps in the literature, by reviewing recent developments in international marketing developments, reported in the top international business journals during the period 1995–2015. This will help to provide a more complete view of trends in the field, as well as a clearer guidance for future research on the subject. Specifically, we want to shed light on the following issues: (a) to evaluate the profile of authors involved in research on international marketing; (b) to identify the major contributors of publications in the field and rank them according to their research productivity; (c) to assess the structural characteristics of articles written on the subject; (d) to trace those articles that have made the greatest impact on the international marketing field; and (e) to review the thematic areas of international marketing covered and how these evolved over time.

Such an assessment exercise will be beneficial for various interested parties. First, it will provide researchers with an inventory of knowledge, which will serve as a point of reference for further research efforts. It will also supply marketing educators with useful material about current themes in international marketing that could be used in classes for teaching purposes. Business managers will also be furnished with new ideas relating to global marketing trends, which would help them to better prepare their marketing approaches to foreign markets. Finally, it will provide input to public policymakers, on the basis of which they can design their assistance and promotion policies offered to firms engaged in international business operations.

The remainder of this chapter is organized in five sections. The method used in undertaking this review of the international marketing research is first explained. Next, we present the findings of the study conducted, with regard to authorship profile, most prolific authors, article characteristics, most cited articles, and thematic areas covered. Then, we summarize the findings of the review and offer directions for future research. The next section provides implications for international marketing scholars. Finally, we present the limitations of the study.

2 Methodology

The study covers all international marketing articles published in the top six international business journals, namely *Journal of International Business Studies, Journal of World Business, Management International Review, Journal of International Marketing, International Marketing Review,* and *International Business Review*. Since other review studies have already covered the early periods of this research (which made its appearance in the early 1960s), we have concentrated on reviewing articles published during the period from 1995 to 2015. This is a sufficiently long time-frame to incorporate a sizeable state-of-the-art knowledge on the subject and establish trends. Only manuscripts of a conceptual, empirical, methodological, or meta-analytical/review nature were included in the analysis, while editorials, case studies, educational insights, or reply comments were excluded.

Eligible articles were identified using a combination of electronic and manual literature search methods. Electronic searching, particularly as regards articles published in the *Journal of International Business Studies, Journal of World Business, Management International Review, and International Business Review,* was carried out using various bibliographic databases, such as ABI-INFO, JSTOR, and SCIENCE DIRECT. Keywords like ‘global marketing’, ‘international marketing’, ‘multinational marketing’, and ‘export marketing’, were employed to electronically trace articles of relevance to the review. Articles that could not be retrieved electronically were identified manually from other sources (e.g., the list of references of articles) and were obtained from libraries. In total, 1783 articles were found relevant for the purposes of our review, while an in-depth examination of the full content of each article reduced this number to 1722, as some of the studies did not have a clear international marketing status.

The articles collected were categorized into three time periods, namely 1995–2001 (535 articles), 2002–2008 (568 articles), and 2009–2015 (619 articles). Notably, there was a slight increase in international marketing articles published in the top six international business journals over time, reflecting a growing interest by scholars in shedding light on this important area of marketing and international business. In terms of contribution, the *International Marketing Review* (622 articles) and *Journal of International Marketing* (411 articles) were the major publication outlets for these articles due to the fact that they specialize in international marketing issues. The contribution of the remaining four journals, which have a broader international business nature, was as follows: *International Business Review* (282 articles), *Journal of International Business Studies* (170 articles), *Journal of World Business* (141 articles), and *Management International Review* (95 articles) (see Table 6).

Each international marketing article was subsequently content analyzed by two experienced researchers under the supervision of an academic with extensive knowledge of content analysis. Both coders underwent rigorous training, in order to understand how to code the information contained in each article. For this purpose, we have developed a coding protocol consisting of three parts: (a) *author profile*—number of authors, number of institutions, number of authors' country base(s), location of authors, number of authors' disciplines, and type of authors' discipline; (b) *article characteristics*—nature of articles, target audience, number of tables/graphs, number of pages, and number of references; and (c) *thematic areas*—a list of 33 international marketing topics classified into 12 groups (plus a miscellaneous category).

The workability of the coding protocol was tested with a small sample of articles, and the instrument employed revealed no particular problems. To increase consistency in interpreting the information extracted from the articles, a special manual was prepared, incorporating operational definitions for each item that had to be analyzed. The two coders worked independently and transferred the information contained in each article onto the coding protocol. Inter-coder reliability tests for each item used revealed an agreement of 87–93% between the coders, which reflects satisfactory levels. All discrepancies identified were resolved with the assistance of the supervisor, while the data from the finalized coding protocols were used for statistical analysis based on descriptive statistics.

3 Findings and Discussion

This section presents the findings of our review of the international marketing research published in the top six international business journals. This is organized into five major areas: author profile, most prolific authors, article characteristics, most influential articles, and key thematic areas.

3.1 Author Profile

The overwhelming majority of articles on international marketing were written by more than one author, while single authorships accounted for 16.2% of the total (see Table 1). Single-authored manuscripts, as well as collaborations between two authors, were more prevalent during the period 1995–2001 (reaching 73.2%), but

Table 1 Authorship profile of international marketing articles published during the period 1995–2015

Authorship profile	Total (n = 1722) (%)	1995–2001 (n_1 = 535) (%)	2002–2008 (n_2 = 568) (%)	2009–2015 (n_3 = 619) (%)
Number of authors				
One	16.2	26.7	12.7	10.3
Two	38.8	46.5	40.0	31.0
Three	30.7	20.7	33.3	37.0
Four or more	14.3	6.0	14.1	21.6
Number of institutions				
One	34.6	46.5	32.4	26.2
Two	39.2	39.3	42.4	36.2
Three	19.6	12.7	19.7	25.4
Four or more	6.7	1.5	5.5	12.3
Number of countries				
One	62.8	75.0	62.7	52.5
Two	29.8	21.5	31.5	35.4
Three	6.2	3.4	4.4	10.2
Four or more	1.2	0.2	1.4	1.9
Location of authors				
North America	42.8	55.8	45.4	32.2
Europe	34.4	26.9	29.7	43.2
Asia	13.7	10.2	14.8	15.0
Africa	0.3	0.3	0.3	0.3
Australia	8.2	6.2	9.5	8.5
Latin America	0.6	0.6	0.3	0.9
Number of disciplines				
One	51.8	54.6	48.2	52.7
Two	23.1	18.7	24.6	25.5
Three	2.8	2.1	1.8	4.5
Four or more	0.2	0.2	0.0	0.3
Not available	22.1	24.5	25.4	17.0
Type of discipline				
Marketing	65.4	65.8	62.1	68.2

(continued)

Table 1 (continued)

Authorship profile	Total (n = 1722) (%)	1995–2001 (n_1 = 535) (%)	2002–2008 (n_2 = 568) (%)	2009–2015 (n_3 = 619) (%)
International business	17.0	13.1	15.7	21.5
Management	13.3	10.7	13.4	15.5
Other business	7.1	7.3	7.4	6.8
Other non-business	4.3	2.6	3.3	6.6
Not available	22.0	24.5	25.2	17.0

over time these were substantially reduced, gradually being replaced by articles written by three authors or more. One possible explanation for the increasing tendency toward multiple authorships can be ascribed to the increasing level of sophistication, complexity, and heterogeneity of this field of research, which requires the collaboration and joint efforts of several people to carry out the various research tasks.

More than a third (34.6%) of the articles were written by authors from the same academic institution, while about two-fifths (39.2%) involved authors from two different institutions. Collaboration of authors from three or more institutions was recorded in just 26.3% of the articles reviewed, although a steady increase has been observed over time (reaching 37.7% during the period 2009–2015). The latter trend provides an indication that research interest in international marketing issues is spread over many different universities around the world. The top institution involved in this line of research during the period under examination was Michigan State University.

More than three-fifths (62.8%) of the international marketing articles were written by scholars based in a single country, while another three-tenths (29.8%) involved researchers from two countries. Notably, authorships from single countries showed a downward trend over time (from 75.0% in 1995–2001 to 52.5% in 2009–2015), while the reverse trend has been observed for articles written by authors coming from two different countries (from 21.5% in 1995–2001 to 35.4% in 2009–2015). The incidence of collaboration among authors located in three countries or more was at a very low level (7.4%), although there has been a rising tendency over time. This increase in cross-country research collaboration has to a great extent benefitted from the advancement of communication technologies, like web conferencing, cloud storage, and instant messaging, which facilitate closer interaction and data sharing between researchers located in different countries.

More than two-fifths (42.8%) of the authors were located in North America (primarily in the U.S.), while more than a third (34.4%) were based in Europe (mainly the United Kingdom). Interestingly, there has been a sharp reduction in contributions from North American-based researchers (from 55.8% in 1995–2001 to 32.2% in 2009–2015), as opposed to an increase in articles by European-based researchers (from 26.9% in 1995–2001 to 43.2% in 2009–2015). The share of Asian-based researchers was quite low (13.7%), although there has been an increase in recent years (particularly among Chinese scholars) to study the involvement of companies from Asian emerging economies in international business. Researchers from Australia have also made a notable contribution to international marketing research (8.2%), while articles by researchers from other parts of the world represented a small proportion.

More than half (51.8%) of the international marketing articles examined were published by authors belonging to a single discipline. Collaborations between researchers from two different areas accounted for only 23.1% of the articles, although there was a rising tendency for such collaborations (from 18.7% in 1995–2001 to 25.5% in 2009–2015). Articles written by authors representing three disciplines or more were a relatively low proportion (3.0% of the total), and this was more evident during the period 2009–2015. To some extent, this mixture of researchers from different disciplines reflects the complexity and multifaceted nature of international marketing phenomena, as well as the need to give more push to this field of research by injecting ideas from other areas.

As expected, marketing was the driving force behind international marketing research, as demonstrated by the fact that in almost two-thirds (65.4%) of the articles the authors had a marketing background. Scholars with an international business discipline accounted for 17.0% of the articles, while their involvement in writing international marketing articles has increased over time (from 13.1% in 1995–2001 to 21.5% in 2009–2015). Authors with a management background contributed 13.3% of the articles and their contributions had also experienced an upward trend over time (from 10.7% in 1995–2001 to 15.5% in 2009–2015). Input from other business and non-business areas was evident in a much lower proportion of articles (7.1 and 4.3% respectively).

3.2 Most Prolific Authors

Altogether, the 1722 international marketing articles covered by the review were written by 2333 scholars, that is, on average 0.74 articles per author. Notably, the top 30 authors were responsible for writing 444 (25.8%) of these articles, which denotes that many authors have produced only a few articles published in the top six international business journals (see Table 2). This list contains the names of some of the pioneering researchers in the field (e.g., S. Tamer Cavusgil, Laurence S. Welsh, Susan P. Douglas, C. Samuel Craig, Michael G. Harvey, Saeed Samiee, Michael R. Czinkota, and Lance Eliot Brouthers). It also incorporates those who were attracted to the discipline, inspired by the work of these pioneers (e.g., David A. Griffith, Leonidas C. Leonidou, Adamantios Diamantopoulos, Constantine S. Katsikeas, Bodo B. Schlegelmilch, Chris Styles, and Aviv Shoham). Another group of researchers (e.g., Shaoming Zou, Matthew J. Robson, Gary A. Knight, and Carlos M.P. Sousa) followed the tracks of their supervisors.

Table 2 Most prolific authors of international marketing articles published during the period 1995–2015

	Author	Institution	Country	Absolute number of articles	Adjusted number of articles	Number of Google Scholar citations
1.	S. Tamer Cavusgil	Georgia State University	USA	50	17.55	6044
2.	David A. Griffith	Lehigh University	USA	44	18.08	4231
3.	Leonidas C. Leonidou	University of Cyprus	Cyprus	28	12.90	4302
4.	Adamantios Diamantopoulos	University of Vienna	Austria	27	11.01	3657
5.	Masaaki Kotabe	Temple University	USA	25	9.42	4765
6.	Constantine S. Katsikeas	University of Leeds	United Kingdom	24	10.37	3939
7.	Janet Y. Murray	University of Missouri-St. Louis	USA	19	8.00	1939
8.	Susan P. Douglas	New York University	USA	17	8.00	2297
9.	Lawrence S. Welch	University of Melbourne	Australia	17	6.53	2416
10.	Paul D. Ellis	Hong Kong Polytechnic University	Hong Kong	16	13.5	1830
11.	C. Samuel Craig	New York University	USA	16	7.17	2045
12.	Bodo B. Schlegelmilch	WU Vienna	Austria	16	6.42	1966
13.	Shaoming Zou	University of Missouri	USA	16	5.87	2743
14.	Rudolf R. Sinkovics	University of Manchester	United Kingdom	16	5.53	1049
15.	Matthew J. Robson	University of Leeds	United Kingdom	15	5.37	729
16.	Saeed Samiee	University of Tulsa	USA	14	7.25	1178
17.	Aviv Shoham	University of Haifa	Israel	14	6.67	1480
18.	Chris Styles	University of Western Australia	Australia	14	6.08	1387
19.	Michael G. Harvey	University of Arizona	USA	14	6.00	1012

(continued)

Table 2 (continued)

	Author	Institution	Country	Absolute number of articles	Adjusted number of articles	Number of Google Scholar citations
20.	Michael R Czinkota	Georgetown University	USA	13	7.33	715
21.	Gary A. Knight	Willamette University	USA	13	5.92	5345
22.	David K. Tse	University of Hong Kong	Hong Kong	13	4.83	2788
23.	G. Tomas M. Hult	Michigan State University	USA	13	4.53	847
24.	Carlos M. P. Sousa	Durham University	United Kingdom	12	5.50	764
25.	Attila Yaprak	Wayne State University	USA	12	5.50	592
26.	Yigang Pan	York University	Canada	12	5.00	2300
27.	Lance Eliot Brouthers	Kennesaw State University	USA	12	4.58	1603
28.	Preet S. Aulakh	York University	Canada	12	4.28	2647
29.	Charles R. Taylor	Villanova University	USA	12	4.12	1324
30.	Lianxi Zhou	Brock University	Canada	11	4.58	1958

*Based on 1722 articles published in the top six international business journals by 2333 authors

Most (15) of the prolific authors were based in the U.S., which is consistent with the earlier finding that North America has the lead in the production of international marketing articles. The remaining prolific authors were located in the United Kingdom (4), Australia (2), Austria (2), Canada (2), Hong Kong (2), Israel (1), and Cyprus (1). In the case of four contributors, namely S. Tamer Cavusgil, Leonidas C. Leonidou, Constantine S. Katsikeas, and Mathew J. Robson, these had an affiliation with the University of Leeds. Two other authors (i.e., Susan P. Douglas and C. Samuel Craig) were affiliated with New York University, while another two (i.e., Preet S. Aulakh and Yigang Pan) worked at York University. All remaining prolific authors had no connection as regards their institutional affiliation.

The top six authors in the field, based on their total individual contributions to international marketing articles, in descending order, were the following: S. Tamer Cavusgil (50), David A. Griffith (44), Leonidas C. Leonidou (28), Adamantios Diamantopoulos (27), Masaaki Kotabe (25), and Constantine S. Katsikeas (24).

Their combined publication output accounted for 11.5% of the total number of the articles reviewed. With regard to the adjusted number of publications (where the number of authors in each article is taken into consideration), the order of the top six contributors is as follows: David A. Griffith (18.08), S. Tamer Cavusgil (17.55), Paul D. Ellis (13.5), Leonidas C. Leonidou (12.9), Adamantios Diamantopoulos (11.01), and Constantine S. Katsikeas (10.37).

Using the Google Scholar citations database, we have subsequently assessed the impact of the publication work of the top 30 authors. Collectively, these were responsible for more than three-tenth (31.5%) of the total citations attracted by all of the articles reviewed, which further justifies their leading role in the international marketing field. In descending order, the six most influential scholars were: S. Tamer Cavusgil (6044 citations), Garry A. Knight (5345 citations), Masaaki Kotabe (4765 citations), Leonidas C. Leonidou (4302 citations), David A. Griffith (4231 citations), and Constantine S. Katsikeas (3939 citations).

3.3 Article Characteristics

About four-fifths (79.2%) of the articles reviewed were based on empirical studies, with an increasing tendency to use this type of articles over time (from 71.2% in the period 1995–2001 to 85.0% in the period 2009–2015) (see Table 3). Conceptual writings represented only a seventh (14.0%) of the total, which, however, exhibited a downward trend (from 18.3% in the period 1995–2001 to 13.9% in the period 2009–2015). Review and meta-analytical studies accounted for 2.6% (and were particularly evident in recent years), which demonstrates an ongoing effort to assess and consolidate the generation of knowledge in the international marketing field. With regard to purely methodological studies, these had only a marginal role to play in this line of academic inquiry (found in only 0.7% of the articles).

The target audience for the majority (22.7%) of articles examined was exclusively the academic community, as opposed to 3.0% that were purely targeting business practitioners. However, the bulk of the international marketing articles (74.3%) focused equally on both academics and practitioners. In fact, the tendency to target both of these groups has increased over time (from 66.0% in the period 1995–2001 to 81.1% in the period 2009–2015). This signifies the need to provide both theoretical and managerial implications from the study findings, an issue of rising importance for many journals.

In general, the international marketing articles reviewed were making extensive use of tables/graphs, as demonstrated by the fact that 71.2% of them contained three or more tables/graphs. Notably, the number of tables/graphs grew over time: while during the period 1985–1991 the share of articles incorporating five or more tables/graphs was 30.6%, in the last decade this rose to 42.5%. This can be justified by the need to summarize the knowledge on the subject, the increasing use and testing of conceptual models, and the presentation of results accruing from the

Table 3 Characteristics of international marketing articles published during the period 1995–2015

Article characteristics	Total (n = 1722) (%)	1995–2001 (n_1 = 535) (%)	2002–2008 (n_2 = 568) (%)	2009–2015 (n_3 = 619) (%)
Nature of article				
Conceptual	14.0	18.3	13.9	10.3
Methodological	0.7	0.9	0.9	0.3
Empirical	79.2	71.2	80.3	85.0
Review/meta-analysis	3.8	2.6	4.4	4.4
Other	2.3	6.9	0.5	0.0
Target audience				
Academics	22.7	26.0	23.9	18.7
Practitioners	3.0	8.0	1.6	0.0
Both	74.3	66.0	74.6	81.1
Number of tables/graphs				
None	4.6	8.4	3.7	2.3
1–2	24.1	26.7	28.0	18.3
3–4	36.0	34.2	36.6	37.0
5–6	20.7	18.5	18.7	24.6
7 or more	14.5	12.1	13.0	17.9
Number of pages				
9 or less	3.3	3.4	1.8	4.7
10–14	18.1	15.9	12.3	25.2
15–19	28.6	36.1	29.4	21.3
20 or more	50.1	44.7	56.5	48.8
Number of references				
9 or less	1.8	4.9	0.7	0.2
10–24	5.8	14.0	3.0	1.3
25–44	18.6	37.8	15.0	5.3
45 or more	73.8	43.4	81.3	93.2
Number of citations				
None	0.4	0.4	0.0	0.8
1–24	27.3	21.1	13.4	45.4
25–49	21.0	18.3	18.8	25.2
50–99	22.4	20.4	27.1	19.7
100 or more	29.0	39.8	40.8	8.7

employment of advanced analytical tools, like structural equation modeling analysis.

With regard to manuscript length, half (50.1%) of the international marketing articles reviewed had more than 20 pages, while articles having less than 10 pages accounted for 18.1% of the total. This can be attributed to the growing sophistication of research on international marketing, which requires extensive theoretical backgrounds, detailed methodologies, multiple tables/graphs to present the results, and extensive discussion of the research findings. However, a trend toward smaller-sized publications was observed in recent years, probably due to journal editorial policies requiring authors to adhere to a certain number of pages.

The vast majority (73.8%) of the international marketing articles had 45 references or more, with a sharp increase over time (from 43.4% in the period 1995–2001 to 93.2% in the period 2009–2015). Articles with 24 references or less accounted for 7.4% of the total, and these experienced a dramatic increase in the last seven years. This tendency toward citing more references could be attributed to the need: (a) to offer more comprehensive literature reviews based on the accumulation of a substantial number of articles focusing on the subject; (b) to theoretically anchor the research problem and build comprehensive research hypotheses; and (c) to better explain and substantiate the specific research methodology employed.

Based on Google Scholar citations, we found that collectively the 1722 international marketing articles received approximately 171,458 citations up to the end of 2016. This means that the average number of citations per article is 99.6, which is quite high. Of these, a very small proportion (0.4%) did not receive any citation, while 48.3% of the articles had up to 49 citations (with this proportion being higher in recent years). Notably, about three-tenths (29.0%) of the articles (especially those published during the early years of the review period) had 100 citations or more, which indicates a very good impact.

3.4 Most Influential Articles

Based on the Google Scholar citations, we have identified the 25 most influential international marketing articles published during the period 1995–2015 (see Table 4). More than half (13) of these articles were published during the period 1995–2001, while the remainder (12) appeared during 2002–2008. Sixteen of these articles had an empirical status, four a conceptual nature, three were review papers, while another two were meta-analysis. Fifteen of the articles were published in the *Journal of International Business Studies*, the premier journal in international business. The remaining articles were published in the following journals: *International Business Review* (4), *International Marketing Review* (2), *Journal of International Marketing* (2), *Journal of World Business* (1), and *Management International Review* (1).

In descending order, the five most cited international marketing articles in the period under review were the following: Knight and Cavusgil (2004), focusing on the role of innovation and organizational capabilities in the development of born-global firms (2055 citations); Madsen and Servais (1997), examining the characteristics of the internationalization process of born global firms (1854 citations); Eriksson, Johanson, Majkgård, and Sharma (1997), highlighting the role of

Table 4 Most influential international marketing articles published during the period 1995–2015

	Authors (year)	Article title	Journal	Total citations	Average annual citation
1.	Knight and Cavusgil (2004)	Innovation, organizational capabilities, and the born-global firm	JIBS 35(2)	2055	186.8
2.	Madsen and Servais (1997)	The internationalization of born globals: an evolutionary process?	IBR 6(6)	1854	103.0
3.	Eriksson et al. (1997)	Experiential knowledge and costs in the internationalization process	JIBS 28(2)	1499	83.3
4.	Coviello and Munro (1997)	Network relationships and the internationalisation process of small software firms	IBR 6(4)	1489	82.7
5.	Coviello and McAuley (1999)	Internationalisation and the smaller firm: a review of contemporary empirical research	MIR 39(3)	1286	80.4
6.	Maignan and Ralston (2002)	Corporate social responsibility in Europe and the US: insights from businesses' self-presentations	JIBS 33(3)	1186	91.2
7.	Sheth and Parvatiyar (1995)	The evolution of relationship marketing	IBR 4(4)	1164	58.2
8.	Leonidou and Katsikeas (1996)	The export development process: an integrative review of empirical models	JIBS 27(3)	1123	59.1
9.	Peterson and Jolibert (1995)	A meta-analysis of country-of-origin effects	JIBS 26(4)	1057	52.8
10.	Zou and Stan (1998)	The determinants of export performance: a review of the empirical literature between 1987 and 1997	IMR 15(5)	1022	60.1
11.	Aulakh et al. (1996)	Trust and performance in cross-border marketing partnerships: a behavioral approach	JIBS 27(5)	977	51.4
12.	Habib and Zurawicki (2002)	Corruption and foreign direct investment	JIBS 33(2)	907	69.8
13.	Weerawardena and Mort (2006)	Investigating social entrepreneurship: a multidimensional model	JWB 41(1)	856	95.1
14.	Jones and Coviello (2005)	Internationalisation: conceptualizing an entrepreneurial process of behavior in time	JIBS 36(3)	826	82.6
15.	Knight (2000)	Entrepreneurship and marketing strategy: the SME under globalization	JIM 8(2)	811	54.1
16.	Dyer and Chu (2000)	The determinants of trust in supplier-automaker relationships in the US, Japan and Korea	JIBS 31(2)	808	53.9

(continued)

Table 4 (continued)

	Authors (year)	Article title	Journal	Total citations	Average annual citation
17.	Gwinner (1997)	A model of image creation and image transfer in event sponsorship	IMR 14(3)	799	44.4
18.	Coviello (2006)	The network dynamics of international new ventures	JIBS 37(5)	788	87.5
19.	Sharma and Blomstermo (2003)	The internationalization process of born globals: a network view	IBR 12(6)	766	63.8
20.	Simonin (1999)	Transfer of marketing know-how in international strategic alliances: an empirical investigation of the role and antecedents of knowledge ambiguity	JIBS 30(3)	764	47.7
21.	Tihanyi et al. (2005)	The effect of cultural distance on entry mode choice, international diversification, and MNE performance	JIBS 36(3)	756	75.6
22.	Steenkamp et al. (2003)	How perceived brand globalness creates brand value	JIBS 34(1)	726	60.5
23.	Moen and Servais (2002)	Born global or gradual global? Examining the export behavior of small and medium-sized enterprises	JIM 10(3)	721	55.5
24.	Pan and Tse (2000)	The hierarchical model of market entry modes	JIBS 31(4)	717	47.8
25.	Zhou et al. (2007)	Internationalization and the performance of born-global SMEs: the mediating role of social networks	JIBS 38 (4)	716	89.5

experiential knowledge and costs in the firm's internationalization process (1499 citations); Coviello and Munro (1997), investigating the role of network relationships in the internationalization of smaller firms (1489 citations); and Coviello and McAuley (1999), reviewing the empirical literature on the internationalization of smaller-sized firms (1286 citations).

Annual citation analysis again yielded Knight and Cavusgil's (2004) article in the first position (186.8 citations) and Madsen and Servais' (1997) article in the second (103.0 citations). However, three other new articles followed in rank: Weerawardena and Mort (2006), offering a multidimensional model on social entrepreneurship (95.1 citations); Maignan and Ralston (2002), focusing on corporate social responsibility across different foreign markets (91.2 citations); and Zhou, Wu, and Luo (2007), examining the internationalization of born global small and medium-sized enterprises (SMEs) and its impact on firm performance (89.5 citations).

A fifth of the 25 most influential articles focused on the ‘born global’ phenomenon, paying particular attention to the way born global firms become internationalized. Another popular topic, related to the previous one and referred to in three articles, concerned the internationalization process of firms in general. Three other articles focused on relationship marketing issues, particularly on the role of trust in forming and maintaining relationships with foreign partners. Other articles placed their emphasis on entrepreneurship (two articles), exporting (two articles), foreign market entry modes (two articles), and international strategic alliances (one article). Finally, four articles dealt with miscellaneous issues, such as corporate social responsibility across cultures, event sponsorship, brand globalness, and corruption in international markets.

3.5 Key Research Themes

Throughout the 21-year period examined, international marketing research has taken many and diverse courses of thematic development, with each gradually examining a variety of topics (see Table 5). The content of the international

Table 5 Thematic areas of international marketing articles published during the period 1995–2015

Thematic areas	Total (n = 1722) (%)	1995–2001 (n_1 = 535) (%)	2002–2008 (n_2 = 568) (%)	2009–2015 (n_3 = 619) (%)
General international issues	**12.5**	**14.4**	**10.9**	**12.4**
International trade analysis	0.9	2.8	0.2	0.0
Internationalization process	11.7	11.8	10.7	12.4
Internal company factors	**20.3**	**17.8**	**20.2**	**22.6**
Organizational	18.6	16.4	18.5	20.5
Managerial	2.9	2.8	2.6	3.2
Macro-environmental forces	**13.8**	**18.1**	**14.1**	**9.7**
Socio-cultural	8.0	7.5	10.0	6.6
Economic	3.8	6.2	2.8	2.7
Political legal	5.4	8.6	4.6	3.4
Technological	1.6	2.8	1.4	0.8
Task environment	**10.9**	**13.5**	**9.5**	**9.9**
Market characteristics	10.0	11.8	8.8	9.5
Competitor analysis	2.0	3.0	1.6	1.5
Marketing infrastructure	1.0	1.9	0.7	0.5

(continued)

Table 5 (continued)

Thematic areas	Total (n = 1722) (%)	1995–2001 (n_1 = 535) (%)	2002–2008 (n_2 = 568) (%)	2009–2015 (n_3 = 619) (%)
Marketing research	**8.2**	**7.3**	**8.8**	**8.6**
Methodological issues	4.7	5.1	4.4	5.0
Information acquisition/use	3.4	2.2	4.4	3.6
Buyer behavior	**20.6**	**16.6**	**21.8**	**22.8**
Consumer buyer behavior	18.6	13.8	20.6	21.0
Organizational buyer behavior	1.6	2.4	1.4	1.0
Country of origin effects	6.6	4.9	7.4	7.4
Global strategy issues	**23.8**	**19.3**	**24.6**	**26.8**
Global strategy formulation	3.5	3.7	3.9	3.1
Market segmentation/targeting	2.0	1.1	2.3	2.6
Performance implications	20.5	15.5	21.3	24.1
Foreign market entry	**13.6**	**18.3**	**12.9**	**10.2**
Foreign manufacturing	7.6	8.8	7.0	7.1
Exporting	6.4	9.5	6.2	3.9
Importing	1.2	2.4	0.7	0.6
Foreign marketing strategy/mix	**15.2**	**20.4**	**14.6**	**11.1**
Marketing strategy	4.3	5.8	3.0	4.2
Product/brand policy	3.9	4.5	4.8	2.6
Pricing	1.7	2.8	1.6	0.8
Distribution channels	1.9	3.4	2.3	0.5
Advertising and promotion	3.7	4.7	4.6	1.9
Selling and sales management	1.9	2.8	1.1	1.9
Specialized issues	**28.0**	**25.4**	**28.3**	**30.0**
Relationship marketing	17.5	13.8	19.2	19.1
Marketing ethics/green marketing	3.5	2.2	2.6	5.3
Information technology and internet	3.5	2.6	5.6	2.3
Planning and organization	3.3	6.2	1.8	2.1
Miscellaneous	**8.4**	**8.8**	**8.1**	**8.4**

marketing articles reviewed was categorized into 33 thematic areas, which fell into eleven broad groups: general international (2), internal factors (2), macro-environment (4), task environment (3), marketing research (2), buyer behavior (3), global strategy issues (2), foreign marketing entry (3), marketing mix (7), specialized issues (4), and miscellaneous (1). The contributions made to each of these thematic areas of international marketing are discussed in the following.

The first category refers to **general international issues**, and comprises two research topics: international trade analysis and the internationalization process. The former was only tangentially tackled (found in only 0.9% of the articles, especially in the early years of the period examined), and the focus was mainly on: the global or local analysis of certain industries (e.g., automotive, tourism), the examination of the general business climate, particularly in the aftermath of a change such as a financial crisis or economic transition, and the assessment of the market potential of a specific country or region. With regard to the latter, this has been widely studied (as indicated by the fact that slightly more than a tenth (11.7%) of the articles dealt with it. Some of the issues covered here concerned: determinants of and motives/barriers to internationalization; internationalization speed, early/late internationalization, and de-/re-internationalization; incremental and born-global patterns of internationalization; internationalization of specific types of firms (e.g., service, high-tech, electronic business); and internationalization to and from specific markets (e.g., emerging markets).

Internal company factors was an area that attracted a lot of attention by international marketing researchers (20.3% of the articles), which experienced growth over time. However, the emphasis was mainly on organizational issues (18.6% of the articles), such as the role of resources (e.g., financial) and capabilities (e.g., new product development), inter-functional integration within multinational enterprises (MNE), and the relationship between resources/capabilities, strategy, and performance. The role of managerial characteristics in international marketing was less frequently examined (2.9% of the articles), and these centered mainly on cross-cultural comparisons of managerial traits, the influence of managerial factors (e.g., knowledge, skills) on company internationalization, and the contribution of managerial factors to the development of international-related capabilities.

Macro-environmental forces were examined by 13.8% of the articles reviewed, although a downward trend has been noticed over time for almost all dimensions comprising it. Socio-cultural issues including the role of culture in shaping consumer behavior and buyer-seller interactions, as well as the impact of cultural distance on foreign market entry mode and firm performance, were the most commonly studied (8.0% of the articles). This was followed by political-legal aspects (5.4% of the articles), which primarily focused on the constraints imposed by political uncertainty/instability in entering foreign markets, international legal protection of trademarks and intellectual property rights, and regulations regarding distribution and promotion in different countries. Only 3.8% of the articles dealt with the economic environment, and this mainly focused on differences in economic development levels, regional trade agreements, and free trade/investment. The least examined dimension of the macro-environment referred to technological issues (1.6% of the articles), with the emphasis on the influence of information/communication technologies on international marketing, as well as on differences in technology levels across countries and industries.

Slightly below the macro-environment was the emphasis on issues pertaining to the **task environment** in foreign markets (10.9% of the articles), which again showed a downward trend. Here, the lion's share was taken by the analysis of the market characteristics (10.0% of the articles), such as market dynamism, market uncertainty, market turbulence, and market heterogeneity, particularly as regards their contingent role in the strategy-performance relationship. Issues relating to competitors' analysis were examined by only 2.0% of the articles, with the emphasis being mainly on the influence of local or international competitive intensity on foreign entry mode, international marketing strategy, and financial performance. Marketing infrastructure was the least examined area (1.0% of the articles), which dealt primarily with the nature and development level of distribution channels and communication media, particularly in transition economies.

Marketing research issues were the object of 8.2% of the articles reviewed. The interest here was split between methodological issues (4.7% of the articles) and the acquisition/use of information (3.4% of the articles). In the former case, some of the issues examined concern variable measurement (e.g., operationalization, dimensionality, equivalence), the extension of scales from the US to the rest of the world, and generalizations in cross-cultural research. In the latter case, the emphasis was mainly on modes of information acquisition, international marketing information systems, and the role of international network actors in information generation.

Issues pertaining to the **buyer behavior** in international markets were the focus of a fifth (20.6%) of the articles, and the trend was to increase attention on them over time. Here, the interest was mainly in consumer buyer behavior (18.6% of the articles), with some of the topics addressed being: cross-cultural comparisons of consumer behavior as a response to marketing stimuli (e.g., new products, distribution outlets, advertising appeals); the effects of cross-country personal, social, and cultural factors on consumer behavior; and consumer behavior associated with global brands. Organizational buyer behavior issues, such as the evaluative criteria associated with the source country/suppliers, industrial purchasing process in an international context, and factors influencing industrial customer satisfaction, were studied on a less frequent basis (1.6% of the articles). Research on country-of-origin effects was the focus of 6.6% of the articles reviewed. Some of the topics discussed here were: the influences of macro- and micro-country images on cognitive, attitudinal, and behavioral responses of consumers; the direct and/or moderating effects of demographic (e.g., education) and/or psychographic (e.g., ethnocentrism) characteristics of consumers on their buying behavior for foreign products/brands, and the role of brand origin recognition accuracy on consumer decision-making.

Global strategy issues attracted a great deal of attention in the international marketing articles reviewed, with the thrust of research being on the performance implications of the firm's strategic actions in foreign markets (20.5% of the articles). In fact, the importance of this topic has risen over time, with most of the emphasis being on predictors of international business performance, such as organizational resources and capabilities, foreign market entry mode, and international marketing strategy. Global strategy formulation issues were examined on a less frequent basis (3.5% of the articles) and these referred mainly to external and internal influences on the development of international strategy at corporate, firm, and functional levels. Market segmentation/targeting was the object of even fewer articles (2.0%), and the major issues addressed were: segmenting and profiling consumers within and across countries, foreign market concentration and diversification strategies, and performance implications of international market selection.

Although the way firms **enter foreign markets** has been a major challenge in international market operations, this was examined in only 13.6% of the articles. Surprisingly, this area of research exhibited a diminishing emphasis over time. Foreign manufacturing attracted most of the attention (reported in 7.6% of the articles), particularly as regards the foreign production location, the determinants (e.g., institutional, industrial, firm-specific) of production variants (e.g., joint venture versus wholly-owned subsidiary), and the timing of foreign manufacturing entry. Exporting was the second most studied topic (6.4% of the articles), with the most frequent issues addressed being: stimuli and barriers to exporting, institutional (home or host country) and organizational/managerial factors influencing export behavior, and export performance determinants. Importing was the most neglected topic (1.2% of the articles) and researchers dealt mainly with inward internationalization, motives/barriers to importing, and stages of foreign outsourcing.

Issues pertaining to the firm's **foreign marketing strategy/mix** were the object of 15.2% of the articles, although there was a decreasing emphasis on this thematic area over time. With regard to the overall marketing strategy (4.3% of the articles), some of the issues tackled referred to various drivers (e.g., environmental, organizational, managerial, product-related) of marketing strategy adaptation/standardization, the development of an international marketing strategy, and green strategic marketing aspects. Surprisingly, all elements of the marketing mix receive low attention, examined by less than 4.0% of the articles reviewed. Some of the issues addressed were the following: (a) product/brand policy: product/brand standardization versus adaptation, MNE product development strategies and simultaneous product launching, and international service quality; (b) pricing: drivers of international pricing strategies and practices, performance implications of pricing decisions, and the influence of pricing on international intermediary relationships; (c) distribution channels: determinants of channel integration in international markets, gray marketing, and the internet as a global distribution channel; (d) advertising and promotion: advertising standardization versus adaptation in foreign markets, cross-cultural comparisons of consumer behavior concerning message appeals and execution, cross-cultural comparisons of advertisements in terms of message appeals and execution, and advertising in post-communist markets; and (e) selling and sales management: cross-cultural comparisons of sales management (e.g., control, compensation, performance), global key account management, and export sales management behavior (e.g., job satisfaction).

The largest category refers to various **specialized issues**, with relationship marketing being the most widely examined (17.5% of the articles). Here, the emphasis was on: behavioral interactions among international business partners, the impact of relationship atmosphere on social and financial performance, relational governance mechanisms between international business partners, and international network dynamics. Marketing ethics/green issues, although studied less frequently (3.5% of the articles) had a rising trend, and there the focus was mainly on cultural and personal determinants of the ethical/unethical behavior of international marketers, cross-cultural comparisons of corporate social responsibility marketing communications, and green and ethical consumer behavior in foreign markets. Research on information technology and the internet was also reported by 3.5% of the articles, with some of the issues addressed being: the information technology capabilities of firms, adoption of e-commerce by firms, and online consumer behavior. Finally, issues pertaining to planning and organization (such as formal versus informal planning of international marketing activities, organizational structure of MNEs, and control mechanisms for foreign market operations) were reported in 3.3% of the articles.

The final category covers a wide range of **miscellaneous** issues, identified in 8.4% of the articles examined. Some examples are the following: export promotion services, knowledge/technology transfers between international business partners, international business negotiations, event marketing in an international context, corporate identity and reputation in foreign markets, international implications of corporate sponsorships, cross-cultural differences in non-profit marketing, international business/marketing education, language/translation issues in international firms, and co-citation analysis of international marketing/business research.

4 Summary and Conclusions

Our review has amply demonstrated that international marketing research published in the top six international business journals during the period 1995–2015 has experienced a remarkable advancement. First, it has shown that there has been an increase in collaborative work among researchers through multiple authorships, as opposed to solo publications. There has also been a growing tendency toward joint work among scholars coming from different academic institutions, which is indicative of the fact that international marketing is now a core area of research activity in many universities around the globe. Research in the field has also become more multinational in nature, as indicated by the participation of scholars from many different countries. More interdisciplinary work has also been observed, with the latest research on international marketing involving researchers coming from various business and non-business academic disciplines. All these are encouraging signs for the further proliferation of this line of academic inquiry, because of the pluralism of thinking how to approach international marketing issues, the ability to conduct research across different country settings, and the enhancement of knowledge through the cross-fertilization of theories, ideas, and experiences.

This review has also revealed a group of researchers who have made a significant contribution to international marketing research during the period under investigation. The fact that the top 30 scholars in the field engaged in research connected with a quarter of the total articles published on the subject, as well as with three-tenth of the citations received by these articles. This indicates that they are the driving force behind this line of research and their work has been the source of key influential ideas that have been guiding and inspiring other current or neophyte researchers with an interest in international marketing. Looking at the list of authors that follow in rank, it seems that there is a tendency for more young researchers to enter this leading group, which is encouraging for the further proliferation and continuous growth of this line of research.

A high proportion of the international marketing articles in the top six international business journals was of an empirical nature (with a rising tendency over time), which is indicative of the increasing 'scientific' orientation of this field of research, by applying new research techniques, testing theories, and discovering new knowledge. However, there is also a need for more conceptual articles, in order to contribute to the development of thought with new models and testable propositions, as well as for review/meta-analytical studies in order to assess the current status of various streams of research in the field and identify gaps that need to be filled. The very low proportion of methodological articles calls for more research to highlight methodological shortcomings and improve research designs. Other trends that indicate a tendency to increase the complexity, sophistication, and depth of this line of research have to do with growth in the size of publications, the incorporation of more tables and graphs, and the significant number of references used. It is also worth noting that the total impact of the international marketing articles reviewed (measured in terms of the citations received) has been substantial, which underlines the growing role that this line of research plays in the overall marketing and international business discipline.

Our review has identified certain articles that have greatly influenced academic thinking in international marketing and laid the foundations for future research. It seems that the 'born global' phenomenon has been the dominant issue in these top articles during the period reviewed, which has generated a big impact among researchers in the field. Following the tradition from the 1970s, the internationalization process of the firm has remained a topic of top priority, especially in conjunction with the rising topic of born-global firms. Of interest is also the fact that some of the top articles were within the sphere of relationship marketing, which stresses the fact that behavioral factors can be of equal importance to economic factors in international business relationships.

With regard to the thematic areas covered, both the breadth and depth of international marketing research have expanded over time. In fact, there has been a spread of the topics on the subject. Thematic focus has varied by time period, with some topics showing declining trends (e.g., political-legal factors), others demonstrating upward trends (e.g., performance implications), while still other topics exhibiting an unclear developmental pattern (e.g., information technology and the internet). Of significance is the fact that there was a constant generation of new ideas for research on international marketing issues, the major sources being the mainstream marketing field, as well as other business (e.g., management) and non-business (e.g., psychology) fields. Finally, researchers in the field have proposed some useful ideas for future research on the subject. Some of these ideas identified in the most recent international marketing articles reviewed are summarized in Table 7.

5 Implications

Our review has some implications for the researchers in the international marketing field. For example, journal editors, book editors, and conference track chairs could encourage the development of thought in the field by directing research efforts to various understudied areas, such as international research methodological issues, branding in international markets, and foreign industrial buyer behavior. In this context, calls for special issues, setting appropriate conference themes, and organizing special interest groups or panel discussions would be helpful. They could also direct doctoral students to conduct research as part of their dissertations on novel international marketing topics, such as those identified by our review in Table 7.

Collaborations between disciplines, institutions, and countries would be helpful for the further advancement of the international marketing field. Although joint work between marketing scholars and international business/management has been common, more cooperation with broader disciplines (e.g., economics, psychology, sociology, and information technology) would also be beneficial. Institutional collaborations, both at national and international levels, can also be achieved through joint supervision of doctoral students, academic staff exchanges, and joint participation in externally funded research programs. This will not only help to expand the geographic scope of international marketing research to countries which have been understudied, but will also facilitate the transfer of knowledge from more developed to less advanced countries.

6 Limitations

Although our review provides a useful reference for both academics and practitioners in the field on how international marketing research has evolved over the period 1995–2015, its findings should be seen within the context of certain limitations. First, although we have identified a sizeable number of international marketing articles published in the top six international business journals, similar articles can also be found in other specialized (e.g., *Journal of Global Marketing*) or mainstream (e.g., *Journal of Marketing*) marketing journals. There are also international marketing-related studies published in books, edited volumes, and conference proceedings. Hence, our review does not cover all available knowledge on the subject, although it represents a significant part of it.

The emphasis of this review was mainly on assessing the characteristics of authors and manuscripts in international marketing research, as well as identifying key thematic areas and their trends. More light could be shed on this line of research by evaluating: (a) epistemological foundations and developments in this field of research; (b) the theoretical underpinnings and conceptualizations of studies conducted on the subject; and (c) the methodological characteristics of these studies in terms of scope, sampling, data collection, and analytical methods. To obtain the overall picture of the strength of the associations between international marketing constructs, it would be useful to aggregate and evaluate the findings of extant empirical studies using meta-analytical methods.

The findings of our review could be augmented with input, which could be directly derived from scholars specializing in international marketing. For example, a survey among academics could collect information about future areas of research that are deemed critical for the advancement of the international marketing field, as well as receive suggestions on how to improve methodologically (e.g., construct operationalization, data purification, analytical methods) studies on the subject. Forming a ‘think tank’, consisting of prominent international marketing scholars, would help to identify cutting edge areas of research and adopt a more systematic approach to understanding international marketing phenomena.

Appendix

See Tables 6 and 7.

Table 6 Top international business journal contribution to international marketing articles

Journals	Total (n = 1722) (%)	1995–2001 (n_1 = 535) (%)	2002–2008 (n_2 = 568) (%)	2009–2015 (n_3 = 619) (%)
Journal of International Business Studies	9.9	11.4	10.2	8.4
Management International Review	5.5	4.1	6.7	5.5
Journal of International Marketing	23.9	24.3	25.0	22.6
Journal of World Business	8.2	7.1	6.3	11.0
International Marketing Review	36.1	37.4	38.7	32.5
International Business Review	16.4	15.7	13.0	20.0

Table 7 Future research directions

Thematic areas	Specific topics for future research
General international issues	
International trade analysis	• Design of marketing information systems for international trade analysis • Global and country-level analysis of expanding markets
Internationalization process	• Later stages of internationalization for international new ventures • Longitudinal examination of SME internationalization • De-internationalization/re-internationalization patterns of born globals • The role of institutional distance on the emerging market entry process
Internal company factors	
Organizational	• Longitudinal investigations of the organizational capability–performance link • Experiential, organizational, and environmental drivers of international marketing capabilities • Organizational influences on international market exit
Managerial	• Managerial characteristics of international entrepreneurs • Group dynamics in international marketing decision-making process • Drivers of international marketing manager's perception of psychic distance • The role of internal/external managerial ties on chief marketing officer influence

(continued)

Table 7 (continued)

Thematic areas	Specific topics for future research
Macro-environmental forces	
Socio-cultural	• The role of culture in international business negotiations • The influence of cultural norms on buyer-seller interactions and conflict resolution strategies • The effect of cultural values on the formation of (un)ethical international marketing business attitudes/behavior • The impact of cultural distance on foreign market information-processing
Economic	• The influence of economic crises on foreign market entry strategies • MNE adaptation to unfamiliar host market economic institutions
Political legal	• Political issues as drivers of market exit and re-entry • Governance of transnational contracts in international markets • Home/host country institutional change effects on international marketing • Host country regulatory barriers to retailer's foreign market entry • Host country law enforcement effectiveness and international business relationship effectiveness
Technological	• Technology development in bottom of pyramid markets and its effects on market exchanges • Consumer access to technology in bottom of pyramid markets •The role of foreign country technological infrastructure in e-marketing
Task environment	
Market characteristics	• The influence of foreign market structure, turbulence and attractiveness on international market performance •The extent of foreign market globalization and its effect on consumer behavior • Exchange characteristics in emerging markets and their influence in building consumer trust and loyalty
Competitor analysis	• The effect of dysfunctional competition on international new product development • The moderating role of foreign competitive intensity between organizational capabilities and international business performance
Marketing infrastructure	• Institutional determinants shaping the communication channels in emerging countries and their implications for marketing adaptation •The role of the structure of host-country distribution channels in selecting the entry mode
Marketing research	
Methodological issues	• Antecedents of effective response rates in online international market surveys •The relationship between foreign culture and survey response styles
Information acquisition/use	• MNE subsidiary marketing knowledge creation and its usefulness to headquarters

(continued)

Table 7 (continued)

Thematic areas	Specific topics for future research
	• Environmental and organizational drivers of export information-processing activities • International marketing information system—capabilities—competitive advantage—performance relationship
Buyer behavior	
Consumer buyer behavior	• The effects of transferred foreign retail formats on consumer behavior • Green consumer behavior in developing and emerging countries • Cross-cultural comparison of e-commerce participation • Consumer reactions toward a global brand crisis • Evolution consumer ethnocentrism over time
Organizational buyer behavior	• Cross-cultural comparison of importer behavior in buying goods/services • Importer buyer behavior in emerging and developing countries • Host country institutional and cultural influences on organizational buyer behavior
Country of origin effects	• Country of origin impact on consumer evaluations, attitudes, behavior in less developed countries • Neurological investigation of the processing of country-specific associations •The relationship between brand transgression and specific dimensions of foreign country image • The relationship between consumer animosity and preferred foreign market entry mode • Country of origin impact on consumer evaluations, attitudes, and behavior associated with international retailers • The relationship between country of origin and the liability of foreignness
Global strategy issues	
Global strategy formulation	• MNE global strategies and their impact on subsidiary-channel relationships across multiple international markets • Subsidiary strategy formulation and adaptation under high host-market dynamism • Behavioral and situational drivers of subsidiary strategic divergence from MNE corporate strategy • MNE strategic positioning in developed and developing countries
Market segmentation/targeting	• Bases for segmenting online international markets • The impact of segmentation levels (e.g., contextual, individual) in effective international market segmentation • Foreign market segmentation effectiveness and export performance
Performance implications	• The relationship between the international joint venture's foreign parent's opportunism and the international joint venture performance • The contingent roles of internationalization stage and global market involvement in strategy-performance relationship

(continued)

Table 7 (continued)

Thematic areas	Specific topics for future research
	• The influence of firm strategic orientations on international performance
Foreign market entry	
Foreign manufacturing	• Country of origin effects on foreign market entry mode choice • The relationship between planned level of adaptation and foreign entry mode • Host country partner's resources/capabilities influence on foreign entry mode choice • Factors determining foreign entry mode conversions over time
Exporting	• The role of firm reputation and brand equity on export performance • The link between foreign market development and export strategy standardization • Environmental export marketing strategies • The role of firm location on export performance
Importing	• Import strategy standardization *versus* adaptation • The relationship between importer's organizational resources/capabilities and performance • Knowledge transfers among the units of globally-sourcing firms
Foreign marketing strategy/mix	
Marketing strategy	• Standardization *versus* adaptation of services in international markets and their subsequent effect on performance • Synergy effect of components of international marketing mix on international business performance • International new venture entrepreneurial marketing strategies • Strategy development—strategy implementation—performance relationship in international marketing
Product/brand policy	• The role of international strategic alliances in minimizing product strategy inconsistencies across countries • The influence of cultural and economic forces on the market performance of global brands • The contribution of international branding strategy to the development of brand capability and performance • Sustainability-based branding in international markets and its subsequent effect on brand performance
Pricing	• Pricing dynamics over the stages of international business relationships • The role of exporter-importer dependence asymmetry in export pricing
Distribution channels	• The role of distributor contracts, channel length and complexity, cultural context and competition on export performance • Factors determining the use of online distribution channels in international marketing • The association between subsidiary autonomy and its host-country channel relationships
Advertising and promotion	• The effectiveness of mobile and online channels as new international advertising media

(continued)

Table 7 (continued)

Thematic areas	Specific topics for future research
	• The role of cultural and institutional factors on social media adoption and usage as means of international marketing communications • Institutional and organizational determinants of international promotion strategy implementation • Antecedents and performance outcomes international public relations strategies
Selling and sales management	• Cultural influences on sales management in foreign markets • Cross-cultural comparison of international sales manager/salesperson behavior • Cultural influences on interdepartmental relationships of sales management • Inter-team cross-cultural sales negotiations
Specialized issues	
Relationship marketing	• The role of resources and capabilities in building international business relationships • Changes in international buyer-seller relationships over the relational life-cycle • Environmental influences on international business partner interactions • Antecedents and outcomes dark side of international business relationships • The association between social ties, channel capability, and firm performance in foreign markets
Marketing ethics/green marketing	• The link between corporate social responsibility and competitive advantage in different institutional settings • Institutional, organizational, and managerial determinants of green international marketing strategy • Cultural drivers of international partner's ethical behavior • Factors driving changes in voluntary environmental marketing practices of MNE subsidiaries • Organizational/managerial determinants of international green marketing strategy
Information technology and internet	• Factors determining e-commerce adoption in diverse cultures • Cross-cultural comparison of online consumer behavior • Cross-cultural comparison of social media consumption
Planning and organization	• Determinants of improvisation versus planning of export decision making • Determinants of an MNE subsidiary desire for autonomy
Miscellaneous	
	• International marketing team diversity and its impact on project outcomes • Emotional attachment of international service employees to their company • International crisis management

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Part II
International Market Engagement

‘Lean Start-Up’ Practices: Initial Internationalization and Evolving Business Models

James M. Crick and Dave Crick

Abstract This chapter reports on an investigation into what lies behind a firm’s first export order; a topic having received a good deal of interest in earlier studies. It draws on the lean start-up studies that has been relatively under-utilized in the existing literature and in particular focuses on the extent to which owner/managers employ evolving business models. Data were collected from interviews with key decision-makers in ten newly internationalizing UK start-up firms operating in niche B2B sectors with limited financial resources; that is, in their first year of operation. The findings highlight that varying degrees of lean start-up practices were employed by the owner/managers, with all ten providing some consideration of aspects within their respective business model when commencing an internationalization path. The contribution of the chapter is to offer a lean start-up perspective to help explain considerations that facilitate a firm’s internationalization path together with avenues for future research.

1 Introduction

This chapter contributes to the growing body of knowledge at the international entrepreneurship/marketing interface. Oviatt and McDougall (2005, p. 540) view international entrepreneurship as: “the discovery, enactment, evaluation, and exploitation of opportunities - across national borders - to create future goods and services”. In respect of opportunity recognition and exploitation, the objective of this chapter is to revisit one aspect of the broad question asked in Simmonds and Smith’s (1968, p. 93) study concerning: “what lies behind a firm’s first export order?”

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The importance of this topic in respect of owner/managers and policy makers has been evidenced for quite some time. Almost fifty years ago, Simmonds and Smith (1968) recognized the importance of knowing "who tends to be the moving force in commencing exporting"; also, "what motivates him (her)", plus "under what conditions is exporting likely to be adopted?" Their study was revisited by Crick and Crick (2016a) by utilizing interview data from ten owner/managers in the first year of their firm's start-up phase. The focus of this chapter is to primarily build on the existing literature in respect of exporting; however, the specific contribution is to develop the findings from Crick and Crick's (2016a) study that concentrated on risk/reward considerations and was underpinned by Sarasvathy's (2001) effectuation theory. This chapter contributes to the existing body of knowledge regarding exporting behavior by drawing on the lean start-up literature; the study focuses on the extent to which evolving business models were employed in leading to the first export order. The investigation therefore highlights the importance of owner/managers giving consideration to how exports can effectively fit into their respective firm's business model and the need for policy makers to offer support in the most appropriate manner to facilitate sustainable international entrepreneurial activities.

2 Context

A body of knowledge has existed for some time addressing the practices of internationalizing firms (Aaby & Slater, 1989; Andersen, 1993; Bilkey, 1978; Coviello & McAuley, 1999; Jones, Coviello, & Tang, 2011; Leonidou & Katsikeas, 1996; Miesenbock, 1988). This existing literature has discussed studies that characterize practices in various ways; therefore, in contextualizing the current investigation two points are worth noting. First, while the term "exporting" is often cited as a market entry mode that is favored by smaller firms due to reasons that include relatively minimal entry and exit barriers, other modes are available (Bell, Crick, & Young, 2004; Crick, 2007; Jones, 1999). For example, it is sometimes not clear in certain studies if only exporting is being utilized by managers or if this is in conjunction with other market entry modes; indeed, if this is simply a potentially wrongly used generic term to describe an internationalization path (Crick, 2007).

Particular studies have also appeared to make assumptions about the resources (typically financial) available to management teams depending on the unit of analysis. Smaller-sized firms, typically measured by their number of employees (Storey, 1994), are often assumed to possess a more limited resource base in comparison to larger firms which affects managerial strategies (Miles, Gilmore, Harrigan, Lewis, & Sethna, 2015). Nevertheless, the term "resources" could be viewed in particular ways. For example, serial entrepreneurs may own small firms but are able to draw on financial resources from the sale of earlier ventures; or in the case of portfolio entrepreneurs, be able to cross-subsidize a firm's activities from other parts of their wider business portfolio (Crick & Crick, 2015). The management team may also be able to utilize an investor’s resources depending on the equity ownership that might extend to networks over and above those of a financial nature (Bell et al., 2004; Crick & Crick, 2016b).

Similar arguments extend to other resources than those of a financial nature such as the knowledge, experience and capabilities in smaller sized firms and especially new start-up businesses. In reality, within relatively new businesses, members of a small management team may be able to draw on the knowledge and experience gained in prior employment before starting their own firm and hence might wrongly be categorized as having limited capabilities in this respect (Crick & Spence, 2005; Crick & Crick, 2016a, c); although “limited” is a relative term. Particular wider capabilities may be “threshold/ordinary” in nature, namely enough to survive in a sector; conversely, “dynamic” and able to provide a competitive advantage (Teece, 2014). Nevertheless, while particular entrepreneurs and management teams may have developed certain capabilities, they are not necessarily competent at implementing them in a new context. For example, certain prior knowledge and experience possibly gained at a larger firm may not directly translate into the requirements of a lean start-up firm (Blank, 2013; Ries, 2011); also, in facilitating their internationalization path (Rasmussen & Tanev, 2015). Characteristics of the lean start-up approach are worth considering as a single agreed definition does not exist. Understanding the characteristics also offers a subsequent link to the previously mentioned exporting behavior; that is, the core literature base this chapter contributes towards.

Essentially, the lean start-up approach aims to reduce product development and commercialization times by adopting business related practices such as a combination of experimentation, iterative product releases, and validated learning (Blank, 2013; Ries, 2011). The rationale for owner/managers of financially constrained small firms to engage in lean start-up principles is that rather than undertaking long periods of planning and research, they should realize that on day one there is only a set of untested hypotheses or what might be termed “guesses.” Instead of writing business plans that will probably change, it is better as Blank (2016) advocates, to get out of the building and talk to customers; hence act on nimbleness and speed. This allows an agile development, for example, by creating minimum viable products (MVPs) whereby owner/managers need to utilize appropriate metrics to evaluate customer feedback; Ries (2011) suggests this allows decision makers to build, measure and learn. In turn, this agile development based on customer feedback offers owner/managers an opportunity to pivot their evolving business models (Osterwalder & Pigneur, 2010).

Blank (2016) discusses a staged customer development approach in respect of lean start-up principles that is worth considering. Starting with the customer discovery stage, it should be reiterated that in a lean start-up it is likely that on day one owner/managers are working with hypotheses or essentially guesses that need to be validated. The management team may probably have an initial idea of a broad solution to a problem that has been identified in the marketplace. Instead of wasting time and funds on developing a final solution that may be wrong or at least not the best option, a firm should employ an iterative developmental process.

However, turning to the customer validation stage, tests with real likely customers will need to be undertaken to modify the product-market fit. There is the likelihood of iteration or pivoting of behavior based on feedback; for example, beta testing etc., plus importantly, an evolving business model. The firm would then move to the customer creation stage where potentially more of the mainstream market research tests may be undertaken to minimize the risk of an unsuccessful launch before the company looks for greater scalability such as via moving from early adopters to the mainstream market. The company would progress along its development path; however, the latter stages in Blank's (2016) approach are outside of the focus of this chapter that concentrates on the early stages of a lean start-up and specifically leading to the first export order. Naturally, a management team may obtain assistance from support organizations such as business incubators and from investors during this process, go through funding rounds, plus have exit points if things do not proceed favorably (Bell et al., 2004; Crick & Crick, 2016b; Fischer & Reuber, 2003).

It is therefore useful to integrate the topics of exporting and the lean start-up approach in the context of this current investigation; that is, to articulate the contribution to the exporting literature and the importance for owner/managers plus policy makers. For management teams in financially constrained start-up firms and especially those located in certain small countries with limited potential, the decision to internationalize early is important (Bell et al., 2004) despite this opportunity posing potential risks to management teams (Liesch, Welch, & Buckley, 2011). For example, demonstrating scalability which might be needed by angel investors and other funding sources (Blank 2014; Crick & Crick, 2016b). In fact, a good deal of research attention has been placed on rapidly internationalizing firms and not least highlighting managers' international mind-sets, plus the need to exploit windows of opportunity, such as first mover advantages including in lead markets (Crick, 2009; Crick & Crick, 2014; Cavusgil & Knight, 2015; Coviello, 2015; Knight & Cavusgil, 2004; Oviatt & McDougall, 1994, 2005). However, managers may have an international mind-set, but may not be able to exploit windows of opportunity without drawing on certain lean start-up principles; for example, an evolving business model and especially if they need to obtain funding and network support such as from angel investors that may influence decision-making (Crick & Crick, 2016b).

The application for academic research as well as for practitioners is important since as Teece (2010, p. 172) suggests: "whenever a business enterprise is established, it either explicitly or implicitly employs a particular business model that describes the design or architecture of the value creation, delivery, and capture mechanisms it employs". Chesbrough (2010) notes that the same idea or technology that an entrepreneur and/or management team attempts to take to a market using different business models is likely to result in different economic outcomes. It is therefore useful to consider further underpinning literature in the next section before the methodological approach employed is subsequently discussed. The findings from the study then follow before conclusions, implications and avenues for future research end the chapter.

3 Literature Review

3.1 Contextualizing the Entrepreneurship/Marketing Interface

As previously mentioned, this chapter addresses one aspect of the broad question asked by Simmonds and Smith (1968); that is: "what lies behind a firm's first export order?" To provide an academic underpinning to this study, the wider question needs a focus since a body of literature exists that identifies various issues such as export barriers and stimuli, including policy assistance that supports internationalization (Acedo & Galan, 2011; Crick & Lindsay, 2015; Kahiya, 2013; Leonidou, 1995; Leonidou, Katsikeas, & Piercy, 1998; Leonidou, Katsikeas, Palihawadana, & Spyropoulou, 2007; Leonidou, Palihawadana, & Theodosiou, 2011; Morgan, 1997; Tan, Brewer, & Liesch, 2007). For example, Tan et al. (2007) consider the notion of "readiness" given that management teams are exposed to various barriers and stimuli and some start the internationalization path whereas others do not.

However, in a macro sense, some barriers and stimuli exist in the domestic or home market while others are in overseas markets; alternatively, in a behavioral sense, factors inside or outside of the firm may influence different management teams depending on whether they are perceptual or actual in nature. In fact, debate has arisen in respect of ways that policy makers can target support to overcome barriers and in turn stimulate international sales, although some assistance is generic in nature rather than tailored to the needs of individual firms (Crick & Lindsay, 2015). Furthermore, these barriers and stimuli may also influence later internationalization behavior over time, including potentially withdrawing from or re-engaging into overseas markets (Bell, McNaughton, Young, & Crick, 2003; Bell et al., 2004; Crick, 2004; Jones & Coviello, 2005), but such considerations are outside of the scope of this chapter.

Studies have considered explanations that shape entrepreneurial behavior and overlap with marketing activities and hence a platform of research exists at the international entrepreneurship/marketing interface (Chandra, Styles, & Wilkinson, 2009; Crick & Crick, 2016a; Styles & Seymour, 2006; Sundqvist, Kyläheiko, Kuivalainen, & Cadogan, 2012). This includes the attempt to capitalize on market uncertainty (Knight, 1921); creative destruction in the marketplace (Schumpeter, 1934); creativity and alertness to opportunities such as exploiting market inefficiencies (Kirzner, 1973); and causation versus effectuation decision making (Sarasvathy, 2001). Although a body of literature also exists on entrepreneurial acts in larger firms; that is, broadly referred to as the "corporate entrepreneurship" domain, this is outside of the scope of this chapter except to recognize that certain lean start-up principles can also be implemented in organizations of various sizes (Ries, 2011). Instead, entrepreneurs and management teams in financially constrained, smaller start-up businesses are potentially unable to operate in the same way (such as the business model employed) as their better resourced counterparts; Rasmussen and Tanev (2015) suggest this has led to the emergence of the lean global start-up. In terms of operationalizing strategies, the literature on business models can now be discussed.

3.2 Business Models and the Link with Lean Start-Ups

Much has been written on the topic of business models; however, their role in management teams' internationalization strategies has been somewhat under-represented in that body of literature (Onetti, Zucchella, Jones, & McDougall-Covin, 2012), hence forming a basis for the contribution of this chapter involving lean start-up practices. Nevertheless, there is no agreed definition of what a business model is and what the characteristics involve (Baden-Fuller & Morgan, 2010; Baden-Fuller & Haefliger, 2013; DaSilva & Trkman, 2014; Zott & Amit, 2010). By way of example, Baden-Fuller and Haefliger (2013, p. 419) view this as "a system that solves the problem of identifying who is (or are) the customer(s), engaging with their needs, delivering satisfaction, and monetizing the value." Consequently, this definition has clear relevance to the international entrepreneurship/marketing interface whereby the notions of opportunity/customer identification and satisfaction are addressed, but also opportunity exploitation in respect of monetizing the value.

Osterwalder and Pigneur (2010) suggest that instead of debating an agreed definition of what a business model is, perhaps what is more important is the application to practitioners and they offer a nine component framework called the "Business Model Canvas" as shown in Fig. 1 that might be viewed as integrated building blocks. While Osterwalder and Pigneur's (2010) canvas may appear practitioner focused, it did nevertheless arise from Osterwalder's (2004) doctoral thesis and so is academically underpinned. A business model should not be viewed as static but should evolve; for example, in respect of changing environmental circumstances including competition (Aspara, Lamberg, Laukia, & Tikkanen, 2013). The context faced by management teams is important as this may vary by industry; in fact, competing business models between firms can co-exist in a competitive market (McNamara, Peck, & Sasson, 2013). In the case of start-up firms, it is likely that as customer data is received and ideas are validated, strategies underpinned by business models are likely to "pivot" (Osterwalder & Pigneur, 2010).

The nine building blocks in Fig. 1 indicate that a certain value proposition can be offered to particular customer segments and this interaction was further developed by Osterwalder, Pigneur, Bernarda, and Smith (2014). This supports Teece's (2010) work that creating customer value needs to be central to a given company's business model—this is operationalized through their value proposition. Essentially, Osterwalder et al. (2014) argue that a customer segment's profile describes what "jobs" they are trying to get undertaken as expressed in customers' own words. Furthermore, gains are the outcomes customers want to achieve or benefits sought, while pains are adverse outcomes and obstacles. In contrast, the value proposition should be able to map out the products and services it is built

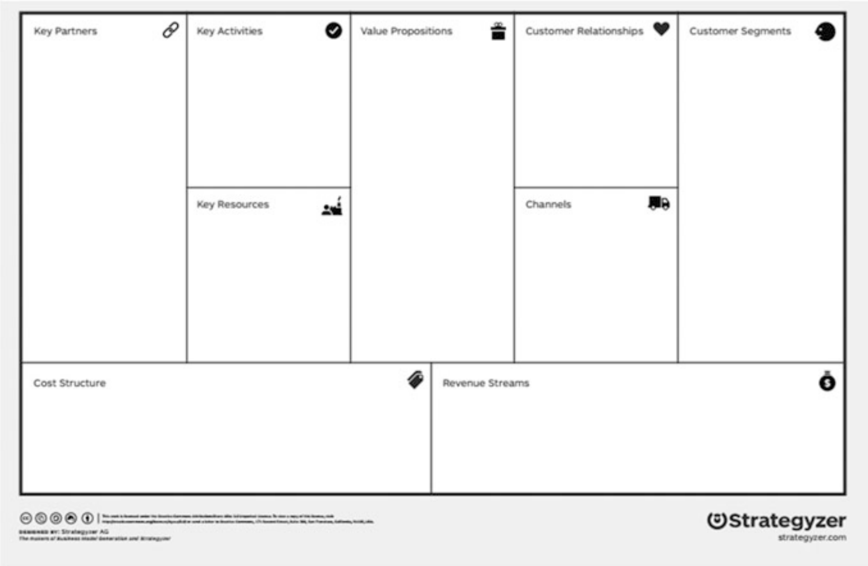

Fig. 1 Business model canvas (Osterwalder & Pigneur, 2010)

around, how the products and services create customer gains and alleviate customer pains. Nevertheless, in mapping out the nine building blocks in Fig. 1 further, business models should also identify the cost base, key resources, partners, activities, channels, relationships and the generation of revenue.

By way of balance, an alternative perspective is offered from the growing literature on business models. Gassmann, Frankenberger, and Csik (2014) identified 55 recurring patterns and their research suggested that over 90 percent of all business model innovations they studied recombined existing ideas and concepts from other industries. Gassmann et al. (2014) offer a four step framework to business models. First, the customer (who); second, value proposition (what); third, value chain (how) and fourth, profit mechanism (why). Arguably, these four dimensions suggested by Gassmann et al. (2014) offer certain overlaps with the nine building blocks of Osterwalder and Pigneur (2010). Therefore, the two perspectives offer support in respect of underlying aspects of business models that management teams in start-up firms should consider and not least whether to offer value to customers in overseas markets via export channels.

3.3 The Initial Export Order and Path to Internationalization

It has been established for some time that there are various modes of market entry available to management teams and a firm's internationalization path can change over time (Bell et al., 2003, 2004; Jones, 1999). A body of literature exists on the broader issue of the internationalization process (Coviello & McAuley, 1999; Jones et al., 2011; Leonidou & Katsikeas, 1996). It has been found that certain firms commence exporting to a psychologically close country by way of reducing risks and then move through a staged and more committed process (Johanson & Vahlne, 1977). Conversely, other firms internationalize rapidly for reasons such as a global mind-set and first mover status in limited market niches; these may be termed either an "international new venture" or "born global" depending on their speed, scale and scope of activities (Crick, 2009; Crick & Crick, 2014; Cavusgil & Knight, 2015; Coviello, 2015; Hewerdine & Welch, 2013; Knight & Cavusgil, 2004; Oviatt & McDougall, 1994).

Debate has arisen in respect of decision making regarding firms' internationalization paths including the potential need to determine what a particular management team's objectives are; that is, establishing whether strategies have been successful and indeed if they are planned rather than unplanned or serendipitous in nature (Andersson, 2011; Crick & Spence, 2005; Gabrielsson & Gabrielsson, 2013; Galkina & Chetty, 2015; Crick & Crick, 2016a; Kalinic, Sarasvathy, & Forza, 2014; Spence & Crick, 2006). In the context of this chapter, certain factors that may feature in a business model have been identified as potentially influencing a respective firm's speed, scale and scope of internationalization (even if the studies do not draw reference to business models). For example, the particular firm's resource base (Autio, Sapienza, & Almeida, 2000; Westhead, Wright, Ucbasaran 2001); its management team's network relationships (Welch & Welch, 1996, 2004); also, if behavior is contextualized by industry and institutional factors regarding trade sectors and countries served (Bell et al., 2004; Crick & Crick, 2014; Freeman, Hutchings, & Chetty, 2012). Consequently, studies such as Crick and Jones (2000) and Ibeh (2003) identify the need to view internationalization in a holistic manner as it is contingent on a number of factors that may affect the speed, scale and scope in particular ways.

In short, by re-visiting the broad research question posed by Simmonds and Smith (1968) almost 50 years ago, this chapter follows the call by Onetti, Zucchella, Jones, and McDougall-Covin (2012) for more understanding of the application of business models in studies of internationalization and particularly in the context of lean start-up firms (Rasmussen & Tanev, 2015). Therefore, to narrow down the research question, this chapter draws on the lean start-up literature and focuses on the extent to which evolving business models were utilized by management teams in their initial exporting phase?

4 Methodology

The methodology described in this chapter is similar to Crick and Crick (2016a) that addressed wider research questions and risk/reward considerations. A database of newly internationalizing UK firms in the first year of their start-up phase was not known to the research team. Furthermore, the total number of firms meeting this criterion was also unknown to gauge the population or to act as a starting point for the recruitment of participants. Ten owner/managers were recruited via participation in a business development program, that is, start-up firms in the first year of their respective venture’s inception. However, it should be noted that since all had participated in a business development program, it might be argued that they were more proactive and open to academic research in comparison to a random sample of managers in start-up firms. Moreover, since all 10 operated in niche B2B sectors, this study should not necessarily be viewed as generalizable and especially to firms that operate in B2C contexts as trade sector has found to affect strategies (Andersson, 2004; Bell et al., 2004).

Although a further potential bias was recognized since the owner/managers were key informants, each represented their firm’s core decision makers since they had a very small team working with them. They all had limited financial resources although the extent of this was not known as precise questions in this respect were not asked due to ethical reasons; typically, the interviewees discussed operating via lines of credit. Each was an independently-owned small businesses, employing less than ten staff; however, some studies might term these “micro” businesses as classifications vary across countries (Storey, 1994). The scale of international sales was minimal given that they had recently undertaken their first export order; this might not be unexpected given the time needed to develop business activities in their first year of operation. However, given that all firms had internationalized within one year of the start-up stage, each might be termed “rapidly internationalizing firms” or possibly “international new ventures” (Crick, 2009; Crick & Crick, 2014; Oviatt & McDougall, 1994). Their scale and scope of international operations were nevertheless limited and so it would be wrong to suggest they were “born global” firms (Crick, 2009; Crick & Crick, 2014).

All ten firms were from various sub-sectors but were technology focused to minimize industry bias; furthermore, technology oriented firms were selected because of their propensity to rapidly internationalize (Bell et al., 2004; Chandra et al., 2009; Jones, 1999). Interviews were undertaken shortly after they commenced internationalization within the first year of operation. As such, the previously mentioned factors set the “boundary” of the study (Stake, 1995). This investigation contrasts with the work of Simmonds and Smith (1968) from which the previously mentioned broad research question was taken, whereby in their study, managers were recalling in hindsight after a period of exporting up to four years, their study also contained fewer firms, plus the sectors under investigation were more diverse.

The research approach undertaken in this chapter could initially, at face value, appear somewhat linear and be seemingly based on the work of Eisenhardt (1989); that is, it set out to establish relationships that were common across most or all of the relatively small number of firms. In fact, Sinkovics and Alfoldi (2012) note that qualitative research is sometimes presented in a linear manner, suggesting in principle, a predictable process and deductive reasoning. Furthermore, Beverland and Lindgreen (2010) note that arriving at the number of cases (or in this current study 'interviews') to achieve a balance between theoretical saturation and cross-case comparison can be a key challenge. In reality, the approach taken in this chapter was more in line with the methodological approach of Stake (1995); meanings were constructed between the interviewers and interviewees and what Stake refers to as "issues" were explored; these were based on those deemed relevant in the initial literature review. For example, in addition to questions about a respective interviewee's and firm's background characteristics, the interview guide involved issues associated with decision making with respect to internationalization and lean start-up principles such as business models employed. Consequently, the study was more in line with what Sinkovics and Alfoldi (2012) view as iterative. While certain "issues" provided a degree of similarity such as the need to internationalize rapidly, the individual nature of management teams' practices like their business model related activities leading to the first export order provided differences; therefore, theoretical saturation was not sought in this study.

In qualitative research, terms such as "validity and reliability" are often used; however, where possible in this study the "trustworthiness" of the data was observed (Lincoln & Guba, 2000; Morrow, 2005). This involved parallel criteria namely: credibility, transferability, dependability and confirmability (Morrow, 2005). These issues help determine the extent to which findings can be transferred to other settings while considering the potential lack of generalizability from qualitative research (Morrow, 2005). By way of examples: first, the previously mentioned "boundary" was set around the study. Second, notes were taken and shared with managers. Third, discussions in respect of the data took place among the researchers to arrive at a common agreement of the issues being addressed. The iterative process utilized enabled "progressive focusing" to be undertaken (Stake, 1995).

The research approach undertaken is fairly representative of what Welch, Piekkari, Plakoyiannaki, and Paavilainen-Mantymaki (2011) term "interpretive sensemaking"; namely, strong in context and weak on causal explanation. However, despite setting a boundary for the research in this chapter and providing a depth of information, it might be argued that this is not true case study research based on the approach undertaken and simply an investigation with a focus on interview data. For example, the limited ability to establish multiple sources of data regarding the firms given that they were at the start-up phase did not help the researchers meet the criteria of true case study research following the issues raised by Welch et al. (2011).

In line with Stake (1995), "particularization" was an aim of the research whereby the researchers took account of the context, narratives and personal engagement undertaken. Establishing cause-effect relationships is viewed as simplistic and instead an appreciation of the social context is considered important. Sinkovics, Penz, and Ghauri (2005) note the potential challenges of analyzing recorded data. Via a process of data reduction and utilizing within-case analysis, data were manually coded around first order concepts, second order themes and aggregate dimensions (Gioia, Corley, & Hamilton, 2013). To be more precise, actual quotes could be identifiable with second order themes and in turn these could be narrowed down to a further higher level of dimensions.

However, the “Gioia methodology” was not employed to the full extent in this chapter as a model was not produced which summarized which key and sub-themes (primary and secondary codes respectively) were linked to these “aggregate dimensions” (Gioia et al., 2013). That said, this aspect of the methodology allowed the research team to better understand which aspects of the data were linked to one another to cover the objective of this study and simultaneously increase the over-arching notion of “credibility” (Morrow, 2005). Instead, only selected quotes are utilized to demonstrate key sentiments of interviewees in the Findings section that now follows.

5 Findings

5.1 Overview

It is useful to reiterate the broad research question in this chapter, namely: what lies behind a firm’s first export order. Since much is already known in respect of this overall question, the investigation draws on the lean start-up literature and focuses on the extent to which evolving business models were utilized in the financially under-resourced firms featuring in the study. Specifically, the extent to which evolving business models were utilized by management teams in their initial exporting phase? Returning to an earlier point for clarity, it is re-emphasized that at the start of this study there was no prior assumption that firms would internationalize via exporting in comparison to a different mode of market entry. Nevertheless, exporting was the chosen market entry mode in all ten firms.

5.2 Initial Lean Start-Up Considerations

None of the ten interviewees had formulated a business model at the time their business was set-up, at least in a structured sense (that is, an established perspective or framework such as Fig. 1). Instead, they had each formulated a conventional business plan. Each interviewee expressed concerns about the time involved in formulating their business plan but viewed it as a necessity to facilitate funding given that each was financially constrained. As one interviewee commented: “without a business plan I would not have got the money (start-up funding) it’s as simple as that!” Nevertheless, further probing uncovered that each of the ten interviewees recognized positive and negative sides to the business planning process. For example, one interviewee commented: “it makes you sit down and think about things.” Conversely, the same interviewee noted that: “a lot of it is bull-shit to tick some boxes since anyone with any sense will know things are going to change.”

However, using Fig. 1 as a framework, although formal business model formulation had not been undertaken (and in fact all interviewees had not heard of business modelling), each had considered facets in all of the nine building blocks even if this was in a general and superficial sense. The inter-relationship of the nine building blocks had not been effectively thought out and the most important considerations are worth noting. First, each of the ten interviewees was able to articulate both their target customer segment and their value proposition even if discourse varied. For example, in the latter case this might be terminology such as: “point of differentiation” or “competitive advantage.” Second, all ten firms had at least one member of the management team that was recruited as a key resource to supplement that of the owner/manager and this assisted aspects of their business models. This included bringing in experienced managers as a key resource provided industry knowledge that extended to international markets, network relationships, channels such as intermediaries, experience in procedural issues like documentation and payment terms etc. Third, the financial components of the business modeling process had been given some consideration since each interviewee had written a business plan so projected costs and revenue streams had needed consideration to facilitate funding. However, as one interviewee suggested: “how realistic my projections were is another matter as I had to put a positive spin on it (business plan) to get the funding.”

Consistent with lean start-up principles was that the smaller sized nature of all ten firms resulted in the need to be agile from the start. Among the limited number of employees in each firm, particular tasks overlapped as hierarchies did not exist but rather a small management team working under the owner/manager with limited support staff for administration purposes. Certain other lean start-up principles were less apparent. All ten firms were started with a view to having what might be considered as a value proposition, as previously described, but the extent to which this had been validated even in a basic manner by prior research varied. In five firms any limited research relied on secondary data such as market trends to fit in with the requirements of a business plan, which as one interviewee stated: “sounds a bit like a leap of faith.” The other five had undertaken some initial primary data gathering even if this might be viewed as simplistic validation in their prior employment; that is, to reduce risks when commencing their own start-up firm. One interviewee explained that: “in my job at that time (before the start-up) I had the chance to talk to lots of customers that helped me see a gap in the market.”

In terms of the niche B2B customer segment in which they respectively operated, all of the ten interviewees had identified the need to internationalize rapidly during initial considerations irrespective of the levels of data gathering and planning. In fact, all ten had recognized this need even prior to starting their business since as one interviewee stated: "even common sense would tell you there was not enough demand at home (domestically)." Key partners had been sought by all ten owner/managers to varying degrees that expressed the need for rapid internationalization (industry mentors etc. that had been consulted while writing their business plan). Nevertheless, considerations regarding the speed, scale and scope of internationalization varied and particularly regarding the first export order given that interviewees differed in respect of the extent of testing and validation procedures that were undertaken.

All ten interviewees were keen to exploit an identified gap in the niche product-market in which they operated. However, a start-up business was needed by each owner/manager; that is, with a small team to devote time and other resources in exploiting this potential opportunity, since all ten interviewees perceived they could not have progressed on their own. It was recognized that irrespective of the typically limited data collection that was undertaken prior to business formation, there was a need after the initial start-up to be agile and validate ideas even if the practitioner discourse in the interviews did not use academic terms like 'validate' or 'test'. For example, interviewees needed to determine if there was a real problem that presented an opportunity; could the firms produce something to exploit this; what pains and gains were there; and how could they be addressed. As one interviewee that had undertaken validation (after starting their business) based on customers' reactions to a MVP mentioned in practical terms: "I had to see if there was potential before I wasted too much time and money".

5.3 Export Path

In respect of firms' development up to the acceptance of the first export order, aspects of interviewees' business models (Fig. 1) evolved even if the term "business model" was not explicitly used by any of the interviewees. This was driven by the recognition that in terms of performance objectives, all ten owner/managers were growth and profit oriented despite the appreciation these may be longer-term goals and it may take a while to become profitable while facilitating initial growth. The changing nature of the elements of the "Business Model Canvas" in Fig. 1 particularly related to costs and revenues had been thought out even if formal business modelling as an integrated process had not been undertaken. Although terminology differed among interviewees, such as 'making money' might be used for 'profits' by way of discourse, even fundamental research that had been undertaken suggested there was a need to internationalize rapidly. Indeed, advisors and mentors had also expressed that need as previously mentioned. This meant that key operations such as product development through to channel management needed to evolve quickly and iteratively. However, trial and error in the iterative process could only go so far since all ten firms had limited financial resources, hence agility in the build, measure and learn start-up approach had to be quick and cost effective.

Exports as opposed to other forms of market entry allowed relatively low entry and exit barriers in channel management strategies; that is, in the event things went wrong for the financially constrained firms. Furthermore, it was a quick and relatively easy way to build on certain existing, but nevertheless limited experience, given that all ten firms had at least one manager with overseas experience in prior employment. All ten interviewees recognized that existing experience elsewhere does not always translate to a start-up. One interviewee commented: "when I was working for my old firm it was their money I was dealing with and now if things go wrong I carry the can. I may have experience in the industry and know people, but how many of my old contacts would leave (name of previous firm omitted) and deal with me in this firm—was a risk."

Despite the appreciation that initial exports might not be profitable and were a means to reaching more positive longer-term end goals like sustainability or selling the business, all ten interviewees recognized that growth and especially via gaining a presence in a lead market (perceived as important) was a key issue that influenced the first export order. As one interviewee explained: "gaining a presence in America was important; you know, both there and in other places." The interviewee proceeded to explain that the US was a reference point in that sector for other overseas markets. It was important therefore to develop a MVP for validation purposes in the domestic market, then after feedback sell a modified and enhanced version via networks that were being developed in the US as a way to gain rapid exposure in the sector. The interviewee discussed the customer segment, point of differentiation and other considerations; in fact, although the term 'business model' was not mentioned, in reality key facets of the business modelling process had actually been considered by the interviewee.

Nevertheless, the actual trigger points for receiving the first export order varied among the ten interviewees. Specifically, eight owner/managers identified the utilization of prior networks in key markets from earlier employment to be the catalyst for the first export order, while two firms received what might be termed "unsolicited orders." The utilization of key partners in Fig. 1 was therefore important. In fact both of the latter two owner/managers had implemented what they considered to be a professional website as a key resource which may have also influenced their respective unsolicited order. However, and more importantly, they also discussed industry networks where in niche B2B sectors such as those they were operating in, it is not always evident who talks to whom. Therefore, the specific deciding influence for the receipt of the first accepted (unsolicited) export order for these two firms was not known even though the managerial intention to commence exporting was clear and mechanisms had been implemented to facilitate this.

It is worth noting that in all 10 firms, that is, even with the inclusion of the two that accepted an unsolicited order, risk/reward considerations were important. Specifically, in respect of the first export order, potential opportunities were not always exploited and some firms rejected orders that they did not feel ready and able to effectively address. Essentially, the risks were seen as too great and most importantly if the contract conditions were not acceptable. This meant that all ten firms needed to be agile enough to build, measure and learn from practices including developing a MVP in certain cases to become "export ready". However, risk/reward considerations needed to be evaluated on a case by case basis. For example, one manager explained: "it was always my intention to get to America quickly but going too early would have been a disaster and timing is so important." The interviewee explained that while the US may be a positive reference point in respect of a success there could lead to opportunities elsewhere, a bad experience could have equally negative wider implications. Further validation was required that led to a pivot strategy and specifically in respect of the need for modifications to the product-market fit. Selling to the US market too early based on the current (at that time) MVP could have led to bad initial reviews and it may have been hard to recover from a negative early reputation given the limited financial position of that firm.

As such, even though exporting commenced within the first year of the start-up for all ten firms, each interviewee discussed the notion of 'timing' being important and balancing issues such as first mover status with the embarrassment of not being ready. Irrespective of the managerial discourse used, in a practical sense that links with certain facets of the "Business Model Canvas" in Fig. 1, a variety of issues featured as important for the interviewees. Common themes were: whether the product-market fit was ready, the value of the export order, contract duration, repeat/continuing business in a target lead market or elsewhere, payment terms, plus could financing be covered. These considerations all featured in their initial risk/reward assessments. It is however useful to turn to the link with existing academic research that is considered in the following Discussion section to draw conclusions, implications and propose avenues for future research.

6 Discussion

This chapter addressed the call by Onetti et al. (2012) to gain insights into the use of business models in firms' internationalization strategies drawing on the lean start-up literature (Blank, 2013; Ries, 2011; Rasmussen & Tanev, 2015). The broader objective was to revisit the question asked in Simmonds and Smith's (1968, p. 93) classic study: "what lies behind a firm's first export order?" However, to narrow down the research question, this chapter focused on the extent to which evolving business models were utilized by management teams in their initial exporting phase?

6.1 Conclusions

First, it can be concluded that although the term ‘business model’ was not mentioned by way of practitioner discourse, it was evident that facets of Fig. 1 were utilized to varying degrees; some through what interviewees considered as common sense or that were needed for a business plan to secure funding. This supports Teece’s (2010) observation that even implicit thought is given by management teams to business models. In particular, the need to target customers overseas by internationalizing rapidly via export channels was influenced by the advice of key partners such as business mentors in addition to respective owner/managers’ personal realization.

It can also be concluded that no single theory explained the start-up firms’ initial internationalization which supports the holistic nature of factors influencing the process (Crick & Jones, 2000; Ibeh, 2003; Jones & Coviello, 2005). The resource based view (Autio et al., 2000; Westhead et al., 2001) could to some extent explain internationalization behavior since management teams were all constrained by limited financial resources; however, they had a degree of social capital and not least via the intentional recruitment of experienced members of the small management team that facilitated the exporting path. This also links with the network based view (Welch & Welch, 1996, 2004) since existing overseas networks and knowledge of export procedures facilitated rapid internationalization plus reduced the perceived risk of operating internationally. Findings also support aspects of the industry perspective (Bell et al., 2004), since owner/managers were operating in small B2B niche markets where issues such as first mover status internationally were considered important. It further corresponds in part to the institutional perspective; for example, the perceived risk of operating in psychologically distant markets (Johanson & Vahlne, 1977). Network partners known to members of the management team helped to minimize perceived risks in unfamiliar environments as did the reluctance to accept unfavorable contract conditions.

In respect of the specific first export order, it can be further concluded that perceptions towards entry barriers were to some extent high because of the limited finances each management team had to invest in the start-ups under investigation. Compared to other entry modes such as foreign direct investment, exporting allowed easier entry and exit in the event things went wrong. Nevertheless, to survive let alone grow, it was perceived as necessary to rapidly internationalize via exporting because of interviewees’ managerial mind-set (even if influenced by advisors), the nature of demand in the niches they served, and for gaining first mover status (Crick & Crick, 2014; Freeman et al., 2012; Oviatt & McDougall, 1994; Knight & Cavusgil, 2004).

Furthermore, it can be concluded that the timing and destination of the actual first export order was important as it could provide a reference point in a key lead market (Bell et al., 2004), but accepting too early before prior validation based on lean start-up principles may mean a poor initial launch could be difficult to recover from. The notion of ‘readiness’ mentioned by Tan et al (2007) should therefore not be underestimated. As such, the build, measure, learn principles of Ries (2011) are important; for example, how quickly a MVP can be taken to a market, but so is the view that some start-ups must be born global (international) or die local (Blank, 2014). Owner/managers need to decide in terms of their specific circumstances how quickly the speed, scale and scope of internationalization should be (Crick, 2009; Crick & Crick, 2014).

It can also be concluded that all interviewees knew the general direction they wanted their firms to head towards that included the need to export, but the iterative nature of decision making suggested various opportunities both domestic and overseas were quickly evaluated during the initial year of their start-up. In line with the effectuation perspective (Andersson, 2011; Gabrielsson & Gabrielsson, 2013; Kalinic et al., 2014), risk/reward considerations were evaluated, hence whether, when, and how opportunities were identified and exploited was a personal decision for each firm's management team. It can be further concluded that all of the firms' first respective export order was a largely planned market innovation and not unplanned/serendipitous in nature. For example, even if in two cases an unsolicited order was received, management teams were proactive in the sense they implemented initiatives like website development and creating a word of mouth reputation in niche markets to facilitate export opportunities. In practitioner terms: they made their own luck!

6.2 Implications

Turning to implications, it is useful for owner/managers in financially constrained firms to consider certain lean start-up principles. Therefore, both Business Schools and commercial plus government-led Development Programs might offer opportunities to learn from case studies of both successful and less successful decision making in particular firms. Furthermore, such institutions can introduce frameworks such as Fig. 1 so that individual owner/managers and their management teams can utilize these in their respective firm's start-up phase. Even though all ten owner/managers of the firms in this chapter were unaware of the business modeling process in an academic sense, certain facets were seemingly more obvious than others from a practitioner perspective as evidenced in the discourse. Therefore, a structured process may help bridge the academic/practitioner divide by introducing terminology with a strong practical relevance, such as business models and other lean start-up principles that can add value to management teams.

Bridging the academic/practitioner divide will therefore help assist lean start-ups to develop quickly, including management teams starting their respective firm's internationalization path. Risk/reward considerations in decision making need to be considered in the form of perceptions of affordable losses that will change as experience develops (Andersson, 2011; Crick & Crick, 2016a; Kalinic et al, 2014). In terms of the export initiation decision, this is likely to depend on respective management teams' risk/reward perceptions towards various internal and external factors (Leonidou et al., 1998, 2007). Policy makers can assist firms in various ways (Crick & Lindsay, 2015; Leonidou et al., 2011), but may need to work with firms to assess management teams' internationalization requirements; for example, where possible offering tailored support in line with their evolving business models.

6.3 Avenues for Future Research

In closing, this chapter has revisited one aspect of a classic study after approximately 50 years related to the first export order and incorporated a lean start-up perspective focusing on evolving business models. However, it had various limitations such as a small sample size from a single country; furthermore, while all high-tech in nature, each firm operated in niche B2B markets. In terms of avenues for future research, it therefore offers opportunities for studies to incorporate larger samples, across countries and in respect of various sectors. Conversely, it also offers the opportunity for individual case studies to explain contextual behavior in more depth. For example, platform business models such as Air B&B and Facebook have gained wide interest in becoming multi-billion pound operations.

Studies addressing B2C as opposed to B2B markets can investigate wider applications of lean start-up principles such as the utilization of mock landing pages and other procedures to examine how validation efforts develop. For example, to move firms through Blank's (2016) customer development process and even on to latter phases not considered in this chapter. In the meantime, the consideration of lean start-up principles offers an opportunity to develop particular themes and contribute to the growing body of knowledge at the international entrepreneurship/marketing interface.

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Reverse Internationalization: A Review and Suggestions for Future Research

Itzhak Gnizy and Aviv Shoham

Abstract Although internationalization (entry and expansion) has been a predominantly important topic in the literature, there has been little research effort to explain it holistically with firms' reverse internationalization (RI) behaviors in foreign markets. Despite the progress made to uncover the RI phenomenon, there still exist important issues and nuances within RI where scholarly understanding is scant. The purpose of this chapter is to review the RI phenomenon and encourage scholars and practitioners to examine its role as a topic for scientific inquiry, as well as a tool for managers of international/global organizations. This chapter highlights RI's distinctiveness, which warrants a separate research stream within or alongside the internationalization process stream and offers suggestions for future developments.

1 Introduction

On January 2014, the *Telegraph* reported that Revlon and Garnier exited the Chinese \$22.8 billion beauty market because they were unable to compete with the fast-paced local Chinese beauty market. Likewise, on January 2011, the *Wall Street Journal* reported that Campbell Soup Co. announced it was exiting Russia just four years after betting it would be a hot new market for the company. However, because sales in Russia did not fare as well as the company hoped, it decided to close its Moscow office, eliminate about 50 jobs, and exit the market. Finally, on July 2006, the *Wall Street Journal* also reported that with profits being elusive, Wal-Mart would exit the German market. In addition to these anecdotal evidences, the academic literature has also addressed firms' reverse behaviors in foreign

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markets engagement. For example, Gnizy and Shoham (2014) studied international firms that had experienced different forms and patterns of partial/full reductions in their cross-border operations. Similarly, Turner and Gardiner (2007) studied British Telecom as a multinational corporation that had underwent a de-internationalization process and retreated from its US and several Asian markets. These examples illustrate the reverse internationalization (RI) phenomenon, viewed here broadly as reverse moves in firms' international marketing operations. The examples also illustrate RI's different forms and levels (e.g., market exit, product/brand elimination), characteristics (e.g., voluntary, forced, planned), and consequences (e.g., loss of profits, loss of individuals' jobs).

Starting from the 1960s, a vast literature has examined firms' internationalization (Benito, 2005) with numerous well-developed theoretical and empirical studies (Sadikoglu, 2014). Internationalization can be viewed as "a systematic increase in international business activities" (Cavusgil, Knight, & Riesenberger, 2014, p. 38) and thus represents firms' growth and development. However, once the internationalization process has started, there is no guarantee that it will continue. At times firms might choose or be forced into RI processes (Welch & Luostarinen, 1988). Recognizing that international activities might follow traditional forward internationalization and potential RI processes adds to the complexity of the international business research and practice (Turcan, 2013).

Welch and Luostarinen's (1988) pioneering study generated some interest in RI. However, although RI is a common, complex, and crucial phenomenon in an ever-changing world of globalization, a consensus exists among scholars it has received much less attention than forward internationalization and research on RI remains scarce (Benito, 2005; Gnizy & Shoham, 2014; Turcan, 2013; Turner, 2012). A recent example is the effort to explain firms' exit decisions from foreign markets (Sousa and Tan 2015). While internationalization concepts and theories (e.g., process, stages therein, network theory, and new ventures and born international/global) gained acceptance as applicable frameworks in analyzing and understanding firms' foreign operations, a widely acceptable RI framework has not emerged. Notably, the various internationalization models did not explicitly take into consideration the aspect of de-internationalization. Hence, scholars argue whether RI should be viewed using internationalization concepts as well as on the theoretical frameworks most suitable to study it. While an accepted approach has not been reached, the few and sporadic attempts that have addressed RI phenomena have viewed it using theoretical lenses such as entrepreneurship (Turcan, 2003a; 2006), turning points (Turcan, 2013), the eclectic paradigm (Sadikoglu, 2014), and the coevolutionary framework (Turner, 2012).

The purpose of this chapter is to review the RI phenomenon and encourage scholars and practitioners to examine its role as a topic for scientific inquiry as well as a strategic tool for managers of international/global organizations. Referring to RI as an over-arching construct of reverse behaviors rather than to its manifestation (e.g., de-exporting), we highlight its distinctiveness, which warrants a separate research stream within or alongside the one dealing with the internationalization process. We note that RI may refer to different kinds of firms (e.g., SMEs, MNCs) and different internationalization modes of entry (e.g., exporting, franchising). Nonetheless, in this review we do not make such distinctions but discuss the RI phenomenon broadly. Below, we review the scant RI literature and suggest how it can help in more accurately predicting behavioral changes for firms operating in cross-border markets. Thus, the chapter also answers calls for further research on firms' post-internationalization behaviors (Gnizy & Shoham, 2014; Turcan, 2013).

In the coming sections we discuss the RI phenomenon and delineate three components, namely, the RI process, its pre-conditions (i.e., antecedents and drivers), and consequences. We conclude with a discussion about future research directions.

2 The RI Process

2.1 *Definitions, Terms, and Modes*

Welch and Luostarinen (1988) introduced de-internationalization as a concept. According to them "once a company has embarked on the process, there is no inevitability about its continuance" (p. 37). RI has not received much scholarly attention and international marketing researchers have not converged on an agreed-upon conceptualization.

Benito and Welch (1997, p. 9) were the first to define the term de-internationalization as "any voluntary or forced actions that reduce a company's engagement in or exposure to current cross-border activities". They also recognized the importance of differentiating between full or partial de-internationalization. Somehow similarly, Mellahi (2003, p. 151) defined RI as "a voluntary process of decreasing involvement in international operations in response to organizational decline at home or abroad". Recognizing the inherent view of forward internationalization as a norm, Turcan (2008) viewed de-internationalization as a negative deviation from what is expected or normal. Finally, Calof and Beamish (1995) viewed de-internationalization as a process whereby firms consciously choose to reduce their degree of international engagement.

Some scholars viewed RI as mostly the opposite of internationalization (Drogendijk, 2001; Turcan, 2003a). For example, Fletcher (2001, p. 28) defined RI as "the opposite of stepwise progression and forward momentum" and recognized that "In international… markets, firms often downsize". This definition highlights the relationship between internationalization and RI as opposite concepts. Taking a different view, Turcan (2003b) discussed cross-border processes as representations of cause-effect relationship between internationalization and de-internationalization. According to him, a firm can only de-internationalize (the effect) if it has internationalized first (cause). From a strategic process perspective, Turner (2012) defined de-internationalization as a process whereby a firm (e.g., MNC) shifts to a strategic configuration that has a lower international presence. He emphasized that past research had usually focused on 'events' rather than on the processes that generate such reconfigurations. Notably, he pointed out that de-internationalization should not be conceptualized merely as RI. Finally, in an approach closer to Turner (2012) than to Fletcher (2001) and Turcan (2003b), Gnizy and Shoham (2014) defined RI as negative change/reduction in firms' international activities on one or more of several dimension. Dimensions include the number of active foreign markets, width/length of product lines, stage of operation in the internationalization path, and the pace of the internationalization process. According to Gnizy and Shoham (2014), these dimensions are not necessarily mutually exclusive and may be logically interrelated. For example, exiting a market may induce elimination of a product line if it is marketed solely in this market.

Following the conceptualizations summarized above, various terms such as de-internationalization (Turner, 2012), withdrawal (Pauwels & Matthyssens, 2004), and business/market exit (Pauwels & Matthyssens, 1999) have been used in the literature to indicate RI, at times interchangeably.[1] Turcan (2011) developed a typology and classified the terms into a set of "de-" forms (e.g., de-exporting, de-franchising), which relate to entry modes in international markets.

2.2 *Characteristics and Manifestations*

Several characteristics of RI follow from the discussion above. They reflect RI's multiple manifestations. These characteristics and manifestations are not mutually exclusive since an RI event may possess a combination of characteristics and manifestations. These issues are discussed further below.

In terms of **degree**, RI can be full or partial. Full RI is a radical form of decreased commitment associated with ceasing international operations in certain or all foreign markets (Benito, 2005; Benito & Welch, 1997). In the extreme, RI may imply going back to the domestic market. For example, British Telecom completely retreated from its foreign operations and refocused its business on core domestic market (Turner and Gardiner 2007). In terms of strategic thrust, RI may reflect **proactive** and voluntary or **reactive** and involuntary process. In terms of **pace**, RI can be fast or slow. In addition, reductions/withdrawals of foreign activities can be **gradual** or **simultaneous**. Regarding **Timing**, RI may occur at any time during early or late internationalization stages. This is important because RI's timing could affect possible research findings (Ancona, Okhuysen, & Perlow, 2001). Notably, scholars have not converged on RI's timing along the internationalization stages - mostly late (Ayal & Zif, 1979) or mostly early (due to limited experience and poor preparations; Welch & Wiedersheim-Paul, 1980).

[1]Divestment is a well-studied construct and can be a RI facet. In our view, since divestment is related more to international business than to international marketing, we do not relate to it in this chapter.

RI can be triggered by a single or multiple reasons and can be manifested in numerous forms such as sell-off or closure of foreign sales or subsidiaries, reduction of ownership, and switching to lower-commitment operation modes (Benito & Welch, 1997; Fletcher, 2001). Other manifestations are reduction in the number of active markets or product lines and moving to less advanced internationalization stages (Gnizy & Shoham, 2014). Regardless of the form that RI takes, it is important to distinguish between voluntary or involuntary RI processes.

In light of the above, the major facets of RI are the action, reduction, and voluntary vs. involuntary (i.e., forced actions) concepts. These constructs appear in Benito and Welch's (1997) first definition of RI and in definitions used by other scholars. For example, the actions and reduction constructs in this definition have been used by researchers as building blocks to construct an RI typology (e.g., Turcan, 2011), to offer new RI approaches (e.g., Fletcher, 2001; Gnizy & Shoham, 2014), and to guide RI investigations (e.g., Pauwels & Matthyssens, 2004). While the extant research has addressed the actions and reduction constructs, it has mostly failed to attend to the distinction between voluntary vs. involuntary RI characteristics. Such a distinction is important since there might be a difference in voluntary versus involuntary RI, both in the process of how RI evolves and in RI drivers, which may affect what concepts serve to study RI.

At this point, we also stress that beyond the issue of drivers of RI and its evolution process, its consequences may differ as well. While prior research addressed voluntary (e.g., Fletcher, 2001; Pauwels & Mathyssens, 1999) or involuntary RI (e.g., Gnizy & Shoham, 2014), these studies did not frame RI as such and limited research has explicitly distinguished between the two. Turner's (2011) study on coercive de-internationalization is an exception. He identified coercive forces that drive MNC's RI. Given this limited body of research on RI as ranging from voluntary to involuntary, future research is called on to address the implications of this RI facet in order to shed new light on the RI phenomenon.

While RI could be episodic or incidental (Crick 2004), it can follow either a random pattern or be a pre-planned (Turner 2012). Pauwels and Mathyssens (1999) viewed export withdrawal as a strategy phase-based process. They perceived export withdrawal as "a firm strategic decision to remove a product/market combination from its international portfolio" (p. 10) and considered it as a *strategy* whereby firms voluntarily undertake withdrawal actions to reduce their commitments in export markets. Since such a strategy could be triggered by new strategic priorities, it should not necessarily be regarded as a reactive failure, which RI is often assumed to be. When viewed as a strategy, RI may be a long- or a short-term strategy. The perspective of RI as strategy associates RI as a voluntary rather than involuntary/forced reduction in firms' engagement in cross-border activities. From the decision-making process perspective, a strategic withdrawal may be preceded by tactical withdrawals. This approach is based on cognitive decision-making and implementation processes. Hence, RI may manifest as strategic or tactical.

Another manifestation of RI refers to the seemingly negative and undesirable features associated with it. While managers tend to associate RI negatively as a failure as opposed to the internationalization efforts that are associated positively with growth and development (Turcan, 2013), some scholars consider RI as an evolving process that might encompass advantages to firms especially when RI is voluntary. RI may be viewed as an entrepreneurial activity or as an integral part of firms' growth process (Turcan, 2003a, 2006) as well as an error-correction mechanism (Casson, 1986). By reversing internationalization, firms may be correcting earlier errors such as having penetrated excessive markets or having internationalized too quickly. In addition, when firms change the foreign market-servicing mode and/or withdraw from an overseas market and focus on the local market only, their engagement in and exposure to the remaining cross-border activities might actually increase (Turcan, 2013). Hence, while some SMEs may see RI as a dramatic event (Gnizy & Shoham, 2014), larger MNEs would might view it as corporate restructuring (Turner, 2012). Consequently, perceptions about RI might differ across firm size or international experience.

In sum, the above-discussed characteristics do not comprise a comprehensive list. They are also not mutually exclusive and an RI event may posses a combination of characteristics and manifestations. In addition, RI is conceptualized along multi levels (e.g., market, product, entry mode, and subsidiary) and no one conceptualization or definition has emerged as dominant. Accordingly, Gnizy and Shoham (2014) suggested a conceptualization of RI as a multifaceted formative construct. Importantly, their conceptualization offers a promising framing of RI for international marketing practice. It synthesizes and integrates other conceptualizations. The various definitions, terms, and especially manifestations of RI can be interpreted along the current and future dimensions of their conceptualization.

3 RI Antecedents

Studies have examined factors that directly drive or inhibit RI. Firms revert to using RI because of critical incidents emanating from inside or outside the firm (Turcan, 2008). RI antecedents can be internal or external and may force firms to deviate from the routes prescribed by the internationalization process models and lead to RI (Crick, 2004). Notably, a certain RI event may be triggered by one or more factors (Gnizy & Shoham, 2014). In discussing the impact of management's role and market commitment on RI, Benito and Welch (1997) identified internal and external triggers to management's decisions to revert to RI with three groups of overlapping motives, namely, organizational; strategic, and economic (see also Crick, 2004; Fletcher, 2001; Gnizy & Shoham, 2014; Mellahi, 2003; Turner & Gardiner, 2007). Based on behavioral internationalization process theories, Reiljan (2004) pointed out that various underlying reasons lead firms at different stages of internationalization to RI decisions. He classified these reasons into three groups, namely, lack of international experience, change in strategy, and poor performance.

Regarding **internal factors**, Jaffe and Paternak (1994) identified eight obstacles motivating exporters to terminate exporting. These include insufficient profitability, inadequate financing and distribution, uncompetitive prices, difficulty in meeting delivery schedules, lack of information about foreign markets, and low product quality. Likewise, in discussing factors that foster RI, Gnizy and Shoham (2014) identified several internal factors (e.g., international knowledge/experience, planning/strategy/formalization of the internationalization process and intensity/complexity of international services), which they sub-categorized into organizational (system) and management (individual) levels.

Gnizy and Shoham (2014) identified several **external factors** (e.g., characteristics of the international environment such as turbulence, competition, and customers' demand and preferences for services), which they sub-categorized into foreign market environment, domestic market environment, and client-related. Global competition affects strategic RI management with changes in the competitive environment leading to closing subsidiaries down (Melin, 1992). Additional external factors leading to de-internationalization include competition at home, host, or third country (Reiljan, 2004). Similarly, aggressive competitors in the host market can increase instability and be an exit trigger (Benito, 2005). In general, high foreign competition intensity or increasing competition can lead firms to reduce their business portfolios and RI through modes of operation that are lower on commitment, resources, and control than used in the past (Berry, 2010). For example, enormous environmental changes and competition forced British Telecom, a firm with a strong domestic position that executed an aggressive global strategy throughout the 1990s, to completely withdraw from its foreign markets and re-concentrate on its core home market (Turner & Gardiner, 2007).

In addition to studies on internal and external RI antecedents, scholars have identified internationalization facilitators and inhibitors (Berry, 2010; Hutchinson & Fleck, 2009; Katsikeas & Morgan, 1994). These facilitators and inhibitors have potentiality to act as forces in studying indirect RI antecedents. These forces can be attributed to RI drivers as sometimes they reflect or explain firms' RI events. Specifically, Crick (2004) studied barriers obstacles to exporting that may trigger decisions to discontinue exporting. Moreover, forces of internationalization can be viewed as moderators of the relationship between firms' external or internal environments and their strategy that affect RI.

Cuervo-Cazurra, Maloney, and Shalini Manrakhan (2007) recognized three streams of research on difficulties that internationalizing firms face, which influence their engagement in overseas business: (1) studies based in economics stressing the cost of doing business abroad; (2) studies stressing organizational liability of foreignness; and (3) strategic management stressing the difficulties of managing dispersed operations in multiple countries. Such internationalization inhibitors can be categorized into internal, external, operational, and informational (Katsikeas & Morgan, 1994) or into legal, logistics, servicing exports, sales promotion, and foreign market intelligence (Kotabe & Czinkota, 1992), or relate to the firm, its management, and external environments (Hutchinson & Fleck, 2009). These inhibitors can relate/parallel to internal and external antecedents of RI.

In sum, while RI is a multidimensional phenomenon that can take many forms and be driven by a wide range of internal and external factors (Gnizy & Shoham, 2014); the literature lacks a unified framework to describe firms' RI processes.

Specifically, there is no sufficient research of drivers along different RI manifestations and characteristics. No sufficient knowledge exists, for example, if drivers of full RI converge or diverge upon drivers of partial RI. Turner's (2011) work suggests that drivers of voluntary and involuntary RI differ. In addition, there is a need for tests of non-linear and moderated models, which can help develop theory-rich conceptual models of RI consequences. Such models would provide perspectives that practitioners can appreciate and use (Cadogan, 2012), as well as direct managers' attention to likely internationalization scenarios in which the need for RI may arise.

4 RI Consequences

RI and the decision process leading to it are often associated with negative connotations and considered a failure (Turcan, 2013). For example, viewing export withdrawal as a strategic staged process, Pauwels and Mathyssens (1999) illustrated how decisions to RI included increasing stress, opposing perspective, and conflict behaviors leading some managers to escalated commitment to an export venture and others to detach themselves from it (see also Turcan, 2011). In light of such negative viewpoints, RI outcomes are likely negative consequences such as lower performance.

However, RI may be a positive event leading to enhanced performance. First, firms can use RI proactively to improve their domestic or international positions. Second, firms can re-structure and thus develop their cross-border involvement in a response to competitive circumstances (e.g., error correction mechanism). In general, RI can be followed by re-internationalization since firms may reorganize their international assets and geographic spread and redirect activities to new target markets (Crick, 2004). For example, a firm may re-orientate its foreign activity by closing down its European operation in favor of opening up an Asian venture. Such re-internationalization usually follows voluntary rather than involuntary RI. Third, RI can play an integral role in a firm's overall growth strategy as a means to maintain or regain competitiveness. Finally, RI can be a part of an international portfolio optimization to achieve temporary stability before a subsequent wave of internationalization (Pauwels & Matthyssens, 2004). Thus, the common view that RI is equivalent to reduced internationalization may be inaccurate.

RI consequences may take a variety of forms beyond financial performance such as business closures or loss of individuals' jobs. More generally, these consequences can be also classified into other categories such as performance-related (e.g., effects on profitability) and non-performance-related (e.g., obtaining stability and consolidation). Importantly, RI may take time to unfold behooving researchers to provide ample time for its effect to take place and making the study of RI consequences more complex (Turcan, 2006). Moreover, since some RI events result in re-internationalization it is important to analyze RI processes and outcomes in the context of other activities (e.g., re-internationalization). For example, exiting one market and consequently penetrating a new one require measuring performance as a two-phased activity, namely at the time interval of exit *and* at the time of the new entry. Such a two-phased activity is not only complex to study but also strongly encourages longitudinal design, which is rarely used in RI studies.

Research on RI also ignores the fact that reducing commitment or involvement in foreign markets may affect not only the de-internationalizing firm but also other entities in this firm's value chain (e.g., customers, suppliers, and competitors). Hence, RI studies would benefit from designs using multiple relevant constituencies such as nested entities (e.g., subsidiaries). Notably, international marketing is concerned with facilitating exchanges that provide superior value to all involved parties. Thus, the complex nature of RI and its characteristics (e.g., antecedents, process, and outcomes) presents difficult challenges to international marketing scholars and practitioners. To date, no dyadic or multi-entity research has examined the effects of a firm's RI among and across involved entities with network theories providing a good starting point (Turcan, 2006).

In sum, RI consequences can be positive or negative. Recognizing RI's multi-faceted and complex nature will assist firms in improving post-RI decisions, allow managers to prepare for potential outcomes, and help to develop supporting strategies.

5 A Critique of Reverse Internationalization Research

Our review on the RI topic shows that while some progress in studying RI has been achieved; there is still a walk to walk. International marketing research has tended to focus on the internationalization process leaving RI relatively marginalized. Compared to internationalization, "de-internationalization appears to be one area of research that is 'important' but not 'convenient' to research" (Coviello & Jones, 2004, p. 493), or even undesirable (Turcan, 2013). The scarcity of research on RI is attributed to numerous factors. Scholars point out primarily the stigma of failure that is frequently associated with RI that leads firms to wipe de-international activities from their corporate memory. Managers keep away from these 'failed' operations and do not share with others information and insights regarding their RI experiences. Consequently, this leads to difficulties in researching perceived failures and to the absence of any artifacts to enlighten researchers (Mellahi, 2003; Turner, 2012). Other factors that impede research on RI include the nature of RI as a difficult-to-measure construct (Gnizy & Shoham, 2014), the lack of more robust RI theorizing by scholars, and underdeveloped or even deficient methodologies employed in studying RI. Today's ever-changing world, marketplaces, competitive environments, and the ongoing RI events that firms undergo place RI as a significant element of the internationalization process and international marketing strategy. Numerous avenues that research into RI can follow in the international marketing arena are warrant. Such avenues relate to the RI process, its antecedents and consequences that require further investigation to improve our understanding of the RI phenomenon. We focus on several, which we believe are most prominent to make research on RI more powerful.

5.1 Dimensionality of RI

Whereas RI is a common phenomenon, scholars have not converged on its definition and drivers (Matthyssens & Pauwels, 2000). The numerous terms for RI in the literature cannot necessarily be considered synonyms since different RI terms refer to its different manifestations. For example, de-exporting and de-franchising both reflect RI but they are different. They differ on their antecedents and consequences. Some of the terms used by scholars to denote RI are not precisely defined and others reflect a certain or partial pattern of a more inclusive phenomenon. Moreover, the existing definitions (e.g., Benito & Welch's, 1997) have been criticized (Turner, 2012). These render RI as an ambiguous concept in the literature (Turner, 2012). A review of the literature reveals insufficient attention to RI conceptualization as a multifaceted construct and less attention is paid to its measurement considerations. The current RI constructs suffer from unclear operational definition or a limited practical value. Though the literature sheds some light on RI modes, it is limited in reflecting the diversity of its practical patterns. Many firms today operate in ever-changing global business environments, establish a large array of projects, and engage in increasingly sophisticated activities at various locations using multiple entry modes. Since firms apply sophisticated forms of international engagement, RI research should tackle its wide-ranging forms and consider it as a many-dimensional construct (Gnizy & Shoham, 2014). Future research needs to identify additional dimensions, in addition to the current conceptualized ones, and proceed with refining the governing dimensions of RI as composed of multifaceted phenomenon (Gnizy & Shoham, 2014). RI needs to be viewed as a construct that consists of several levels in order to yield promising outcomes for practice and research. It should be conceptualized more comprehensively to reflect its various domains and mainly its dynamic nature. For example, a firm may experience multiple RI events simultaneously such as reverse behaviors in different countries and/or on products and/or along different operation modes. The integration of those activities that need simultaneous management efforts on different levels such as on geographic, product, and market would require enormous managerial attention. However, prior research on RI has been restricted in the range of RI forms included, and analyzed RI using mainly one dimension (Gnizy & Shoham, 2014). Moreover, many existing studies have emphasized export withdrawal amongst SMEs only (Turner, 2012), which may limit our broad understanding of this phenomenon.

Hence, enhanced dimensionality may assist in offering an appropriate conceptual setting for RI. The existing dimensionalizing frameworks may not have as sufficient practical value as the complex view that the RI phenomenon requires. These frameworks are applied in a static rather than dynamic manner to view RI. Mellahi

(2003) stressed RI as a dynamic process. Viewing it as a static construct might put in question the ontological underpinnings of the current RI frameworks. In addition, RI should be viewed concurrently as distinctive from but holistically with other systems such as internationalization and entrepreneurship. More studies are required to confirm the applicability of RI's dimensions in many cases and systems. RI may be formed through the interaction of its different dimensions, sometimes congruent, sometimes complementary, which create a whole that is less than the sum of its parts. In other words, RI does not equate the sum of its manifestations. Furthermore, a certain dominant dimension of RI (e.g., exiting a market) may exert greater influence on RI's outcomes than other dimensions (e.g., selling-of a subsidiary). Thus, on one hand RI needs to be considered as a whole and not as a summation of its component parts. On the other hand, scholars should avoid the mistaken perception that researchers' phenomena have to be related to all dimensions of a framework. The strength of models is that they allow conceptual parsimony and thus the researcher can find out what dimension is responsible for the specific effect that is being observed (Yaprak, 2008). This issue of dimensionality exemplifies the complexity of studying RI.

On the measurement level, RI should be viewed as a multifaceted formative and even modular construct. It should be described as a collection of indicators that form the RI variable rather than a single unifying measure. Thus, changes in RI are the result of changes in at least one of its sub-indicators. Since the RI variable should be formative in nature it may be viewed as a higher-order construct where the RI label is an umbrella term for multiple sub-constructs (Gnizy & Shoham, 2014). We note that RI cannot be reflective since this compels the RI label to refer to a unidimensional construct. However, unidimensionality is a condition of reflective variables. The multiple dimensions of the formative RI construct can each have their own nomological networks, thus each dimension has the potential to have different outcomes (Cadogan, 2012).

5.2 Typology and RI Characteristics

RI is a multi-characteristic phenomenon and different characteristics may differently affect the process by which the RI proves evolves, its drivers, and its consequences. While RI characteristics may be seen enduring, they must undergo construction and reconstruction as to day no an attempt has been made to comprehensively identify and examine RI characteristics and understand their significance in RI research. In constantly changing environments, firms modify their behaviors in international operations and accordingly the sophistication of the internationalization process increases. If RI is viewed in relationship to internationalization, RI behaviors imply the dynamism of its characteristics. The identification of these characteristics may guide researchers in better conceptualizing, defining, and measuring the RI concept. An analysis of the RI characteristics may help in proposing new typologies for the RI concept and by this assisting in offering a more appropriate conceptual setting for RI and drawing conclusions from research that are more generalizable. “Typologies are based on differentiating criteria, e.g., being internal or external to a concept, or being its dimensions or degrees” (Turcan, 2011, p. 4). Turcan (2011), for example, used the full RI versus partial RI characteristics on the RI continuum as building blocks to offer a typology of RI modes (e.g., de-exporting, de-franchising). Similarly, other important RI characteristics considered also as dimensions of a typology can be analyzed to offer other categorizations. For instance, whether RI is voluntary or involuntary firms’ action may have significant difference, both in the drivers as in the process of how RI develops. It is hard to envisage that both types can be captured in one theory. Turner (2011) studied coercive de-internationalization (i.e., involuntary RI) defined “as an enforced adaptation/reconfiguration through enforced modal shift or market divestment” (p. 192). His identification of coercive forces that drive RI suggests that they differ from non-coercive (i.e., voluntary) forces. Hence, the method of constructing typologies by voluntary versus involuntary RI can be employed since RI study could range from voluntary to involuntary through RI actions such as on market, product, and entry mode levels. The distinction between voluntary and involuntary could shed new light on the RI phenomenon. When voluntary RI actions are undertaken, their consequences are probably more predicted and thus are easier to measure than when involuntary RI actions are undertaken unpredictably. Additionally, new typologies of RI characteristics may assist in solving methodological issues such as sampling and sampling criteria that are impediments in studying RI today (Turcan, 2013). Hence, future analysis should expand the portfolio of RI characteristics and clarify its implications.

5.3 RI Outcomes and Performance

Past research on RI has been overwhelmingly qualitative (Turner, 2012) without substantial empirical evidence supported by quantitative studies. Importantly, most of this past research has focused on the RI process and its drivers leaving the RI consequences and their effects on performance under-related. Hence, not only research on RI is scarce, much of extant studies have not examined specifically the RI-performance relationship. Scholars have recognized the need to study RI consequences since research that examines these consequences is clearly of interest in the RI domain (Gnizy & Shoham, 2014). A major thrust for future research should be the examination how RI affects overall operation and performance as well as a variety of firm consequences. As noted above, the consequences of RI are complex and may take shapes in many forms, not necessarily in financial performance only. Consequences of RI are highly important with major implications for managers, public policy makers and theory development. The unique properties of the RI phenomenon make the study of the RI-performance relationship even more challenging. For example, some scholars have identified firms’ poor performance such as increase in production or transportation costs, or loss of profits as an RI incentive or driver (e.g., Pauwels & Matthyssens, 2004; Reiljan, 2004). Notably, in many cases, management could not easily identify what caused performance to decrease (Pauwels & Matthyssens, 2004). Hence, performance appears to be an antecedent and an outcome of RI, which makes the study of RI-performance link complex.

We offer several recommendations. First, current RI constructs are limited in their conceptual domains and likewise there are limits to their potential performance outcomes. A certain facet of RI may not have the same effect on performance as another dimension may have. For instance, exiting a foreign market may affect the firm's market share in a specific market, however moving backward to a less advanced stage of internationalization (a facet of RI; see Gnizy & Shoham, 2014) may not necessarily affect the firm's market share. As a result, market share will not necessarily be a metric by which one should always judge the consequence of RI. This implies the need to a more carefully match between metrics of RI and (international) performance.

Second, as noted above, RI is frequently perceived as failure. Fortunately, the literature offers proxy measures even though RI is perceived as such. Because measuring firm performance via an economic analysis is sometimes difficult, scholars have resorted to surrogate measures of failure. Examples of measures that have been used in studies of business failure include closure of the business, changes in business' ownership, bankruptcy, and inadequate financial returns (Frazer, 2001).

Third, the direction of the effect of an RI event on performance should be carefully considered. For instance, a reduction in number of foreign customers (an RI manifestation; Gnizy & Shoham, 2014) needs qualifying with the volume of export sales. Sales may increase although the number of customers decreases. As a result, RI events may positively affect performance and in the long run, RI may deliver returns to the firm. The implication is that researchers need to better refine and match performance metrics and RI carefully when developing their conceptual models. When modeling the consequences of RI, researchers need to make a decision in their theorizing what type of performance they are interested in and best fit the facets of RI they are studying. Accordingly, theory should be developed.

Fourth, we stress our assertion that researchers should be careful with shaping RI as a single aggregated composite since it may not be beneficial when measuring performance. For instance, market exit and dropping a product are both manifestations of RI and each can affect performance. However, it may also be that only market exit drives performance with other dimensions such as dropping a product operating through market exit. Hence, dimensions of RI may operate on performance in different ways by having different shaped or magnitude relationships with performance, or the dimensions operate via different mediators, or even interact with each other, and thus different mechanisms shape their effects on performance. Modeling a single aggregate of RI as a cause of performance may appear problematic since true relationships may be hidden.

Fifth, empirical tests of theory-rich, non-linear, and moderated/mediated models are scarce, if any, in the RI literature and there is potential for RI to have complex relationships with performance. The examination of such models enables the development of better theoretical and conceptual models of the RI consequences. Researchers need to clarify and understand when particular RI effects are antecedents and/or moderators/mediators on RI outcomes. Such improved measures will advance comprehensive specifications in the impact of RI models. For example, one can argue that market turbulence is a potential moderator rather than an antecedent to the RI process as has been offered by the literature. Hence, more efforts are required to identify how moderators shape the relationships between RI and performance. Moderating factors may be internal (e.g. resource availability) or external to the firm (e.g. international business environment, Gnizy & Shoham, 2014).

Finally, RI events may take some amount of time to unfold in firms. Therefore, researchers need to allow sufficient time for the effects of RI to take place and show up. Moreover, the shape of that unfolding (e.g., linear, non-linear, moderation) may vary. Importantly, the time periods selected to measure RI determine what can be learned. Thus, a critical issue becomes when RI should be measured (Ancona et al., 2001, Turcan, 2006). Should it be measured immediately when the RI event occurs or when its outcomes are uncovered?

6 Conclusions

In this chapter, we reviewed the RI phenomenon and offered suggestions for future developments. RI appears to be a marginalized distinctive topic of research in the literature. Recognizing RI as a multifaceted and complex phenomenon should encourage academic and practical members to examine its holistic role in scientific and managerial domains. While focusing on several aspects of RI, which we believe are most prominent to make research on RI more powerful, we acknowledge that other issues than those discussed here deserve future research attention. Paying attention to the above research avenues suggestions should prove helpful to develop enhanced applicable conceptual and managerial RI theories that enrich the domain of international marketing research. More robust theorizing and methodologies for RI should allow increased understanding of RI's relationships with international marketing strategy.

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Part III
External Agents and International Marketing

The Roles of INVs and Their Agents in the Organization of Marketing Tasks

Tage Koed Madsen and Gitte Rosenbaum

Abstract During the last two decades numerous articles in scientific journals have discussed and studied the growing phenomena of International New Ventures and Born Global Firms. While many scholars in this burgeoning field have hitherto studied the foundation of these firm and focused on founder characteristics (such as human capital), mediating factors (such as network connections), and performance outcomes, very few studies have examined how such firms organize their on-going international marketing tasks, for example, how they identify and service customers on foreign markets. The present chapter contributes with knowledge to this gap in the literature. It conceives of marketing tasks in terms of the respective roles of the firm and its existing agents/distributors in identifying Business-to-Business customers on international markets. Prior studies either emphasize a strong role for the agents in initiating and developing customer relations or argue that the role of information and communication technology is replacing the traditional role of agents in this regard. Based on these insights, we propose a 2×2 typology of International New Ventures/Born Globals based on the extent to which they organize these particular marketing tasks in relation to their existing agents. We explore this through the use of a multiple case study of four firms in the fashion apparel design industry. The case data suggest the need for a more nuanced approach to understanding the respective roles than previously suggested.

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1 Introduction

In the 1970s, international business scholars conceived of firm internationalization in terms of stages i.e. incrementally expanding into gradually more psychically-distant markets. In the stages model, the role of distributors/agents was very important in terms of providing market knowledge, which reduced uncertainty, and eventually led to higher commitment entry modes. Over the last 25 years, internationalization scholars have been increasingly interested in the phenomenon of International New Ventures/Born Globals—firms which internationalize soon after inception and rapidly to numerous countries, rather than incrementally as in the stages model. For simplicity, we use the term International New Ventures (INVs) hereafter. The literature has typically distinguished INVs from traditional exporting firms by explaining this rapid internationalization in terms of founder characteristics, industry structure, and such like. INV scholars (e.g. Coviello, 2006) have typically argued that network partners as well as distributors/agents are still necessary for INVs to enter new markets because these firms are resource-scarce, and therefore, primarily choose low commitment entry modes where they can collaborate with distributors/agents who can contribute with local knowledge/contacts, and so forth.

More recently, Hennart (2014) contributed to this discussion by arguing that the real distinguishing characteristic of INVs may rather be their business model related to marketing tasks required by their particular niche product or service. Specifically, he argued that INVs internationalize so quickly because the undertaking of marketing tasks is quick and almost without costs. Furthermore, there are few differences between domestic and foreign markets (i.e. low marketing mix adaptation costs, etc.), and this standardization spurs these firms' internationalization in terms of speed (i.e. how quickly they enter their first foreign market), scope (i.e. the total number of foreign markets), and extent (i.e. the percentage of exports to total sales). In particular, the global rise of the Internet makes markets more homogeneous and allows firms to have direct contact with customers, which propels INVs onto new foreign markets (Sinkovics, Sinkovics, & Ruey-Jer, 2013). In other words, Hennart (2014) suggested that there may be a much lesser role for distributors/agents in international marketing tasks such as the initiation and development of relations with customers on their respective home markets.

While Hennart (2014) empirically supported his argument by comparing an INV in one industry (the firm Atlassian in the software development) with a traditional exporter in another (the firm Volvo in the automobile industry), this does not tell us whether there may be variation among INVs in the same industry, for example, in terms of organizing marketing tasks. We therefore extend Hennart's (2014) ideas to include case studies in the same industry with focus on the specific issue of distribution/place, by examining whether particular marketing tasks of identifying and selling to customers (i.e. retailers) on foreign markets are conducted by the INVs themselves and how much is delegated to their foreign market agents/distributors. The focus of this study is thus exclusively on place as a tactical marketing task.

Through the use of a multiple case study of INVs in the apparel industry, we attempt to gain a better understanding of this phenomenon. In this way, the present chapter intends to better understand how and why distribution tasks and their undertaking in collaboration with distributors/agents may differ among INVs in the same industry. Specifically, we propose a 2×2 classification of the respective roles of the INV and existing agents/distributors in the identification of customers (in our case retailers) on international markets. We then compare the experiences of four INVs to see whether these respective roles are similar or different across the various cases. We find evidence of different categories. In other words, it does not appear that distributors/agents are always used (as suggested by the network scholars) or that distributors or agents are largely superfluous (as proposed by Hennart). It also appears that the Internet plays quite a different role in the undertaking of marketing tasks across the four types of INVs. This suggests the need for a more nuanced understanding of the role of existing intermediaries in taking responsibility for marketing tasks. It also shows the need for further studies in this area. For example, why may there be differences across the firms? How may understanding these differences lead to more effective and efficient international performance? A better understanding of how INVs may involve local distributors/agents in the implementation of such marketing tasks would allow INVs to reduce the costs and improve the benefits of internationalizing.

This chapter is built up in the following way. The next section reviews the literature, before discussing in more detail how the INV may organize the undertaking of marketing tasks. A theoretically-deducted classification of firms according to their respective roles in the specific marketing task of identifying and communicating with downstream partners is then proposed. Following this, we explain the methodology used and introduce the four case studies. Then we report and discuss the case study findings in terms of the proposed typology. The chapter concludes by discussing the limitations of the present approach and suggesting future research paths.

2 Literature Review

Dating back to seminal articles by Oviatt and McDougall (1994), Knight and Cavusgil (1996) and Madsen and Servais (1997), scholars have tried to understand the burgeoning phenomenon of early-internationalizing firms. The literature has particularly tried to reconcile the fact that such firms are resource-constrained compared to their more established counterparts, yet are still able to internationalize rapidly and extensively, which would seemingly require many resources. Within this field, many scholars have focused on exploring whether INV founder characteristics may be similar, for example, whether they may have a global mindset through education or experience working in foreign cultures (Oviatt & McDougall, 1994; Madsen & Servais, 1997). Another stream of INV literature looks at how founders may be able to leverage the knowledge and resources embedded in network relationships (e.g. contacts from prior work settings) to spring out into new international markets. Other scholars have placed their emphasis on changing market conditions and industry structure which are conducive to spurring INV internationalization. For example, the fact that the global economy is becoming more specialized means that small companies (typically serving niche markets) need to internationalize in order to be economically viable (Madsen & Servais, 1997). Other scholars have focused less on antecedents, but more on performance. For example, linked the notion of human capital to the ability of founders to identify opportunities in foreign markets, and thereby improve the performance of INVs, while Sharma and Blomstermo (2003) examined how acquiring access to embedded network resources may enhance INV value creation on foreign markets. These prominent areas of focus are clearly demonstrated in an early review by Rialp, Rialp, and Knight (2005) as well as more recent reviews by Keupp and Gassmann (2009) and.

However, while the issues of identifying antecedents and assessing performance effects have seemed to occupy many INV scholars, the role of day-to-day tactical implementation of international marketing strategies in these rapidly-internationalizing firms has received much less attention. Of the scholars who have contributed to this area, an early study by Gabrielsson and Gabrielsson (2003) found evidence that INVs prefer to adopt standardized marketing strategies across different countries. A later study of Finnish INVs by Loustarinen and Gabrielsson (2006) revealed that they were often niche-oriented on Business-to-Business markets and tried to target customers through multiple channels on each foreign market.

However, other scholars found that INVs prefer to adapt their international marketing strategies to the different national markets they enter. For example, in a cross-national study of US and Danish INVs, Knight, Madsen, and Servais (2004) concluded that customer focus and marketing competence would enhance their international performance. In other words, markets are seen as being heterogeneous, and therefore, firms need to adapt their approach to suit the different national markets. In a comprehensive literature review with focus on international marketing strategies of INVs, Aspelund, Madsen, and Moen (2007) reported a quite dispersed pattern (which they largely attributed to differences in founder experience and international orientation): Some INVs are market spreaders while others are market concentrators; some focus on neighboring markets while others prefer to enter more distant markets; some follow a niche strategy, whereas others do not; some leverage personal or industry networks while others do not; most firms choose a low commitment mode when entering foreign markets, but this is not the case for all INVs. Later studies have confirmed the diverse picture of marketing strategies and tasks in INVs. Kocak and Abimbola (2009) found examples of so-called entrepreneurial marketing in the firms they studied. This involves that they arrange their marketing tasks according to market changes, which differ from one national market to another. For this reason, some firms were reactive whereas others were proactive, and some entered few neighboring markets whereas others targeted numerous countries. Cavusgil and Knight (2015) noted that these firms are primarily emphasizing differentiation or focus, but Cesinger, Fink, Madsen, and Kraus (2012) reported examples of alternative marketing emphasis.

In a thought-provoking article, however, Hennart (2014) suggested that the true distinguishing characteristic of INVs may be their business model related to marketing tasks. His argument is that international marketing and sales tasks in INVs require no additional time or effort compared to domestic sales because they "… sell to spatially dispersed customers distinctive niche products that incur low communication, transportation, and adaptation costs" (Hennart, 2014, p 117). He sees this in contrast to traditional stage model exporters (Johanson & Vahlne, 1977, 2009), who have to allocate time and resources to each foreign market in terms of such international marketing tasks as customer identification and customer persuasion/education. The argument is that the business model of INVs often implies that buyers find sellers, not vice versa. Further, buyers are experts who seek distinctive products, are knowledgeable enough to take care of after sales service themselves, have homogeneous taste, and pay through the Internet. As a consequence of this convergence, there are effectively no additional costs or efforts involved when going international, or for that matter, when going from one foreign market to another.

3 Toward a Typology of INVs Based on Role in Organizing International Marketing Tasks

The findings from the above prior studies have informed the typology introduced in the present study. On the one hand, we consider whether the distributors/agents of the INV have assumed proactive responsibility for marketing tasks in terms of identifying, persuading and educating customers on foreign markets, with customers being Business-to-Business customers (i.e. retailers, in the specific empirical context of this chapter). We conceive "proactive" in the sense that the focal home country firm assumes the initiative itself to perform a particular task on a foreign host market, while "reactive" is understood in the sense that another host country firm takes that particular initiative on behalf of the focal firm. This fits with much of the INV literature which emphasizes a strong role of network partners (e.g. agents) in pulling INVs out into new national markets. An important factor that impacts the role of marketing in INVs is their choice of entry mode. It has been demonstrated in the literature reviews mentioned above that these firms experience resource constraints and therefore often choose a low commitment entry mode in which the knowledge and resources of distributors/agents play an important role. This is not least the case with regard to marketing since the role of distributors/agents typically is related to their local market knowledge and relationships to potential customers in that particular foreign market. For example, Freeman, Edwards, and Schroder

(2006) demonstrated how rapid internationalization can be supported by leveraging the competences of local firms through networks and alliances. A multiple case study by Coviello (2006) showed how collaboration in networks opens doors for INVs "… by providing market access, financing, distribution channels, referrals and a pool of contacts for both internal and external development" (p. 723). Clearly such collaborations with distributors/agents will have an effect on the role of marketing inside the INV itself.

On the other hand, we consider whether the INV has had a proactive role in organizing these activities. This can either be in conjunction with the agent or as a substitute to the agent. Hennart (2014) showed how an INV may exploit the possibilities offered by the Internet in its business model. The Internet offers some advantages because with growing E-business, borders between countries are becoming less relevant and more direct interaction between business entities is made possible. It is well-known from previous studies that small firms often use the Internet to achieve a low cost mode of communication with customers and distributors/agents (Sinkovics et al., 2013; Moen, Madsen, & Aspelund, 2008). Gabrielsson & Gabrielsson (2011) demonstrated that this is definitely also the case for INVs. They provided empirical evidence that multiple sales channels based on the Internet are very common among INVs. However, as noted by Dyer and Singh (1998) collaborating with agents may have a dark side in the sense that the agent may not act in the INV's best interests—for example, by persuading retailers to switch to another producer or brand in the case of the fashion apparel industry.

On the basis of the above, we propose that both INV and distributor/agent may be either proactive or reactive in terms of taking responsibility for organizing marketing tasks on foreign markets. In particular we consider marketing tasks related to identifying, contacting, negotiating with and building relationships to customers. This gives four different categories, as shown in Table 1. If both the INV and the distributor/agent are reactive, only a minimum of marketing tasks are solved—instead, the customer would use the internet to proactively contact potential upstream partners for information. In other situations, the extent of

Table 1 A proposed classification of role types

		INV role regarding marketing tasks	
		Reactive	Proactive
Distributor/agent role regarding marketing tasks	Reactive	Marketing tasks are solved as a reactive process, predominately through the internet	The INV assumes responsibility for undertaking marketing tasks and typically does not involve distributors/agents
	Proactive	The INV delegates responsibility for undertaking marketing tasks predominately to distributors/agents	Responsibility for solving marketing tasks is shared between the INV and its distributors/agents

marketing tasks will be higher, and the INV may choose to take responsibility itself or it may delegate decision rights and responsibilities to distributors/agents with whom they collaborate. Finally, the INV as well as its distributors/agents may both be proactively involved.

Having proposed the typology of INVs according to their roles in the organization of marketing tasks vis-à-vis agents, we will now proceed to explain how we empirically explore these role types in order to gain more in-depth understanding of how and why they appear in practice.

4 Methodology

The present study is a multiple case study of four apparel designer INVs. As notes, case studies are particularly appropriate when addressing “how” and “why” questions, which is the case in the present study. Multiple case studies are preferred when scholars seek to understand similarities and differences across different cases in order to build or enhance theory (Eisenhardt, 1989; George & Bennett, 2005), which is the intention of this study. In this regard, Eisenhardt (1989) recommends between 4 and 10 cases so as to have a sufficient number to make the study of commonalities and differences meaningful, but not too large that the data obtained become too unwieldy.

The multiple case study method recommends trying to keep the cases as similar as possible in order to increase internal- and external validity (Eisenhardt, 1989). For this reason, the case firms chosen are all Danish apparel designer INVs. The apparel industry was chosen as suitable setting to analyze the focal issue for two main reasons. First, it is a global industry characterized by a high degree of innovation (Dicken, 2007), which means that apparel designers need to have a high degree of up-to-date international market knowledge, which increases the likely role played by the internet and by foreign market agents/distributors in marketing activities. Second, apparel design is an archetypal small-firm industry due to relatively low barriers of entry (Dicken, 2007) which means that it is populated by many INVs. For this reason, many previous INV studies have been set in the apparel industry (e.g. Jonsson & Lindbergh, 2013).

Danish INVs were chosen as Denmark has strong roots in apparel design. Due to relatively high wage levels, most textile manufacturers typically outsourced production several decades ago, and focused on the more creative, higher value activity of apparel design (Jensen & Poulsen, 2013). Furthermore, the textile and clothing industry is the fourth largest export earner for Denmark (Copenhagen Business School, 2005), meaning that Danish apparel design firms are very active on foreign markets, which is important for the present study.

Danish apparel designer firms were identified using company databases, and then only firms which had been established within the last six years and which already had international activities were considered. Firms were contacted by mail and by telephone, whereby the overall purpose of the study was explained and

Table 2 Summary of Case Firms

Firm	Formation	Ownership	Nationality	Speed: entry into first foreign market	Scope: number of foreign markets	Extent: ratio of exports to total turnover (%)
Broadcloth	2008	Partnership	Danish	2009	24	81–100
Intarsia	2012	Sole trader	Danish	2012	5	0–20
Knitwear	2009	Sole trader	Danish	2010	11	21–40
Tweed	2007	Sole trader	Danish	2007	8	81–100

anonymity guaranteed. In total, 8 firms agreed to participate in a broad project involving a number of research areas. For the purposes of the present study, we purposefully considered a subset of 4 firms for which the data pertaining to the specific area of interest i.e. the organization of international marketing tasks, were the most accessible and comprehensive. The four case firms are summarized in Table 2. It should be noted that the names of the firms are not their real names, but have been disguised in order to ensure the anonymity of the firms.

The case study method (Yin, 1989) emphasizes mixed-methods and the triangulation of data sources in order to obtain a deeper explanation of the focal phenomenon. In the case of the present study, this involved collecting data in the form of semi-structured interviews and surveys into the case firms´ backgrounds and internationalization processes. These data were further triangulated by referring to company homepages and media articles. In three of the cases, the data were collected at the INV place of business, while in the other case, the data were collected at the authors' university. In all cases, the owner of the firm provided the information to ensure that we obtained our information from the respondent most knowledgeable about the focal area of interest. Three of the firms were sole traders, while one had co-owners, both of whom were interviewed. The interview guide and background survey questions were duly tested in a pilot study, conducted one month prior to the main data collection.

Data were collected in two rounds. In the first round, conducted in 2014, the case firm respondents were requested to complete background survey questions prior to participating in an interview. The second round of data, consisting of a second personal interview, was conducted in 2015. The respondents and locations were the same as in the first round. The background survey questions involved a series of questions about the date of foundation, type of firm, founder characteristics (education, experience) and a list of the different foreign markets the firm had entered (which were then checked with the countries listed on their respective homepages). The interview guide in the first round comprised a number of questions about the process by which these foreign market entries took place, how the downstream partners had been identified and contacted, their roles and responsibilities, how the marketing tasks were carried out, and so forth. The interview guide in the second round was structured around hearing whether the case firms had subsequently entered new foreign markets in the intervening period, and in the affirmative, to hear about the process of entry and the nature of the implementation of marketing activities. After both rounds of data collection, field notes were compiled to record initial impressions and to note emerging themes. In the second round, the respondents could elaborate on the themes emerging from the previous round.

All the interviews from both rounds were tape recorded and were transcribed as soon as possible after the interviews had been completed. All the interviews were conducted in Danish, and then translated into English. To ensure consistency, a native English-speaker (fluent in Danish) then checked the translations, and any discrepancies were subsequently resolved. Interview transcripts were then coded consistent with the principles recommended by Glaser and Strauss (1967).

In keeping with the case study method, the within-case data were first analyzed, followed by a cross-case analysis (Eisenhardt, 1989). In the within-case analysis, each case firm is presented as a stand-alone entity. In the cross-case analysis, the similarities and differences across the different firms are analyzed and discussed with particular regard to the organization of international marketing tasks. As such, the next section will introduce the case firms and describe the organization of their international marketing tasks. Then, we will be able to categorize these firms according to the typology developed above, which allows us to use the cases to develop theory (Eisenhardt, 1989).

5 Case Descriptions

5.1 Broadcloth

Broadcloth was formed in 2008 and launched its first collection in the same year. Its designs were used by stylists to dress models who appeared in various fashion magazines, which gave Broadcloth significant national and international exposure. With initial success stemming from this effectively global reach. Broadcloth launched its second collection in 2009. This spurred rapid internationalization in the same year, with its exports first going to a retail shop in Greenland, which had seen Broadcloth´s products in an international magazine. Because of its international exposure through magazines, Broadcloth has largely reactively waited for retailers on foreign markets to contact them.

At the same time, Broadcloth adopted a more proactive strategy by canvassing its products to retail shops on its second foreign market entry, Holland. "*How we started up down there? Well, I just drove around a little and we found some shops … I actually got five shops*". Thus it can be seen that Broadcloth´s initial strategy was to identify, persuade and educate its customers (retail shops) directly itself, whether it be more passive or active.

Broadcloth has subsequently grown with exports now to 24 countries on four different continents. The growth has been quite balanced in the sense that

Broadcloth relies on direct contacts with customers (retailers) on many of its foreign markets, while it also uses agents and distributors in other countries to identify and service retailers on their respective markets. This mixed approach reflects the founders′ ambivalence to using agents and distributors: *"We would like to have more agents, because it is easier to be strongly represented in various places, it also becomes easier for our agents to take care of their customers. That is difficult to do from home, and do it properly ... (but) we always have to weigh up whether an agent will be viable because you need to deliver a whole collection to them. You need to send things backwards and forwards. This has to be a market that you believe in and that the agent is serious because otherwise it is a big expense and very time-consuming".*

Interestingly, its retailers are further facilitating Broadcloth′s entry into new markets by using the internet. Specifically, this takes place through the retailers′ own webshops who sell directly to B2C customers in third countries. "*The UK (retailer′s) webshop ... also has an Arabic section, and they also sell to the U.S. so it is difficult to say who really sells where. We have almost no customers in Austria, but our Austrian retailers (i.e. webshop) say that they are selling (to customers in other countries). The same applies to Holland—they also sell to Germany*".

Furthermore, its agents are also identifying retail customers in other countries. For example, Broadcloth′s Chinese retailer (who commenced in 2014) was contacted directly by Broadcloth′s agent in the U.S. (who became their agent in the previous year), without Broadcloth actually being aware of how this process had taken place. It would therefore appear that in the case of Broadcloth, responsibility for the marketing task of identifying, persuading and educating customers seems to be shared between the INV and its agents.

5.2 Intarsia

Intarsia was founded in 2012 and produces its own fashion accessory designs. Intarsia initially sold its designs through retail chains in Denmark, one of which had a webshop in both Denmark and Sweden, such that Intarsia was effectively pulled out into its first foreign market (i.e. Sweden) in the same year. "*The first foreign sale ... just happened automatically, I hadn′t asked her to do it ... it just happened by itself*". In other words, an existing retailer facilitated Intarsia′s first foreign market entry—by persuading its retail branch in Sweden to accept Intarsia′s designs.

Intarsia acknowledged from the outset that it needed to quickly establish a presence on foreign markets: "*I′m never going to live on the money just from Denmark, it′s simply too small ... I have all the time thought about being international"*. This strong international orientation led to Intarsia proactively using the internet to identify and contact potential retailers in international markets. The founder recalled spending evening after evening identifying potential shops on the internet and then sending them sales mails, for example, in Germany: "*I started* *looking at Germany ... I googled baby shops in Berlin, and then I just wrote to them and said" Hi, I am in Berlin on Thursday, may I drop by?" and they all said "yes'"*".

In contrast to the other three case firms, Intarsia exclusively uses retailers as its B2B customers. When asked why there was a reluctance to consider agents or distributors for the task of identifying and interacting with retailers, the founder replied: "*In the beginning, I thought a lot about using agents, but I actually thought that it would be good to try to do something different because I don't like not being able to have a feel for the agents, where you don't really know who they are. It could be that I need to train someone from home to go out there because the product actually requires quite a lot of introduction, and that you really have to be good to tell someone exactly why they should buy this product and why it costs what it does*". For this reason, Intarsia has refrained from using agents and instead, proactively promotes itself to its retail shop customers. In this sense, it can be seen that Intarsia clearly has responsibility for the marketing task of identifying, persuading and educating customers.

5.3 Knitwear

Knitwear was established in 2009, and similar to Broadcloth, its designs were used by stylists to clothe models who appeared in various fashion magazines. For this reason, its first international retailers (in 2010) were shops in Taiwan, New Zealand and Singapore, whose owners had simply seen Knitwear's designs and proactively contacted the firm to supply its designs. Interestingly, these initial orders proved to be "one-offs"—Knitwear made no attempt to service the retailers with additional information nor did it attempt to persuade them to continue ordering, and as a consequence, these retailers were discontinued after the initial shipment of goods.

In contrast to the three other case firms in this particular study, Knitwear has been quite reactive in terms of making contact with its retail customers. "*I don't actually think so much about it ... it isn't because I have thought so much about foreign markets—they tend to come to me ... (they) simply write to me and say that they have seen the product... I haven't done so much myself ... and therefore I don't go around with a big expectation that I will be able to break through to the international market.* For example, when referring to the UK, Knitwear's founder explained: "*She found me ... I have not done anything myself*".

It is interesting that Knitwear uses agents to interact closely with various retail shops on the Danish market, but the founder noted a marked reluctance for adopting the same approach to expand internationally: "*It is not that I have taken a decision that now I will focus on foreign markets ... I don't even know whether I should even focus on foreign markets ... I just think that the Danish market is so much easier, my agents see their customers all the time and I know them, we have a personal relationship and such like. I don't really know if I have the desire to focus much on foreign markets*". Indeed, Knitwear's owner summarized its expansion on foreign markets: "*It is simply because other people have found me. I have never tried to find them… I would never have done it myself*". It is quite revealing that Knitwear only has two retail shops in its biggest export market, Norway, which it entered in 2013, and which accounts for 60% of the design firm´s exports.

Interestingly, in contrast to the other three case firms, Knitwear is the only firm to have a strategy of making certain retailers its agents. In other words, it never starts by selecting agents. Part of this reluctance to engage agents from the outset was explained by Knitwear in terms of the nature of agent contracts. Knitwear´s founder explained that if it needed to come out of a contract with an agent for whatever reason, it would typically be legally responsible for reimbursing the agent in the amount of the previous year´s commission (to compensate for the agent´s lost sales) in one lump-sum amount. The idea behind gradually making retailers agents is that they may be able to identify other retailers, such that the number of retailers on any one national market could be expanded by the agents. However, Knitwear does not seem to be willing to accommodate agent requests for measures which would increase the latter´s ability to acquire more retailers. For instance, the founder recounted an incident when its UK agent requested that the neck design be modified to suit the UK market, which Knitwear blankly refused, stating that "*it was a question of "take it or leave it*"".

As such, it can be concluded that neither the INV nor its agents play any particularly active role in performing the marketing tasks of identifying retail customers and developing relationships with them. Instead, Knitwear seems to rely on retailers contacting it directly, typically having seen its designs on social media.

5.4 Tweed

Formed in 2007 in the textile cluster of mid-Jutland, Tweed quickly entered its first foreign market with its fashion accessory designs, namely Finland in its first year. While Tweed has not dramatically increased its scope subsequent to this first foreign market entry, it has significantly increased its extent, such that the overwhelming majority of its sales come from export markets. Through close contact with an intra-industry acquaintance, Tweed was able to contact the agents of the acquaintance firm to enquire whether Tweed´s complementary products could be included in the agent´s portfolio. This led to Tweed establishing agent relationships in all of its key markets—Finland, Norway, Sweden, Holland, and Germany.

In contrast the previous case firms, Tweed has relied much more on a strategy of actively recruiting agents to service retailers on their respective home markets. Tweed´s founder explained the reasoning behind using agents to service foreign market customers and develop local market penetration: *"I simply don´t know where we are missing customers. It is far too difficult for me to know this. I don´t know how many towns lie out in the outlying areas in Norway … It is the same with (agent name) down there (Germany)—if it wasn´t for him then I wouldn´t know that* *the Germans celebrate Easter three days up to Easter and then a whole week afterwards. There are so many things that I don´t have to do when I have agents*".

The agents are further entrusted with the responsibility for identifying, screening and contacting potential agents in their own national market, and indeed, in other countries. "*Germany is such a large market that he (the first agent) wouldn´t drive around himself, so he would employ other agents, and I would give him a percent of their (i.e. subsequent agents´) sales ... it certainly works now—we have actually had a growth of 40% down there"*. The German agent has also found Tweed´s agent in Austria, and has recently been assigned the task of identifying potential agents in Holland.

In summary, it can be seen that Tweed has adopted a clear strategy of predominantly delegating responsibility for undertaking marketing tasks to its agents. It has a strategy of only having used agents to develop relations with retailers on all of its key markets, and the agents are given the role of developing downstream relations in their own and other countries, and remunerated accordingly.

6 Pattern-Matching Across Cases

It is clear from the within-case analysis, that the four case firms in this present study are highly international, having all entered their first foreign markets within a year of their inception. Furthermore, they have subsequently increased their scope and extent through the first years of their young existence.

Despite having many commonalities in terms of all being Danish INVs in the same apparel design industry, there would appear to be sharp differences in the way in which the firms have assumed responsibility for marketing tasks (i.e. identifying, persuading and educating retailers) vis-à-vis delegating their responsibility to their agents and distributors. As noted above, the extant literature was used to conceptually classify international marketing tasks into a 2×2 table typology (Table 1). Upon sifting through the case data, the differences across the 4 case firms in terms of their organization of international marketing tasks as conceived in Table 1 soon became apparent. We found evidence of 4 different approaches which suggested that each of the four case firms occupied a different quadrant in the 2×2 table typology—as illustrated in Table 3.

Table 3 is interesting because it shows that the four case firms all occupy different categories in the proposed typology. In the upper left quadrant, Knitwear

Table 3 Classifying the case firms according to marketing tasks

		INV role regarding marketing tasks	
		Reactive	Proactive
Distributor/agent role regarding marketing tasks	Reactive	Knitwear	Intarsia
	Proactive	Tweed	Broadcloth

tends to reactively wait for foreign retailers to contact it regarding possibilities of marketing its products in their local markets, rather than either proactively identifying and developing marketing relations with such retailers or alternatively, entrusting this responsibility to its agents. In other words, this particular international marketing task seems to be undertaken largely through the reactive use of the internet. In the opposite case, we observe Broadcloth in the bottom right quadrant. Both the INV itself and its network of agents share the responsibility for proactively identifying, persuading and educating retailers on foreign markets. This may well account for the sizeable difference in scope between Broadcloth and the three other case firms. In the top right quadrant, Intarsia has made the strategic decision not to use agents, and therefore assumes responsibility itself for proactively initiating and developing relations with its foreign retailers in order to expand its exports. Finally, Tweed, in the bottom left quadrant adopts the opposite strategy to Intarsia, and instead entrusts responsibility for increasing penetration on its foreign markets to its existing agents.

Given the similarities across the case firms, this begs the question as to what factors may underlie these different approaches? One difference would seem to be that the INVs' attitudes towards using agents leads them to choose different business models with regard to marketing tasks. Our case studies indicate that such choices may have profound impact on the firms' international development. On the one hand, Tweed and Broadcloth exhibit more positive attitudes that agents are largely indispensable for solving marketing tasks when building up retail sales in their respective countries, and both have extremely high extent (i.e. proportion of foreign sales to total turnover). On the other hand, both Knitwear and Intarsia seem to be distrustful of the problems associated with using agents, such that Intarsia has elected to exclusively have direct relations with foreign retailers. This apparent reluctance to delegate responsibility for marketing tasks to agents in the effort to develop relations with retailers may account for the relatively low extent of these two firms.

It is also interesting to note that for both Broadcloth and Tweed, existing agents have been instrumental in the firms' geographical scope by identifying and contacting agents and retailers in other countries. In this way, agents are pulling these firms out onto new national markets, as conceived by Johanson and Mattson (1988). While this is not a new idea, what seems to be surprising here is that in the case of Broadcloth (in China), this took place without the INV being aware of it.

Another possible explanation for the differences seen in Table 3 is the use of the internet and social media such as blogs and Instagram to make direct contact with foreign retailers. Proactive use of the internet was seen in the case of Intarsia and reactive use of the internet in the case of Knitwear (i.e. where the retailers themselves proactively contact the INV). For both firms, this use of ICT has meant diminished or non-existent roles for agents. ICT is fast and cheap, and therefore INVs can internationalize quickly without having to incur the resource costs associated with developing agent relations, where there is an inherent risk that the agents may not represent them as the INV so wishes.

7 Discussion of Managerial Implications and Suggestions for Future Research

The rapid internationalization of INVs has received much attention from scholars in terms of antecedents and consequences for performance. The actual marketing tasks performed by the INVs and their downstream partners have received much less attention. The present study tries to address this imbalance. Specifically, we examine how the particular marketing tasks of identifying, persuading and building relationships with retailers on foreign markets are conducted by the INVs themselves and how much is delegated to the INVs´ foreign market agents. Interestingly, while there are strong commonalities across all four cases, the data suggest that the four firms occupy different quadrants in the suggested typology. In other words, all four firms organize these particular marketing tasks in different ways. Our interview data suggest that these different approaches may be attributed to founders' different attitudes towards using agents as well as different propensities to use ICT.

The findings of the present study mainly attempt to answer the question of 'how' marketing tasks are organized. Earlier scholars proposed that agents were necessary to perform for example tasks of identifying and communicating with customers on their home markets because foreign markets are very different, and therefore, it would be advantageous to use local agents who are known on that particular national market, have cultural similarity, and so forth. Later scholars (e.g. Hennart, 2014) have proposed that foreign markets must be more similar than previously thought in order for resource-scarce INVs to quickly enter multiple markets. If national markets are quite similar, then INVs could effectively deal directly with customers i.e. without having to use the services performed by agents on these markets.

7.1 Managerial Implications

Our cases show that this is not such a "black and white" matter. INVs that operate in very similar market environments can adopt very different approaches when organizing marketing tasks—with some using agents more to identify and develop relations with foreign retailers, while others have chosen to use ICT to effective circumvent the need to use agents. So, marketing tasks pertaining to customer identification, customer education, maintain customer relationships, logistics, and other transactional marketing aspects may be solved and organized very differently.

Recent literature has pointed to the concept of entrepreneurial marketing (Hallbäck &Gabrielsson, 2013) as an important perspective to explore further in order to understand how and why firms find different routes to expand rapidly on international markets. Yang, Gabrielsson, Gabrielsson (2016) suggested distinguishing between entrepreneurial marketing (emphasis on quick adaptation to changing conditions) which they assume is related to the effectuation decision-making logic (Sarasvathy, 2001) and marketing strategy comprehensiveness (emphasis on more stable marketing task solution) which they see as connected to a causation decision-making logic. Our cases mainly provide evidence of the entrepreneurial marketing activities. Perhaps because our case firms are quite small and new they do not exhibit much planned marketing strategic thinking, although Broadcloth does seem to have more of a planned approach to marketing strategy.

As demonstrated by the relative scarcity of studies in the literature review, we need to know more about how INVs organize marketing tasks. Hennart (2014) argued that INVs generally solve few and standardized marketing tasks. Our cases demonstrate that variations definitely can be found within the same and quite narrow industry. Some of our case firms (Knitwear and Intarsia) resemble Hennart's Atlassian case in the sense that they do not involve agents much, but on the other hand they do not rely completely on the Internet in their marketing activities. But we also find evidence of much more time-consuming and costly marketing tasks among INVs in the apparel industry. We see variation even though basic market conditions are very similar.

Based on our study it is not possible to conclude much with regard to managerial implications. Our cases demonstrate that marketing tasks cannot always be solved by means of the Internet, but the Internet is very important for our case firms. We also demonstrate the need for proactive marketing behavior by the INV itself or by its agents. We can conclude that our case studies demonstrate that INVs may have different routes to success in international markets. How they solve the issue of identifying, contacting, negotiating with, educating, and building relationships to customers in foreign markets is open for different approaches. There is not only one type of business model for INVs as suggested by Hennart (2014).

7.2 Implications for Future Research

As demonstrated, the fashion apparel design industry exhibits examples of varying ways of organizing the solution of marketing tasks. Future research should shed much better light on the variation concerning which marketing tasks INVs have to solve and how they choose to organize them. Below we suggest some possible avenues to follow to do that.

In addition to the 'how' question we have also indications about the 'why' question. It would seem from our case data that differences in organizational setup are driven mainly by founder differences in attitudes towards agents (i.e. whether their role is perceived positively or negatively by the INV) and differences in the focal INVs′ use of the internet and social media to promote their products. In other words, we find evidence for Hennart's (2014) claim that the founders' choice of business model is of decisive importance for the 'why' question. To some extent the 'why' question relates back to founder characteristics such as international orientation, entrepreneurial orientation, and international experience. These issues have been much researched in INVs, but they have not yet been related clearly as to why

INVs organize marketing in a specific manner. Another interesting research question for the future is to gain more insight into why network relations may not always be important. Our cases indicate that network relations initially are substituted by the Internet and social media. Another interesting question raised from the cases is the importance of the networks of agents and retailers with whom the INVs collaborate. We found evidence that agents and retailers used their own networks to further internationalize the INV—in one instance even without the INV knowing about it. It is an interesting finding that it is not the network of the founder, but of its agents that may be the driver for further internationalization.

In addition to the 'how' and 'why' questions, also more research concerning how the INV business model affects performance is called for. It is clear from the data, that the two firms who avail themselves of the services of agents to perform marketing tasks (Broadcloth and Tweed) have by far the highest extent, with Broadcloth additionally having more than doubled the number of foreign market entries than the next firm (Knitwear). This raises the question whether the choice of how to solve marketing tasks will have an impact on speed of internationalization. Since agents' network may also propel INVs to other markets, also the scope of internationalization is affected. In terms of practical implications, INVs should be aware that despite the burgeoning global presence of ICT, agents may still have important roles to play in terms of identifying and building downstream relationships with retailers. INVs would therefore be wise to consider this route, especially if their founders are seeking more extensive internationalization. These are highly relevant research questions to be explored in the future.

In terms of methodology it should be noted that this is an exploratory study designed to make a first attempt at filling a particular research gap in the INV literature. More empirical work—for example, multiple case studies in different industries (though still controlling for INV, industry, and founder nationality), would allow us to explore some of the research challenges mentioned above. Furthermore, the present study only considered the thoughts of the founders of the INVs. Future studies which additionally collect data from the retailers and agents would contribute important insights into how and why INVs use of agents and information and communication technology in their attempt to solve marketing tasks. Finally, the present study was essentially cross-sectional in nature, as it collected data from four firms in two rounds of interviews which were held close to one another. It would be very interesting to conduct a longitudinal study to explore whether INV attitudes toward the use of agents and information and communication technology to undertake marketing tasks may change over time. While the four firms in the present study were all of a similar age, both Broadcloth and Tweed (the two firms which had internationalized more extensively) were slightly older than Knitwear and Intarsia. The same firms also performed much better in terms of extent of internationalization. Collecting data from the same firm over a number of years would allow us to better understand whether firm age and experience may play a part in this process. A longitudinal research design would also contribute with much better data to test the indications from our study regarding international performance.

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Home Country Institutional Agents (HCIAs) as Boundary Spanners Supporting SME Internationalization

Valerie Lindsay, Michel Rod and Nicholas Ashill

Abstract Home country institutions (HCIs) can play a role in supporting the internationalization efforts of SMEs, although little is known about how such support comes about. Our study addresses this question, specifically with regard to post-entry development of SMEs. We examine the process by which HCIs provide support, notably through the activities of home country institutional agents (HCIAs), drawing on the concepts of boundary-spanning and brokerage to conceptualize this process. Utilizing interview data from New Zealand SMEs internationalizing into India and China, we examine how institutional support is provided by the HCIAs identified and highlight associated outcomes arising for these firms. As a further contribution, we show differences between home country based, and host country based HCIAs in regard to these elements. The study notes a number of research implications relating to SME internationalization and institutional support, as well as insights for policy-makers and SME managers.

1 Introduction

SMEs contribute significantly to economic growth and development of both developed and developing nations (Knight, 2000), as well as to the internationalization of a nation's products and services (Bournakis & Tsoukis, 2016; Kalantaridis, 2004). However, SMEs face different challenges to MNCs in internationalization, notably

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with regard to constraints on acquiring resources and capabilities, including knowledge and connections, as well as legitimacy in the host market. For these and related reasons, scholars in the international marketing domain maintain that SMEs should be looked at as a separate group from large firms and MNCs (Bell et al., 2003; Fillis, 2001).

Our study is concerned with examining *how* home country institutions (HCIs) support the internationalization of SMEs, building on earlier work that focuses mainly on institutional impacts, rather than the process by which support comes about. Institutions and the institutional environment in a country (or region) are known to impact the internationalization of firms, both large (Hong, Wang, & Kafouros, 2015; Sun, Peng, Lee, & Tan, 2015) and small-medium sized (Descotes, Walliser, Holmuller, & Guo, 2011; Dickson, Weaver, & Vozikis, 2013). While earlier research looked mainly at host country institutions, more recent attention has focused on the influences of HCIs on internationalization (Estrin et al., 2016), including in the context of SMEs; for example, examining whether or not these are supportive of the internationalization of firms. What remains largely unresolved, however, is *how* such support is facilitated.

Institutions have been defined as "the rules of the game" (North, 1990, p. 5), and have been widely studied in the context of international business and international marketing. Research suggests that the failure of an internationalizing firm to comprehend the institutional framework of the foreign host country in which it is undertaking business leads to unexpected costs and detrimental impacts on the firm (Orr & Scott, 2008). SMEs often lack knowledge about the host country environment in, or into, which they are internationalizing (Agndal & Chetty, 2007; Coviello & Martin, 1999). Given the potential of HCIs to support internationalization, it is important to ascertain how SMEs gain knowledge and understanding of their host country environment, in order to avoid such costly impacts. Acquiring such knowledge is a necessary step in the SME being able to access key resources, including information, and networks, regulatory approvals, customers etc. in the host country (Dickson et al., 2013). At the same time, it is important for actors in the host country to comprehend the HCIs of the SME, in order to better accommodate the relationships that will most likely form. Mutual understanding between actors in a cross-border relationship may lead to trust and commitment, which are important aspects of relationship effectiveness in international business (Styles & Ambler, 2000).

In order to understand how these knowledge gaps are bridged, most particularly the knowledge gaps of the SME, we draw on boundary spanning as way of engendering learning across boundaries (Akkerman & Bakker, 2011). Since we are concerned with how institutional knowledge boundaries are bridged, particularly for the internationalizing SME, our research focuses on the potential supporting role of HCIs. In examining the role of boundary spanning, it is important to distinguish between the institutions and the entities engaging in this activity, since, by definition, institutions, as non-concrete rules, values and norms, cannot engage in activities (North, 1990). We refer to the organizations that facilitate home country institutional support (the boundary spanners) as home country institutional agents

(HCIAs). Since these can influence the institutional framework from which they were partially formed, North refers them as "major agent[s] of institutional change." (p. 5)

With this conceptual background, we report on our exploration of the processes and mechanisms by which SMEs that have already internationalized acquire the necessary support (host country knowledge, access to resources etc. in the host country) from their home country institutions (HCIs) for continuing their post-entry development.[1] We focus on the role of the institutional agents, HCIAs, as boundary-spanners connecting the SME with knowledge and actors necessary for successful internationalization. Our study directly addresses the question of *how* HCIs facilitate and support SMEs in their post-entry development efforts, an area scarcely addressed in the literature. As noted by Torres, Clegg, and Varum (2016, p. 496), in referring to government support organizations, "While they [home country (government) support measures towards internationalization] are widely recognized in academic literature, and in policy circles, the process through which they exert their effects is poorly understood, both by academic researchers and policymakers themselves." Specifically, we examine a range of HCIAs, how they are utilized by SMEs, and the outcomes experienced as a result of their interactions.

Our study contributes to the international marketing literature, specifically to the topic of institutional support for SME internationalization. Grounded in existing literature, a conceptual framework is presented, and this is then further developed after analyzing qualitative data collected from New Zealand SMEs internationalizing to India and China. Through this framework, we identify a range of HCIAs (reflecting their respective institutions) that facilitate SME internationalization through their boundary-spanning and brokerage activities. These activities enable SMEs to connect to relevant knowledge and actors in the host country, and benefit from a number of outcomes supporting their internationalization activities. Further, in contrast to generally assumed motivations for brokerage, we find that the HCIAs actively seek to foster cooperative relationships between the relevant actors. The research has practical implications, since the study aims to identify the key HCIs and HCIAs that facilitate SMEs internationalization, as well as the mechanisms utilized and likely outcomes achieved. With such knowledge, SMEs may be facilitated to utilize HCIAs more effectively, and policy-makers may be guided towards more targeted resource allocation to support the activities of the relevant HCIAs.

The remainder of the chapter is organized as follows. The next section provides an overview of the research background, incorporating relevant literature and concluding with a preliminary conceptual framework. The methodology is then described, and this is followed by a presentation of the qualitative findings, which enable an enhancement of the conceptual framework. A discussion of the findings is

[1]We refer to internationalization in this study as the process of increasing involvement of a firm in international markets (Johanson & Vahlne, 1997). This includes the ongoing development of a firm in a foreign market that it has already entered (post-entry development).

presented, and the chapter ends with conclusions, implications for future research, and limitations.

2 Research Background

This section provides a brief review of the relevant literatures to provide a conceptual base for the study.

2.1 Institutions and Internationalization

The neo-economic school defines institutions as formal and informal (North, 1990). Scott's (1995) sociological view defines institutions along three dimensions (regulative, normative, and cognitive), and most scholars accept a reasonably close alignment between these and North's dimensions. The regulative institutional environment includes the macro-level political, financial and legal systems and economic infrastructure of a country. This environment has been shown in numerous studies to impact the international activities of firms, both large and small (e.g. Brouthers, 2013).

Other institutions, of a more normative nature, include those associated with the day-to-day business activities of firms. They are often reflected in the work of a range of industry/business level organizations, which act as HCIAs contributing to the normative environment. These HCIAs include home-based industry associations, business councils, professional support organizations, and other industry and business-level organizations that impact on a firm (Bruton, Ahlstrom, & Li, 2010; Ngo, Janssen, Leonidou, & Christodoulides, 2016; Oparaocha, 2015). Ngo, Janssen, Leonidou, and Christodoulides (2016) argue that investigating the influence of independent industry-level agencies, such as Chambers of Commerce, industry associations and labor unions, in addition to government-level support, can provide a more rounded perspective of the role of home-country institutions in exporting. Oparaocha (2015) suggests that the quality of support provided by such industry-level institutional agents is positively influenced by the fact that they are mainly non-profit organizations established to support their respective industry sectors. A country's socio-cultural environment reflect the society's understanding of its cultural values and social norms, depicted as cognitive institutions in Scott's (1995) representation. HCIAs often reflect their country's values and social norms by virtue of being embedded within this cognitive institutional environment.

2.1.1 Home- and Host-Country Institutions

The majority of studies on institutions in international marketing have researched host country institutional impacts and the challenges of institutional distance between host and home country institutions on internationalization. Such studies include various aspects of foreign market entry and firm performance (Brouthers, 2013; Meyer, Estrin, Bhaumik, & Peng, 2009), most commonly in relation to large firms and MNCs. Other researchers have looked at the impact of only HCIs on internationalization of, for example, emerging market MNCs (Hong et al., 2015; Sun et al., 2015). However, scholars have recently begun to highlight the importance of research that considers both host and home country institutions in firm internationalization (Holburn & Zelner, 2010), with some empirical studies on MNCs and FDI incorporating both (Lu, Liu, Wright, & Filatotchev, 2014). In one such study of FDI, Lu et al. (2014, p. 444) found that a combination of a supportive home country institutional environment and well-established host country institutions represented a "capability-enhancing mechanism", which effectively reduced the need for prior international experience of the firm.

Given the growing interest in internationalization from emerging markets, scholars are also exploring how HCIs interact with firms in these markets, also noting that there are regional institutional differences within many emerging markets (e.g. Hong et al. 2015; Sun et al., 2015). A key focus of studies in this area is whether or not the home institutional environment is supportive (open) or constraining for SMEs wishing to internationalize; supportive conditions include such factors as open financial and legal systems (Sun et al., 2015) and environmental munificence (Dickson et al., 2013).There is a general understanding that open HCIs are more likely to support the internationalization efforts of the country's firms, regardless of whether the country is emerging or developed (Sun et al., 2015). Others, however, contend that firms may internationalize more to 'escape' restrictive institutions and a high risk environment at home (Dickson et al., 2013).

2.1.2 Institutions and SME Internationalization

In the context of SME internationalization, research has focused mainly on the impact of government assistance (e.g. Crick & Lindsay, 2015; Moini, 1998), and the macro-level impacts of the institutional environment (Sun et al., 2015). As noted by Dickson et al. (2013), external environmental impacts are assumed in most process models of SME internationalization (e.g. Oviatt, Shrader, & McDougall, 2004; Zahra & George, 2002), but they are only sparsely investigated.

Since SMEs usually lack resources, knowledge, legitimacy etc. for successful internationalization (Coviello & Martin, 1999; Cuervo-Cazurra, Maloney, & Manrakhan, 2007), they rely on external sources (Torres, Clegg, & Varum, 2016) in order to acquire those resources necessary for competing in international markets. HCIs, via HCIAs, are an important source of resources and capabilities (including foreign market information and knowledge, financial and international management skills, cross-cultural competencies, and critical connections in the market) (Sun et al., 2015). There is much conceptual and empirical rationale for SMEs to form ties with HCIAs, such as governments, especially when such ties facilitate knowledge acquisition (Farooqi, Miog, & Bengtsson, 2012; Leonidou, Palihawadana, & Theodosiou, 2011). Research on government assistance for SME internationalization has mainly been concerned with micro-level assistance, such as market information, financial support or incentives, mentoring, and motivations to internationalize (e.g. Kotabe & Czinkota, 1992; Moini, 1998; Torres et al., 2016). Only a few studies (e.g. Crick & Lindsay, 2015) have investigated the impact of government assistance at the macro-level, such as through diplomatic interactions, trade negotiations and trade missions.

Research has emphasized the primary links of an SME for institutionalization support to be with government agencies, their role being to provide assistance and incentives leading to improved access to knowledge and resources (e.g. Crick, 1997; Crick & Lindsay, 2015; Diamantopoulos Schlegelmilch & Tse, 1993; Moini, 1998; Torres et al., 2016). However, the diversity and complexity of the institutional environment (Scott, 1995) suggests that other institutions may also provide support for SME internationalization, in addition to that provided by government assistance programs (Bruton et al., 2010). Industry-level influences, reflecting the institutions most relevant to industry and business, and represented predominantly through such HCIAs as industry associations, have also been considered in the context of SME internationalization (Ngo et al., 2016), although the literature here is sparse, relative to that on government assistance. As such, Ngo et al. (2016) argue that more needs to be known on how these institutions impact SME internationalization. In addition, some studies have investigated the impact of cultural distance (stemming from socio-cultural institutions) between home and host country on SME internationalization, examining mainly the firms' strategic responses to the differences identified (Bruton et al., 2010).

Key aspects of the research outlined above include how the various institutional factors reflect barriers or enablers of SME internationalization, with a range of theoretical lenses being used, predominantly resource-based view (Banno, Piscitello, & Varum, 2014) or resource dependency theory (Spencer, Murtha, & Lenway, 2005). More recently, an institutional theory lens has been applied to research examining the impacts of HCIs (e.g. mainly regulative) on firm internationalization, much of it involving MNCs and FDI (Sun et al., 2015).

2.2 Boundary Spanning and SME Internationalization

There are several definitions of boundary spanning, with that of Wilemon (2014) defining the process most aptly for the context of SME internationalization: "the process of working across various organizational lines or boundaries to garner sup-port, resources, or information needed to complete assigned tasks" (p. 230—cited in McNall, 2014).One of the main outcomes of boundary spanning is learning, since it is well-established that "boundaries carry learning potential" (Akkerman & Bakker, 2011, p. 132). However, as Akkerman and Bakker point out, how learning occurs across boundaries is still not clear.

Palus, Chrobot-Mason, and Cullen (2014) emphasize that boundary spanning can occur across different types of boundaries: horizontal (e.g. across professional communities, or industry sectors), vertical (e.g. organizational or institutional hierarchies), stakeholder (external actors), demographic (e.g. race, gender or culture), and geographic (e.g. international borders). Geographic boundaries, notably those between home and host countries, represent an important boundary type for SMEs internationalizing. Other important (sub)boundaries that SMEs struggle to navigate because of limited experience and resources include informational, technological, political, and cultural boundaries relating to the host market, as well as boundaries separating them from key actors in the host country. Some recent studies on boundary spanning have investigated the role of transnational or international boundaries for firm internationalization (Walker & Creanor, 2005; Yagi & Kleinberg, 2011), and indicate that these boundaries are important as barriers or enablers for such firms. Most of the research to date has taken the perspective of the MNC, considering such aspects as the impact of international boundaries on subsidiary relationships (Hong, 2010), expatriate issues (Au & Fukuda, 2002), and cross-cultural learning (Yagi & Kleinberg, 2011). Different types of boundary spanning activities have been described by Somech and Drach-Zahavy (2014) (cited in McNall, 2014). These result in particular outcomes, ranging from access to information and other resources (scouting activity), coordination across actors (coordination activity), protection from disruptive influences in the environment (buffering activity), and integration among actors (bringing up the borders activity).

Boundary spanning requires boundary spanners—usually individuals "who have been designated and/or who de facto reach beyond group bound-aries in order to build common ground between separated par-ties" (Levina & Vaast, 2005, p. 294). Boundary spanners often have multiple roles working across different boundaries, and require a diverse and complex set of competences. These include managing complexity, communication (sometimes cross-cultural), and negotiation skills (Buick, 2014; cited in McNall, 2014). Further, they must have "a deep understanding of the business environment in which an organization operates, as well as the sociocultural, economic, and political influences on that environment (Johnson & Duxbury, 2010)" (cited in Yagi and Kleinberg, p. 630). While it is the individuals who actually create the connections and relationships with actors, boundary spanning can occur at various organizational levels; for example, with and between organizations such as firms, professional groups, government agencies, and non-profit organizations (Fernandez-Mateo, 2007; Fernandez & Gould, 1994).

Boundary objects are the mechanisms by which the results of boundary spanning are made available to the actors concerned. Star and Griesemer's (1989) *classic* definition is most commonly used by researchers in the field. They state that boundary objects are "objects which are both plastic enough to adapt to local needs and the constraints of the several parties employing them, yet robust enough to maintain a common identity across sites" (p. 393). McNall (2014, p. 149) cites

Vakkayil (2014) as defining boundary objects as "artefacts that serve as carriers of knowledge and expertise across the boundaries of communities." According to Vakkayil (2014), these facilitate processes of coordination, transfer of knowledge and collaboration between the relevant actors.

One of the problems facing SMEs is that many do not have the people, experience or resources to undertake boundary spanning activities themselves, even though their need for boundary spanning is potentially greater than that of larger firms. MNCs and large firms generally have resources available to undertake boundary spanning activities directly (Akkerman & Bakker, 2011). They will likely have skilled and experienced people who can act as boundary spanners, as well as resources and existing networks to facilitate boundary spanning activities. Since SMEs are less experienced, have less existing knowledge and fewer networks, they have to rely on the boundary spanning activities of others to gain the benefits desired.

2.3 Brokerage and SME Internationalization

While boundary spanners are the people who span boundaries, the process that they use to connect two actors is one of brokerage. Although some scholars report boundary spanning and brokerage as the same phenomenon (Long, Cunningham, & Braithwaite, 2013) and, therefore, conceptually linked, others claim that they are different—although complementary. As noted by Collins-Dogrul (2012), merely linking two or more actors is not sufficient to engender the learning and other benefits of the connection. This requires an active process of matching and facilitation of the relationship, as well as the use of appropriate boundary objects to enable learning or exchange to occur, which is the brokerage function. Thus, according to Collins-Dogrul, all brokers are boundary spanners, but boundary spanning requires brokerage in order for benefits to be gained; brokerage also needs to be continuous in order to sustain the relationships involved. Effective brokerage is especially important when the environments being connected are "characterized by strong institutional divisions" (differences that set them apart) (Collins-Dogrul, 2012, p. 997).

Traditional perspectives of brokerage focus on the competitive or mediation role of a broker (Burt, 1997), whereby the broker seeks to gain by connecting unconnected actors and having control over the relationship. The vast majority of research on brokerage and brokers has tended to take this perspective, encapsulated in the 'tertius guardens' model. However, recent attention has focused on an alternative, or additional, view of brokerage, 'tertiusiungens' (Obstfeld, 2005) to explain other forms of linking motivations. In tertiusiungens brokerage, actors are purposefully connected by the broker in order to facilitate cooperation among them. This is seen as beneficial for the broker and the actors being connected, since it brings both immediate and long-term benefits, and encourages learning to all parties (Collins-Dogrul, 2012).

2.4 Home Versus Host Country Location of HCIs

While a growing body of research on the impact of HCIs on internationalization is becoming evident, most of it focuses on the HCI/HCIA in its home country; however, government agencies and other institutions often operate in a range of host countries as well. They include trade offices, consulates, Chambers of Commerce, as well as home-country subsidiaries (Ngo et al., 2016). With some exceptions (e.g. Crick & Lindsay, 2015), there is scant research on the role of host country based HCIAs on SME internationalization, and, to our knowledge, little, if any, that compares the influence of HCIAs located in the home and host countries.

3 Conceptual Framework

Few, if any, studies have considered *how* HCIs play a role in actively facilitating SME internationalization. This is the central feature of our conceptual framework. Based on our review of the literature, we propose that home country institutions are represented through the activities of HCIAs, following North's (1990) insight that institutions must be regarded separately from their actors. According to the literature, although not generally described as HCIAs, such actors relevant to SME internationalization include government support organizations, and industry and professional associations; these represent regulative and normative institutional dimensions, respectively. A country's cognitive institutional environment, reflected by its socio-cultural environment, is well documented, and we propose in our framework that socio-cultural agents include those HCIAs that also represent the regulative and normative institutions.

Given that the literature regards boundary spanning as connecting actors across boundaries to access resources, or information (Akkerman & Bakker, 2011), we draw on this concept to explore the ways in which HCIAs may facilitate learning by internationalizing SMEs. We regard boundary spanning as involving the establishment by HCIAs of links between SMEs and relevant knowledge, and the actors that facilitate their internationalization process in a host market. In keeping with the literature, we suggest that the boundary spanners (HCIAs) create links across relevant boundaries through the use of boundary objects, which creates the transfer mechanisms used by both actors. For example, a government support organization may use seminars, websites or reports that connect the SME with the particular actors in the host market, or provide market or customer information. The process by which boundary spanners build connections is captured in our conceptual framework by the application of brokerage (Collins-Dogrul, 2012). On the grounds that it ideally suits the context of the boundary spanning roles played by HCIAs in facilitating the internationalization of SMEs, we adopt the concept of 'tertiusiungens' (collaborative view) brokerage proposed by Collins-Dogrul (2012), rather than the more traditional view of brokerage ('tertius guardens') (Burt, 1997). For example, when a government agency at home connects an SME with a potential intermediary (distributor) in the foreign market, facilitating and coordinating the initial relationship, the SME gains potential access to the market, the distributor gains another potential customer, and the government agency fulfils its supportive role and learns from the experience. Our conceptual framework depicts the result of the boundary-spanning activities and brokerage as outcomes supporting SME internationalization. As noted in the literature, outcomes from government assistance programs might include government grants, learning from training programs, market research support etc.

The final aspect in our conceptualization concerns the location of the HCIA—in either, or both, home and host country. With little existing literature on HCIs/HCIAs operating in a host country, and the subsequent impact on home country SMEs internationalizing there, we conceptualize a role for HCIAs in a host country linking with different agents and resulting in different outcomes.

In applying the conceptual framework to an empirical setting, using a qualitative methodology, our study sets out to (i) identify and investigate the types of HCIs and HCIAs that play a role in supporting SME internationalization (ii) elucidate the boundary spanning activities of the HCIAs, including the boundary objects utilized to help facilitate the transfer of knowledge, (iii) examine the brokerage perspective employed, and (iv) report on the specific outcomes and their benefits to the SME.

4 Methodology

We used an exploratory qualitative approach for the study, since this is considered appropriate for studying phenomena in depth (Creswell, 2007). Fifty four (54) New Zealand SMEs, which had already entered the Indian and Chinese markets were purposively selected for the study. We used the OECD categorization of small and medium enterprises (<10–250 employees) (OECD, 2005), At the time of the study, there were relatively few SMEs which had internationalized into India and China, and the 54 firms chosen represented approximately 70% of the identifiable population, and those which also agreed to participate in the study. India and China were selected as the host markets of interest, since these represented countries with known institutional differences to New Zealand, and, which, we assumed, would require internationalizing SMEs to have HCI support. Senior managers in the SMEs were interviewed as key informants, and the unit of analysis was the firm.

Key constructs identified from the literature, and reflected in the conceptual framework, guided the development of a semi-structured questionnaire, which included questions relating to SME internationalization into India and China more generally, as part of a larger study. Questions relevant to this study related to the use of HCIs, HCIAs, and types of support and outcomes achieved, in addition to firm characteristics, such as experience in the host country/ies. In order to gain deeper insights into the phenomena being investigated (Crouch & McKenzie, 2006), open-ended questions were included. Face-to-face interviews with the

CEO/Managing Director, and/or International Marketing Manager of each firm were conducted by two researchers, and data were tape recorded for later transcription.

The computer assisted qualitative data analysis software (CAQDAS) program, NVivo10, was used to analyze the transcribed data, and for the purposes of analysis, each interview was treated as a ‘case’ (Miles & Huberman, 1994). This approach allowed a logical path of data coding and interpretation to be followed (Auld, Diker, & Bock, 2007; Yin, 2004). While the dataset provided perspectives on a much broader set of phenomena, we focused only on the data relevant to our research questions. Both within-case and cross-case analysis were conducted, in order to build themes and patterns relating to the constructs pre-conceptualized from the literature (Miles and Huberman 1994). We used a process of open coding, followed by axial coding and system closure (Strauss & Corbin, 1998) in order to arrive at our final analysis. Coding consistency was checked by having two researchers each code a random sample of interviews.

5 Findings

This section presents the findings of the study relating to the HCI support for SME internationalization. Given the need for brevity, we present only a summary of our findings; more detailed findings will be reported elsewhere.

5.1 Home Country Institutional Agents (HCIAs) and SME Internationalization

Several HCIAs were identified from the data as having a role in the internationalization of the SMEs. These are presented, along with selected supporting quotes from firm participants, as follows.

5.1.1 Government Agencies

Government support was provided principally from two agencies: New Zealand Trade and Enterprise (NZTE), with offices in New Zealand (home country) as well as in India and China (host countries), and the NZ Embassy, with a High/Trade Commissioner/Ambassador in each of these host countries.

Firms utilized government support from these agencies to varying degrees; this depended largely on the level of experience of the SME doing business in the host country, and the type of service or support provided. Those firms newly entered into India or China tended to continue drawing primarily on support from the government agencies based in the home country (NZ). The boundary-spanning activities from the government agencies included obtaining market information and market research, generating contacts with distributors or other intermediaries, and potential customer information. Boundary objects associated with these activities included websites, reports, seminars, trade shows etc. With these kinds of assistance, the SMEs started to build resources, contacts and sales in the host country.

> "The government has been fantastic … through their active support, policy announcements and time for visits [trade missions]." (L-1) (India)

SMEs with more experience in the host markets, having built sound relationships with intermediaries, created customer databases, developed relevant networks, and accessed necessary resources, found the types of assistance offered by the home based government agencies to be less relevant. Rather, they turned to the support offered by the host based New Zealand government agencies, which was extremely beneficial and relevant, particularly to those SMEs at more advanced stages of post-entry development. Types of support included introduction to local networks, detailed market and customer information, trade representation, and relationships with regulatory authorities and ministerial officials. Boundary objects associated with these activities included face-to-face facilitated introductions and meetings; networking events; customized reports; web links, and workshops.

> "…we would go to meetings and there would be a lot of people. And part of the advantage initially of using NZTE was that I could have someone who would understand what was being said outside of what was being said to me, and we think that's vital actually." (Edu-3) (China)

5.1.2 Industry Associations, Business Councils and Professional Bodies

Firms reported interacting with industry-level HCIAs only in the home country, since they were not present in the host countries involved in the study. Examples of HCIAs included the India New Zealand Business Council, the New Zealand China Business Association, and industry groups involved in areas such as aviation, tourism, education, and information technology. Most were involved in a range of boundary spanning activities, including providing market information and advice, access to host country networks, including their industry association counterparts, and education/training. The SMEs gained knowledge and experience from these activities through such boundary objects as seminars, workshops, and published reports. The boundary spanning activities of the HCIAs and the associated benefits were more evident in the case of India, than of China. This is illustrated by an industry association focusing on facilitating business opportunities in India in the education industry.

> "The India Export Network [association of New Zealand tertiary education providers] was very important in those early years in having such a well-established and government endorsed pathway to develop a market with agents who had been screened by immigration." (Ed-1) (India)

5.1.3 Independent Consultants

Individuals and small consulting organizations represented this group of HCIAs, and included those located in both the home and host countries. Their boundary spanning activities were mainly focused on specific needs of their SME clients, but they also undertook more generic activities. In the home country, the consultants facilitated connections with host country networks and market information, represented in boundary objects such as personal introductions, databases, websites, and generic and customized reports. The following quote refers to a consulting organization in New Zealand whose mission focused on matching technology providers with technology buyers in India. Their activities directly connected New Zealand SMEs with potential customers in India. In this particular case, the relationship led to a formal partnership between the SME and an Indian customer.

> "Generally, they basically do an introduction. So they have a brief for finding technology for XXX [Indian clients] …. and their goal is to find innovative new technologies from New Zealand, to be exported to India basically for it to be scaled up and sold on a larger scale."(IT-4) (India)

Consultants located in the host country used their boundary spanning activities there to provide additional benefits to SMEs. These included facilitated access to resources and capabilities in the market, as well as introductions to host government agencies and relevant regulatory authorities. Home country based consultants tended to be nationals of the host country living in New Zealand, while those in the host countries (both India and China) were often host country nationals who had lived and worked in New Zealand for a period of time before heading back to their birth country. These people were ideally situated as boundary spanners, since they were connected to actors in both countries, and had knowledge of the respective institutional environments, including socio-cultural influences that were often difficult for New Zealand SME managers to navigate.

5.1.4 New Zealand Subsidiaries in the Host Countries

SMEs in our study identified a number of New Zealand firms with subsidiaries in China or India that were instrumental in providing support, directly or indirectly. The subsidiaries acted as boundary spanners in a variety of ways. By virtue of having a well-established operation in the host country, for over two decades in some cases, they had many connections and trusted reputations. The benefit of their boundary spanning activities to the SMEs included access to information (country- and market-level) and other resources, detailed industry knowledge, key contacts with officials at local and central government levels, access to customers, as well as introductions to host country networks. The following quote highlights some of the outcomes enjoyed by an SME as a result of its relationship with a New Zealand subsidiary in China.

> "As I say, I always try to have an education component to the visit [to China] as well, and learning more and just becoming more confident that we could survive there. And so we worked closely with XXX and his company [NZ subsidiary in China]. His company was advising us in those early days… size of the market, uptake, saturation, awareness of brand and such things like that." (IT-6) (China)

The New Zealand managers of these subsidiaries had a deep knowledge of their host country social and cultural norms and values that they made accessible to the SMEs. They were in a unique position of understanding the socio-cultural environment of both countries, and, therefore, were able to offer sound advice on these matters. The high standing of a number of the subsidiaries in the local communities, and, in some cases, nationally, also allowed them to transfer legitimacy to the SMEs, particularly at the political and social levels. Boundary objects included face-to-face meetings and introductions, informal discussions, workshops and facilitated site visits.

5.1.5 SME Employees

Many of the SMEs employed nationals from the host country because of their ability to span relevant institutional boundaries. For China, cultural boundaries were especially important, as China was perceived to be more culturally distant than India, and consequently a more challenging country in which to do business. These SME employees were located in either the SMEs' home country operations, or, in most cases, in their SME's representative office in the respective host country. By spanning boundaries between the SME and their native country, those home country based employees were able to provide market information, cultural and language resources, and, sometimes, useful contacts, directly to the SME. From a host country base, they provided addition benefits by sharing of insights into the culture and language, and drawing on their existing links; these included connections to key individuals and regulatory authorities in the host country. The following quote refers to a host country national employed by an SME in its host country representative office.

> "I mean, there were times when we deliberately aimed to employ Chinese speaking people. Now whether that happened to have been a Kiwi who just spoke fluent Chinese, that would have been okay but, you know, we aim to hire people fluent in the language and the culture."(IT-6) (China)

These employee arrangements were evident in both India and China, though more evident in SMEs internationalizing to China, for the reasons noted above. Nationals employed by the SME were ideally positioned to help address the specific needs of the SME by boundary spanning with the relevant host country actors. Boundary objects included face-to-face meetings, reports and informal communications.

5.1.6 HCIAs and Socio-Cultural Factors

Perceived cultural distance and unfamiliarity with host country social norms were substantial barriers to SMEs internationalizing in India and China. At the same time, the perceptions of socio-cultural differences were often to be shared by actors in the host counties, making it difficult for a common understanding or accommodation of the differences to be achieved. Our findings indicate that boundary spanning by HCIAs played an important role in helping actors to gain mutual understanding of these differences, and focus on building strong relationships with one another. The HCIAs contributing most to this process were those government- and industry- level organizations located in the host country, and acting as boundary spanners from that base. For India, examples included government-supported New Zealand 'ambassadors' representing the sport of cricket – usually 'big name' individuals. Cricket is hugely important as a national sport in India and the two countries have enjoyed a long and positive relationship in this sport. The following quote illustrates the value of this institution.

> "I think there are, New Zealanders are identified quite well in India because we play cricket…. So we're known reasonably well." (Ag-3) (India)

In China, the New Zealander, Rewi Alley, is revered by many Chinese people for his lifetime work on social reform in China, bridging social and cultural differences and motivating an improved understanding of the respective cultures. Relations between New Zealand and China have also been enhanced by other shared events over several decades (e.g. the 'Four Firsts'[2]), facilitating easier relationship building between actors at all levels and enhanced opportunities for legitimacy building.

> New Zealand and New Zealanders are very, very highly respected in China. We're seen as good honest sort of people. In fact, I've heard more Rewi Alley stories since I've been in China than I did before I left New Zealand." (HTM - 3) (China)

Our findings suggest that benefits of improved socio-cultural understanding occurred through the boundary spanning activities of a number of different HCIAs located in the host countries, including government agencies, industry organizations (e.g., cricket), and individuals. In the home country, boundary spanning across the socio-cultural institutional environment occurred through invitations to host country actors (e.g. business partners, customers, dignitaries etc.) to visit New Zealand, as well as joint New Zealand-host country industry associations, such as India-New Zealand Business Council. Boundary objects included face-to-face meetings, New

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[2]The 'Four Firsts' term is used to represent China's attributing of the following First Four events: In 1997 New Zealand became the first country to agree to China's accession to the WTO by concluding the bilateral negotiations component of that process. New Zealand was the first developed country to recognize China as a market economy, and the first developed country to commence FTA negotiations with China, which concluded successfully in April 2008.

Source: New Zealand Ministry of Foreign Affairs and Trade (2016).

Zealand site visits, informal social gatherings hosted by the SME managers, and industry association events. These were instrumental in lessening the perceptions of social and cultural differences by both the SME and the host country actors.

5.2 Brokerage

For most of the HCIAs identified, there was an overarching motivation to foster cooperation between the actors being connected. Although the focus of these HCIAs was on facilitating the internationalization of New Zealand SMEs, benefits for the host country actors were also considered important. The HCIAs also benefited from their brokerage efforts, since many had a mandate to support SME internationalization to the particular host countries. It was in the interests of these boundary spanners and their brokerage roles to be valued, so that their services and support would continue to be sought. In the following example, an employee in a representative office explained how the host country based HCIA, the government trade organization, NZTE, facilitated networking among New Zealand and Chinese managers and firms, as well with those New Zealand managers based in China. The tenor of this is undoubtedly one of collaboration among the actors.

> "They [NZTE] are very helpful for companies that are just starting up an office. The facility here is very helpful as well, and they sometimes have some days for people to come together for a networking session. We can talk to each other and know what everybody's doing and what are the difficulties and how they deal with those. So it's a place for meeting people to talk to, you can talk to people from New Zealand and China." (IT-7) (China)

A slightly different brokerage approach was observed among the HCIAs represented by independent consultants and SMEs employees, which tended more towards mediation-type brokerage. With more vested interest at stake, they relied on an ongoing demand from SMEs for their boundary spanning activities, either as clients, in the case of independent consultants, or as employers, in the case of the employees. While they shared the overall objective to help facilitate SME internationalization to the host country concerned, they were also motivated by the need to securing an ongoing demand for their boundary spanning skills. Thus, there was an element of control over the connections that they had established, although this was moderated by motivations also seeking cooperative outcomes.

5.3 Outcomes for the SMEs

Our findings indicate that the SMEs gained numerous positive outcomes from the boundary spanning activities of the range of HCIAs with which they engaged – both in the home and host countries. Table 1 shows the main outcomes perceived by the SME managers, and the HCIAs facilitating them. The main outcomes noted were: access to government officials, access to host country networks, access to market information, access to resources and capabilities, legitimacy granting (market, political, and social), new contacts (e.g. customers) and cross-cultural understanding. The following quote summarizes how such outcomes were valued.

> "NZTE did a fantastic job for us in China. Got us in front of the right people, and the contacts and relationships that NZTE created in the early days still exist today. A really, really good piece of work by them." (IT-7) (China)

Table 1 shows a comparison of the home country based and host country based HCIAs in regard to the outcomes attained by the SMEs. As seen in the table, the outcomes showed some variation, depending on the location of the HCIA (home or host country). In general, boundary spanning by the host country based HCIAs resulted in a wider range of beneficial outcomes for the SMEs, and those benefitting tended to be more experienced firms.

Specifically, we found that the more experienced SMEs sought more specific and targeted outcomes that reflected their level of maturity in the market. This is seen, for example, in the case of host country based government HCIAs facilitating meetings with key industry leaders and government officials in India and China for SMEs seeking to achieve a specific strategic goal (e.g., a licensing approval) or signing of a significant order with a new key client. Similarly, managers of host country-based New Zealand subsidiaries provided support to more established SMEs that was industry-, location-, and sometimes customer-specific—again, resulting in similar targeted outcomes. Earlier-stage SMEs were generally seeking broader-level information and access to more diverse host country actors, as they sought to establish their approaches to further market development. Such outcomes, derived mainly from home-based HCIAs were more generic in nature, including knowledge about potential customers/customer groups, and regions or provinces for possible expansion opportunities.

5.4 Enhanced Conceptual Framework

Our findings provide an enhanced perspective of the conceptual framework developed earlier from the extant literature (Fig. 1). As shown in Table 1 and the presentation of our findings, a number of specific HCIAs and outcomes have been identified in the analysis of our sample of New Zealand SME internationalizing in India and China. These are incorporated into an enhanced conceptual framework, shown in Fig. 2, thus providing more detail to the original framework.

6 Discussion

By identifying a number of HCIs involved in supporting SME internationalization, and viewing the role of relevant HCIAs through a boundary spanning and brokerage lens, we have sought to provide deeper insights to the questions of which

Table 1 Outcomes of boundary spanning activities of home country institutional agents

Home country institutional agents (HCIAs)	Outcomes for SMEs						
	Access to host government officials	Access to host country networks	Access to market information	Access to resources and capabilities	Legitimacy granting (market, political, social)	New contacts (e.g., customers)	Cross-cultural knowledge
Government Assistance Agents							
In-home		×	×			×	
In-host	×	×	×	×	×	×	
Industry Associations/Business Councils/Professional Bodies							
In-home	×	×	×			×	×
Consultants							
In-home		×	×			×	
In-host	×	×	×			×	×
NZ subsidiaries							
In-host	×	×	×	×	×	×	×
SME employees							
In home		×	×				×
In host	×	×	×	×	×	×	×
Agents representing socio-cultural factors							
In-home							×
In-host	×				×		×

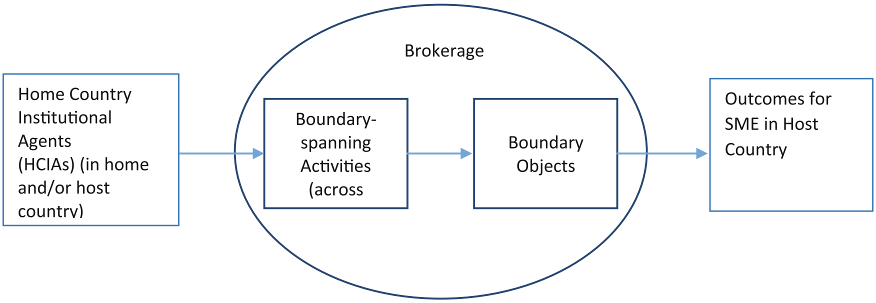

Fig. 1 Conceptual framework

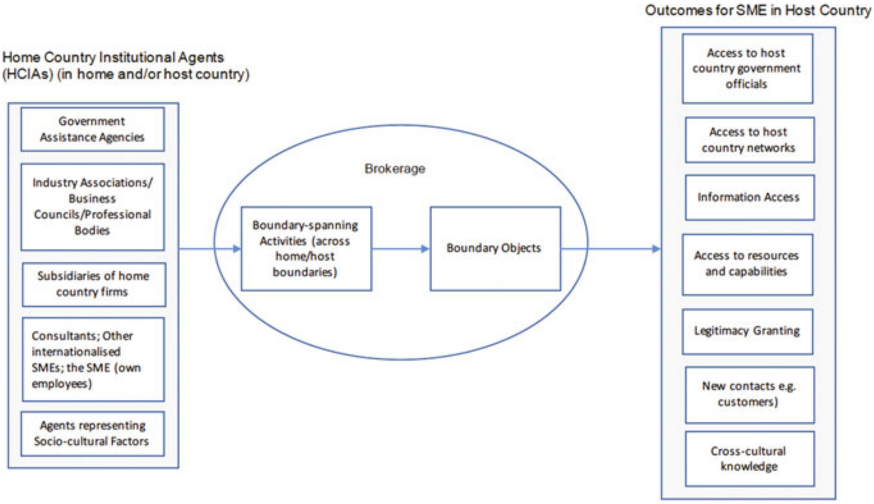

Fig. 2 Enhanced conceptual framework

HCIs support SME internationalization, and how they achieve this. Figure 2 shows the enhanced conceptual framework developed by incorporating the key elements from our findings with constructs identified from the existing literature. The findings are now discussed in the light of the literature, providing further support for the framework.

Our findings support the recent literature that argues for an important role for HCIs in internationalization (Sun et al., 2015). In our study, we have explored a wider range of HCIs and HCIAs, reflecting regulative, normative and cognitive dimensions, thus providing a more comprehensive view of the institutions and their respective agents involved in providing support for SME internationalization. We found that HCI support for SME internationalization was reflected in the activities of a range of relevant HCIAs. These organizations facilitated support through their boundary spanning activities, brokerage, and use of boundary objects, resulting in a number of beneficial outcomes for the internationalizing SMEs. The HCIAs in our study were predominantly involved in linking the SMEs with knowledge and actors in the host countries, which accords with recent research on cross-border, or transnational, boundary spanning by HCI[A]s located in the home country (Yagi & Kleinberg, 2011). However, we also found a strong involvement of HCIAs in the host countries. These HCIAs undertook a range of important boundary spanning activities inside the host country, directly or indirectly supporting the SMEs undertaking business there (as exporters, having a representative office, or a joint venture). Many of these activities (such as hosting of diplomatic events, or meetings with industry leaders) could not readily be undertaken by the home-country based HCIAs, since they required a physical presence in the host country and an intimate knowledge its important actors. These HCIAs were highly instrumental in assisting the SMEs to further their internationalization efforts in both the host countries involved in our study, India and China.

Our findings also indicate corresponding differences in the types of boundary spanning activities undertaken by the home based and host based HCIAs, even though, in some cases, the same organization was involved (e.g. NZTE). Following Somech, and Drach-Zahavy's (2014) (cited in McNall, 2014) typology of boundary spanning activities, we found that those of the home country based HCIAs focused more on scouting (information provision) and, to a lesser extent, on coordination (between the actors), while the host country based HCIAs tended more towards coordination, buffering (protecting from host country impacts) and bringing up the borders (integration among key actors – in our case, particularly relevant at political and diplomatic levels). We believe that this finding relating to host country based HCIAs adds a new dimension to the existing literature on role of institutions in SME internationalization.

In terms of brokerage, our findings show that most of the HCIAs sought to create cooperative relationships between SMEs and relevant actors involved. This aligns with the less commonly held view of brokerage, tertiusiungens (Obstfeld, 2005). Tertiusiungens brokerage contrasts with the mediation view (tertius guardians) of brokerage, in which the brokers are 'guardians' of the relationships between actors for their own gain (Burt, 1997, 2005). The exceptions to the tertiusiungens approach in our study were the independent consultants and SME employees, who, while still subscribing to the objective of cooperation between the actors they were connecting, nonetheless had a vested interest in retaining some control over the relationships created, since their 'jobs' depended on having ongoing brokerage role. These HCIAs, therefore, occupied a brokerage position part-way between tertius guardians and tertiusiungens. These findings, delineating the types of brokerage employed by different HCIAs in their SME internationalization support activities are, to our knowledge, novel Burt (2005).

A key benefit of boundary spanning identified in most definitions of the phenomenon is learning (Akkerman & Bakker, 2011). The identification of specific learning-based outcomes derived from the boundary spanning activities of different

HCIAs in our study is not evident in current literature, which has so far mainly dealt with outcomes deriving from support from government assistance agencies, and not from other HCIAs.

The type of outcome tended to be associated with a particular type of boundary spanning activity, the actors involved and the boundary objects utilized. While the provision of macro-level government support has been noted in some other studies (e.g. Crick & Lindsay, 2015), little, if any, research has investigated the relationships between these four elements. Particular interesting is the finding that these are also associated with the level of the SME's experience and business development in the market. Notably, we found that different outcomes are important to SMEs, depending on these levels, and that the boundary-spanning process involved reflects these differences. These findings could add further insights to the existing research on post-entry development of SMEs, which has received relatively little attention in the internationalization literature (Benito, Peterson, & Welch, 2009).

Table 1 also shows the outcomes arising from the HCIAs located in the home vs the host country, and illustrates key differences already discussed. These findings clearly indicate that host country based HCIAs facilitated additional (higher level) outcomes compared to the HCIAs located in the home country. Most research on HCIs/HCIAs has considered only the support activities provided from within the home country (e.g. Moini, 1998; Torres et al., 2016). These findings support the view that a physical presence and face-to-face interaction enabled by proximity are beneficial for relationship building (Styles, Patterson, & Ahmed, 2008), and, we suggest, for boundary spanning activities with relevant actors. To our knowledge, this is a new finding in the area of home country institutional support and SME internationalization, and one deserving of further research.

7 Conclusions, Implications, Further Research and Limitations

We believe that our study makes several contributions to the international marketing literature, notably that relating to home country institutions, government assistance, and SME internationalization. By bringing these sub-domains together, and incorporating the phenomenon of boundary spanning as a way of unraveling the processes involved in HCI/HCIA support for SME internationalization, we have attempted to extend the current literature and add a finer-grained perspective to this topic. Specifically, we have (i) identified a range of HCIAs involved in supporting SME internationalization; these reflect a range of HCIs that are regulative, normative and cognitive in nature; (ii) proposed that the way in which these HCIAs provide support is through their boundary spanning activities and the use of relevant boundary objects; (iii) suggested that the benefits to SMEs accrue from their use of these boundary objects and the brokerage of their connections with other actors by the boundary spanners (HCIAs) involved; (iv) proposed that the type of brokerage employed is mainly of the tertiusiungens type, which seeks cooperation among, rather than mediation between (tertius guardian type) actors; (v) identified a range of beneficial learning-based outcomes for the SMEs, with these outcomes aligning with different types of HCIAs; and (vi) shown that the location and associated boundary spanning activities of HCIAs in the host country are as, or more, beneficial for the SMEs than those of the HCIAs located in the home country, particularly for those SMEs that were more experienced and advanced in their post entry development in the host country.

Since the study is exploratory in nature, the conclusions drawn remain tentative. Thus, there is ample scope for further research in this area, especially given that there is little literature to date on the processes by which HCIs/HCIAs provide support for SME internationalization. First, the conceptual framework should be validated and tested quantitatively, including the generalizability of the HCIAs and outcomes included in the enhanced framework. Second, the roles of the different types of HCIs and HCIAs identified can be explored further, since most research has been conducted on government agencies and their assistance programs, and there is far less on the role of other institutions/agents in the home country. Third, we suggest further research on the differences in boundary spanning activities and outcomes for the SMEs between HCIAs located in the host country compared with those located in the home country, since this is a particularly intriguing finding. Additional research could examine reasons as to why this occurs, and, whether there is an association with post entry development, as our findings suggest. Fourth, the type of brokerage employed in the context of institutional boundary spanning across international borders is also an under-researched area. Linking this with the types of support provided and outcomes achieved, as well as with the characteristics of the SME-actor relationships (e.g. longevity) would be a fruitful area for further research.

Given the importance of HCIs in the development of a country's SMEs and internationalization of its firms more generally, this study has important implications for policy makers, HCIAs, and SMEs. For policy makers, a clearer understanding of the process by which HCIAs provide support for SME internationalization, as well as an appreciation of the differential roles that they play in their home and host countries, will help in the targeting of funding and other resources to specific HCIAs. For other HCIAs, such as industry associations, professional bodies and consultants, it is important that there is an understanding of the role that they can play in supporting SME internationalization through their boundary spanning activities. Focusing their efforts on recognizing the particular outcomes sought by internationalizing SMEs, and connecting them with relevant actors in the host country, would help to smooth the internationalization pathway and lower the risks of uncertainty, especially for newer internationalizing SMEs. As our findings show, SMEs can themselves embark on boundary spanning through their employees, much as larger firms do in a more deliberate manner. Employing nationals from the host country, and locating them in either the home or host country, can bring countless benefits to the SME as it continues its internationalization process.

We set out to conduct an exploratory qualitative study on the role of HCIs/HCIAs in the internationalization of SMEs in India and China. While our research is qualitative and exploratory by design, we acknowledge the limitation of this approach in terms of providing statistical generalizability. In order to enhance theoretical development, and provide confirmation of the conceptual framework proposed, additional exploratory research is required, followed by theory testing using established approaches. A second limitation lies in the relative brevity of the reporting of our findings. The full study captures considerably more detail than is able to be provided here; however, the findings presented provide the basis for support and enhancement of the conceptual framework derived from our review of the relevant existing literature, and pave the way for ongoing research opportunities. In concluding, our exploratory study has highlighted some interesting preliminary findings regarding HCI/HCIA support for SME internationalization, and we hope that it serves as a catalyst for further research in this important area.

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Part IV
International Marketing and Innovation

Exploring Informal and Formal Learning Activities as Enablers of Learning-by-Exporting in Small and Medium Sized Firms

Øystein Moen, Julie Dahl Benum and Ingeborg Gjærum

Abstract Innovation and internationalization are important sources of growth for small and medium sized enterprises (SMEs). However, as SMEs often experience resource constraints, these companies may face difficulties when seeking to innovate or enter foreign markets. An important question is therefore whether these two activities may positively reinforce each other. We assess the extent to which export activities may improve innovation capabilities, by exploring the role of formal and informal learning activities. The empirical analysis builds on a sample of 380 Norwegian small and medium sized exporting enterprises. Based on structural equation modeling, the results confirm the hypothesis of a positive relationship between informal learning activities and firm innovation performance. Considering export structure, neither export share and psychic distance nor export scope had a direct effect on innovation performance. However, we did find that a high export scope combined with informal learning activities contributed to increased innovation performance. An important implication for managers is that scarce resources for internationalization and innovation might at least to some extent be compensated for by introducing systematic but informal learning activities in the organization. Furthermore, our results suggest that using more formal approaches for learning from export is not a recommendable strategy for SMEs if the goal is to increase innovation performance.

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1 Introduction

Both innovation and internationalization are regarded as possible growth strategies for small and medium sized enterprises (SMEs). Compared to larger companies, SMEs may struggle with financial constraints that limit their innovation capacity, since innovation activities entail costly, and possibly risky, investments in knowledge and technology, as described by Andersson and Lööf (2012), as well as Hessels and Jolanda (2007). Esteve-Pérez and Rodríguez (2013) state that resource shortages in SMEs is also a disadvantage with regard to internationalization processes. Several scholars have studied the relationship between firms' innovativeness and internationalization (e.g. Hessels & Jolanda, 2007; Monreal-Pérez, Aragón-Sánchez, & Sánchez-Marín, 2012). Many of these studies have primarily focused on the correlation between internationalization and innovation, whereas others have also tried to explain causality (for example Damijan, Kostevc, & Polanec, 2010; Oura, Zilber, & Lopes, 2016).

Even though it may be questioned whether internationalization gives enhanced innovating capabilities, or whether a firm's innovation is what enables internationalization, the interactive effect has been documented. Golovko and Valentini (2011) concluded that "*Participating in export markets can promote firms' learning, and thus enhance innovation performance. At the same time, through innovation, firms can enter new geographical markets with novel and better products, therefore making exports more successful*" (p. 362). Zahra, Ucbasaran, and Newey (2009) stated that the literature: "*...suggest[s] that internationalization provides important opportunities for firms to exploit their innovative products while exposing them for diverse knowledge that further stimulates innovative activities*" (p. 81).

Although international activities provide sources for new knowledge that potentially may lead to innovation, small and medium sized enterprises (SMEs) are not necessarily able to exploit this knowledge due to resource constraints. Zahra et al. (2009) suggest that the difficulty of transferring new knowledge is a factor that limits SMEs' international learning. They focus on the importance of social knowledge for the ability of SMEs to achieve innovation effects of the international activities.

In this study, we will use a related but slightly different approach. Based on the premise that many SMEs both need to focus on innovation processes and have international ambitions, we will study how a company may design learning processes in order to maximize the positive effect of its international activity on innovation performance. This follows the reasoning by Ghoskal (1987) suggesting that without the appropriate mechanisms, the learning potential may be lost. We will also assess the combined effect of international activity characteristics (scope, share, distance) and learning mechanisms influencing innovation performance.

We do not only provide new insight in how organizations may enhance the effect of internationalization on their innovation capabilities through learning activity design. Based on the results, a discussion of the possibilities of executing an international strategy in a manner that strengthens the potential for positive innovation effects is also included. We limit the study to international activities in the form of exporting, as this is important for many small and medium sized firms.

Following this introduction, we lay out the theoretical framework the article is based upon. We will then derive the hypotheses before we describe the methodology used to test the hypotheses. Thereafter the results are displayed, followed by a concluding discussion.

2 Organizational Learning, Innovation, and Internationalization

Villar, Alegre, and Pla-Barber (2014) state that the resource based view (RBV) and the knowledge-based view (KBV) have been much used in the internationalization literature, not least when focusing on exporting. The RBV has been criticized for being static, while Teece, Pisano, and Shuen (1997) presented a more dynamic perspective, focusing on a firm's ability to change routines and reconfigure resources as a key source of competitive advantage. We will build on the dynamic capabilities approach, with a focus on learning processes as one important area of possible change related to handling of knowledge resources and knowledge routines, as described by Oura et al. (2016).

A number of scholars suggest that organizational learning starts with individuals acquiring knowledge, but in order for the organization to learn, the individual knowledge needs to be embedded into the group or organization, as described by Nonaka (1994) as well as Argyris and Schön (1996). Nonaka (1994) distinguishes between two forms of individual knowledge; tacit and explicit. Tacit knowledge is hard to communicate and transfer, whereas explicit knowledge is more easily transferred, often by formal language.

There are several views on what mechanisms and activities are needed in order to embed the individual knowledge into the organization. As expressed by Wilton (2012), an objectivist view on knowledge management focuses on "codification", like gathering, storing and structuring knowledge into formal reports and ICT systems. We will refer to these kinds of activities for embedding knowledge into the organization as formal learning activities. A practice oriented approach to knowledge management, however, sees nearly all knowledge as tacit, and focuses on social interaction and relations as a means to spreading and integrating knowledge into the organization (Wilton 2012). We will refer to this as informal learning activities.

Nonaka (1994) suggests that in order to facilitate organizational learning, the organization should undergo processes that make tacit knowledge explicit, proposing important ingredients to the sharing of individual information and experiences, discussions and communication as well as storage of information. However, according to Jones and Macpherson (2006), organizational routines, diagnostic systems, rules and procedures are often scarce in SMEs, and hence it is difficult to achieve the necessary acquisition, distribution, and institutionalization of new knowledge.

Innovation is "*a multidimensional process that essentially implies newness*" (Chetty & Stangl, 2010, p. 1727), and entails "*the implementation of a new or significantly improved product or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relation*" (OECD, 2005, p. 46). To SMEs, innovation is imperative for growth, as described by Golovko and Valentini (2011). Hessels and Jolanda (2007) suggests that improved financial results, an enhanced ability to satisfy customer needs and overall upgraded competitiveness are the goals for entrepreneurs' innovation efforts.

There are several determinants of a firm's innovative output, including input in terms of physical and human capital as well as external factors domestically and abroad (Pittiglio, Sica, & Villa, 2009). Common to SMEs is that they face liabilities associated with their "newness", "smallness" and "inexperience" (Wright, Westhead, & Ucbasaran, 2007). A consequence is that these firms are disadvantaged compared to their more experienced and larger counterparts when it comes to the financial resources necessary for innovation activities and spreading of risk (Esteve-Pérez & Rodrígues, 2013). Pittiglio, Sica, and Villa (2009) suggest that as SMEs have limited resources, external inputs may be of particular importance for them to provide a broader knowledge base. As an example, they show that among Italian manufacturing firms, those with an international commitment generate more knowledge than their purely domestic counterparts.

Considering the interaction between international activity and innovation, studies have found correlations (e.g. Filippetti, Frenz, & Ietto-Gillies, 2011) and evidence has been found for causality in both directions (e.g. Halilem, Amara, & Landry, 2014; Salomon & Shaver, 2005; Esteve-Pérez & Rodríguez, 2013; Love & Ganotakis, 2013). There are two alternative—but not mutually exclusive—explanations for the results presented in the literature, as stated by Andersson and Lööf (2012).

The self-selection hypothesis is one possible explanation: More successful firms are the ones with the necessary resources to pass the resource barriers in terms of additional fixed costs incurred when selling goods in international markets. Wagner (2007) finds several examples of empirical studies confirming the self-selection effect.

The second explanation, often referred to as learning-by-exporting, argues that firms engaged in international activities are more innovative because they may access knowledge and technology from foreign sources. Wagner (2007) explores research done on the relationship between internationalization and productivity and finds that studies have not shown support for the latter explanation. However, Salomon and Shaver (2005) suggest that in order to actually measure learning-by-exporting, it is more adequate to measure innovation outcomes rather than productivity outcomes, which had previously been studied. Salomon and Shaver (2005) find that exporting firms do experience *ex post* increases both in product innovation and patent applications. Studying manufacturing firms in the US, Zahra et al. (2009) find that firms with a broad internationalization scope will enhance their future product innovation. Furthermore, Esteve-Pérez and Rodríguez (2013) find that having engaged in exporting increases the probability of later engagement in R&D activities.

The combination of these explanations reflects how initial self-selection and learning processes stimulate innovation processes and thereafter international competitiveness, resulting in more learning. Golovko and Valentini (2011) as well as Zahra et al. (2009) describe these interactive effects between innovation and internationalization.

As stated in the introduction, our main focus is not the causal effects directly between innovation and internationalization. We are targeting the role of the learning processes as well as how characteristics of the international activity interact with learning and innovation performance, as illustrated in Fig. 1.

It should be noted that the hypotheses also include direct paths between different export characteristics and innovation performance. This is based on an expectation of possible effects even if the firm do not deliberately add learning related activities, as will be explained in the next sections.

3 Hypotheses

Argyris and Schön (1996) propose that a criterion for organizational learning to happen is that the knowledge received by individuals from external sources needs to be communicated and utilized throughout the organization. Moreover, Crossan, Lane, and White (1999) suggest that for organizations to learn, the acquired knowledge must be interpreted, integrated, and institutionalized in organizational routines. Innovation may start with individual learning, but it is the firm's ability to grasp and distribute the knowledge at the firm level that makes the organization learn (Cohen & Levinthal, 1990).

As described earlier, Zahra et al. (2009) state that knowledge-transferring limitations may limit learning processes and Ghoskal (1987) focuses on the need for learning mechanisms. We suggest that the use of both formal and informal systematic learning processes to capture, interpret, and integrate the knowledge the firm acquires from all types of activity (including its international part), will positively affect the innovativeness of the firm as this may increase transferring processes and represent learning mechanisms. Therefore, we suggest the following hypotheses:

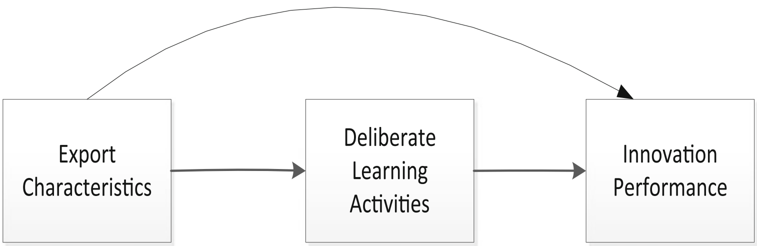

Fig. 1 Learning processes as a tool for innovation performance improvement

Hypothesis 1a The greater the systematic use of **formal** learning activities, the higher the firm's innovation performance.

Hypothesis 1b The greater the systematic use of **informal** learning, the higher the firm's innovation performance.

Recent research has suggested that internationalization makes it possible for SMEs to gain knowledge that may lead to innovation (e.g. Zahra & George, 2002; Zahra, Ucbasaran, & Newey, 2009). SMEs can benefit from knowledge acquired from the international market in several ways. Kotabe (1990) suggests that international firms may get access to resources not available to non-exporting firms, such as different cultural perspectives as well as access to new and different markets. In consumer markets, tastes and requirements differing from those of domestic customers provides new insights to exporting firms. Where export happens in the business-to-business market, the exporting firm might also learn from technology used by their customers (Love & Ganotakis, 2013). Furthermore, exposure to the competition of international markets might drive innovation as a necessity of surviving in these markets (Ganotakis & Love, 2011; Pittiglio et al., 2009).

Pittiglio et al. (2009) refer to several potential sources for new knowledge: suppliers, customers, and other stakeholders engaged in the production process, but also to external actors, such as competitors or knowledge organizations (universities, research organizations etc.). The innovative outcome of exposure to foreign markets can both be incremental improvements (within-paradigm products) and radical innovation (across-paradigm products) (Love & Ganotakis, 2013). Moreover, the basis for further innovations, such as technical and marketing knowledge, is increased (Yeoh, 2004).

Although it is suggested that firms with international activities are exposed to sources of knowledge not accessible for domestic firms, authors have also suggested that the *degree of internationalization* affects the diversity of the knowledge. Using data from US-based SMEs, Zahra et al. (2009) found that firms with wide international market scopes are exposed to a rich network of information, which in turn encourages and enhances future product innovation. Ghoshal (1987) expects that geographical diversity exposes a firm to multiple and differing environments that leads to accumulation of knowledge and learning. This knowledge in itself can foster innovation, because acquiring this knowledge is a "frame-breaking experience" (Zahra et al., 2009, p. 89). We expect the rich knowledge structures made available by internationalization make SMEs able to process information more effectively (Walsh, 1995). This in turn allows SMEs to obtain a greater focus on unique information, which can foster innovation.

Ghoshal (1987) suggests that "*The mere existence of diversity, however, does not enhance learning. It only creates the potential for learning*" (p. 10). Again, to be able to exploit this potential, firms must "*create mechanisms and systems for such learning to take place. In the absence of explicit intention and appropriate mechanisms, the learning potential may be lost*" (Ghoshal, 1987, p. 10). However, we have limited knowledge with regard to a key element: do managers realize that international scope may represent learning potential and actually attempt to develop processes to capture this potential? Within the dynamic capabilities perspective, processes are in focus and rational behavior is expected, as described by Teece et al. (1997). This leads to the following hypotheses:

Hypothesis 2a A high export scope will positively affect innovation performance.

Hypothesis 2b Firms with a higher level of export scope will have more focus on **formal** processes for international learning.

Hypothesis 2c Firms will higher levels of export scope will have more focus on **informal** processes for international learning.

A firm with a large international market scope may still have its international activity in countries which constitute a short psychic distance (PD) from the home country. Hollensen defines psychic distance as "*the individual's perception of difference between two markets, in terms of differences in country and people characteristics, which disturbs the flow of information, goods, and services between the firm and the market*" (Hollensen, 2012, p. 55). Several authors have explored the relationship between psychic distance and knowledge transfer. For instance, Johanson and Vahlne (1977) suggest that high psychic distance inhibits the interpretation of knowledge between country markets. However, Nordman and Tolstoy (2014) found in their investigation of Swedish SMEs that psychic distance enhances the knowledge development in foreign customer relationships. This is supported by Halilem, Amara, and Landry (2014) who find that SMEs exporting to closer markets show negative effect on their probability of being involved in product innovation, whereas a positive effect is found for SMEs exporting to more distant international markets. Hollensen (2012) suggests that the higher the psychic distance, the more adaption of the international marketing mix is needed. We expect that more adaptation requires information exchange and represents learning opportunities. Thus, we expect that the need for adaption that follows from exporting to psychically different countries gives increased opportunities for learning and innovation. Following the similar reasoning as hypotheses 2b and 2c, we also expect that managers realize the existence of a learning potential and actively attempt to exploit this potential. This leads to the following hypotheses:

Hypothesis 3a A high psychic distance to export markets will positively affect innovation performance.

Hypothesis 3b Firms with higher levels of psychic distance to export markets will have more focus on **formal** processes for international learning.

Hypothesis 3c Firms with higher levels of psychic distance to export markets will have more focus on **informal** processes for international learning.

Andersson and Lööf (2009) found that learning effects from international activity was related to the intensity and persistence of a firm's exporting activity. Only firms with high export intensity and persistence in their international activity experienced learning effects (Andersson & Lööf, 2009). Thus, we expect that in order to take advantage of the diverse knowledge sources in international markets, the export intensity needs to be at a certain level. As a result, we expect that a high export intensity will positively affect innovation performance. In addition, higher export intensity represents more learning opportunities as the firm is exposed to more diversity and variation in information inputs. As in the prior hypotheses, we expect managers to react to these learning processes and design processes to stimulate informal and formal learning processes:

Hypothesis 4a A high export intensity will positively affect innovation performance.

Hypothesis 4b Firms with higher levels of export intensity will have more focus on **formal** processes for international learning.

Hypothesis 4c Firms with higher levels of export intensity will have more focus on **informal** processes for international learning.

Figure 6.2 give a visual representation of the conceptual model and the research hypotheses.

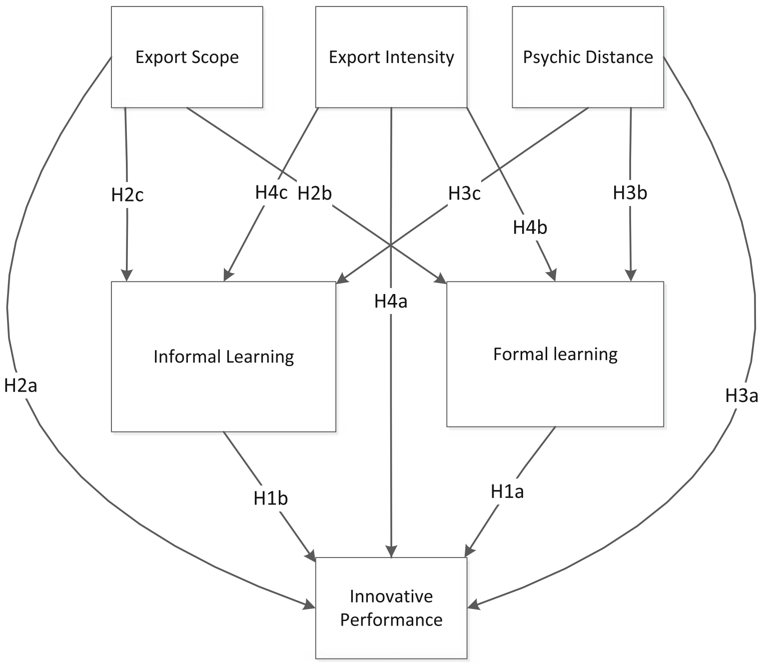

Fig. 2 The conceptual model

4 Methodology

4.1 Population, Sample and Data Sources

The empirical data analyzed in this paper was collected from a sample of Norwegian SMEs involved in exporting activities. Firms in the sample belong to different industries, and operate in both service and manufacturing sectors. Identification of firms was done using the Kompass Norway database. Only firms involved in exporting, with fewer than 250 employees, were selected for the study, resulting in a population of 2262 firms. After a pilot study was performed in order to fine-tune the survey-items, questionnaires were distributed to the relevant recipients by both paper and e-mail. The questionnaire was addressed to the CEO, allowing both returning with use of a web-link of the questionnaire or through mail. When the collection of data was finished in September 2014, answers to the survey questions were received from 380 respondents, resulting in a response rate of 16.8%. As is evident from the descriptive statistics presented in Table 1, the sample is rather heterogeneous.

4.2 Measurement of Variables

The dependent variable is SMEs' innovation performance. There exist several opinions on how to best operationalize a firm's innovation performance (Pittiglio et al., 2009). One option is to measure innovation by valuating the input (e.g. R&D investments) and/or output (e.g., product and process innovations, number of patents/licenses) of the innovation activity (Monreal-Pérez et al., 2012). However, Hessels and Jolanda (2007) suggest that traditional indicators of innovation, such as expenditures on R&D, are not the best indicators for SMEs. This is because informal R&D activities in smaller firms are often underestimated (Vermeulen, O'Shaughnessy, & de Jong, 2003). Output measures such as number of patents are also not generally very useful for SMEs because this indicator tend to underestimate the innovative efforts in small firms (Vermeulen et al., 2003). Because of these limitations, self-perceived innovation is used as an indicator for SMEs' innovativeness in this study.

Table 1 Sample characteristics

	Year of establishment	Number of employees	First year of exporting
Mean	1971	36.97	1981
Median	1981	19.00	1989
Standard deviation	28.94	48.50	52.3

We assessed different approaches to the measurement of innovation performance and decided to use the seven item scale from Branzei and Vertinsky (2006). In this, the items focus on how the firm's development activities elements have influenced different aspects such as national/international market share, profitability, and competitiveness. These items have also been used by Statistics Canada in surveys targeting firms.

Measuring the systematic use of learning activities from international activity was based on Zahra et al. (2000) with seven items capturing the degree of different learning oriented activities. A factor analysis resulted in two different factors, one labeled informal learning and the other labeled formal learning activities. Both are systematic in the meaning of being more than the normal information flow within an organization. Systematic informal learning includes meetings with face to face discussion and sharing of information in meetings. Systematic, formal learning represents a more analytical approach, for example including analyses of successful and unsuccessful international projects. Furthermore, it should be noted that the managers were asked explicitly to focus the learning questions within the context of the international activity of the firms.

The literature describes different indicators for SMEs' degree of internationalization. (Reuber & Ficher, 1997) and Sullivan (1994) suggests that one should use multiple indicators. Often used indicators are export intensity (e.g. Hessels & Jolanda, 2007), scope (e.g. Zahra et al., 2009) and psychic distance. Thus, export scope, intensity and psychic distance are chosen as measures of characteristics of the international activity of the firm.

Table 2 presents the measures used including mean scores and standard deviation.

International market scope is measured by the number of countries the firm sold its products to in 2013, as suggested by Zahra et al. (2009). Furthermore, export intensity is measured by the share of sales in foreign countries in 2013, as suggested by Hessels and Jolanda (2007). Finally, we recode the most important export market in four distance groups (1) Nordic countries, (2) Western Europe, (3) Rest of Europe + US/Canada/Australia and (4) rest of the world) and use these scores as a proxy for psychic distance.

SPSS 24 with AMOS was used for the confirmatory factor analysis. Following the advice of Anderson and Gerbing (1988) we used a two-step approach, first the measures was validated and then the structural equations model was tested in order to assess the hypotheses. Constructs using multiple items were exported from AMOS Version 24 values to the Stats Tools package in Excel and within this package composite reliability (CR), Cronbach's Alpha (from SPSS), average variance extracted (AVE), maximum shared variance (MSV), and maximum reliability (Max R) was computed. Discriminant validity was evaluated based on maximum shared variance and average shared variance compared to average variance extracted; these values show no discriminant value issues. We evaluated reliability by use of the composite reliability score as well as Cronbach's Alpha. Results show Cronbach's alpha with values higher than 0.800, well above the threshold of 0.7 suggested, for example, by Hair et al. (1998). Table 3 shows the

Table 2 Description of the items used

	N	Mean	Std. Dev.
Export scope	279	12.50	16.93
Export intensity	285	42.38%	35.14
Psychic distance	273	2.28	1.19
Formal learning activities			
Formal analysis of unsuccessful projects	309	2.21	1.39
Formal analysis of successful projects	307	2.95	1.74
Formal discussion of how to use what was learned for development of new products and services	308	3.55	1.80
Informal learning activities			
Information sharing in meetings	309	4.28	1.74
Face to face discussions between team	306	4.37	1.75
Innovation performance			
Development activities contributed to profitability	315	5.00	1.54
Development activities contributed to productivity	316	4.61	1.54
Development activities contributed to keeping profit margins		4.97	1.43
Development activities contributed to keeping up with competitors	313	5.25	1.36
General satisfaction with innovation level of the firm	311	4.68	1.43

Table 3 Reliability and validity assessments

Factor	Cronb. Alpha	Comp. Rel.	AVE	MSV	Max Rel.	1	2	3
Formal learning (1)	0.823	0.794	0.575	0.383	0.962	**(0.758)**		
Informal learning (2)	0.814	0.815	0.688	0.383	0.967	0.619	**(0.830)**	
Innovation performance (3)	0.859	0.859	0.552	0.179	0.880	0.247	0.423	**(0.743)**

values; no validity or reliability issues were observed. In addition, common methods bias issues were evaluated based on the Harman single factor test. Results show that less than 50% of the variance was explained by one factor satisfying the normally required 50% threshold.

In the confirmatory factor analysis, it was allowed within factor error terms co-variances based on modification indices values. The confirmatory factor models model fit score shows CFI = 0.989, CMIN/DF = 1.555 and RMSEA = 0.038 indicating a good model fit.

In Table 4, standardized coefficients, standard errors, and critical ratios that result from the confirmatory factor analysis are presented.

Results from the structural analysis are presented in Table 5.

Table 4 Results from the Confirmatory Factor Analysis

CFA results	Std. Coeff.	Std. error	Crit. ratio
Formal learning activities			
Formal analysis of unsuccessful projects	0.582		
Formal analysis of successful projects	0.665	0.187	7.640***
Formal discussion of how to use what was learned for development of new products and services	0.971	0.322	6.659***
Informal learning activities			
Information sharing in meetings	0.845		
Face to face discussions between team	0.814	0.080	12.008***
Innovation Performance			
Development activities contributed to profitability	0.783		
Development activities contributed to productivity	0.621	0.064	12.302***
Development activities contributed to keeping profit margins	0.859	0.077	13.441***
Development activities contributed to keeping up with competitors	0.785	0.067	13.102***
General satisfaction with innovation level of the firm	0.640	0.072	10.780***

***$p < 0.001$

Table 5 Results from the Structural analysis

Structural model results	Std. Coeff.	Std. error	Crit. ratio
Formal learning → innovation performance	0.008	0.091	NS
Informal learning → Innovation performance	0.384	0.065	4.226***
Export scope → informal learning	0.219	0.006	3.012***
Export scope → formal learning	−0.005	0.003	NS
Export scope → innovation performance	0.090	0.004	NS
Psychic distance → informal learning	0.102	0.091	NS
Psychic distance → formal learning	0.277	0.053	3.183***
Psychic distance → innovation performance	−0.066	0.063	NS
Export intensity → informal learning	0.058	0.003	NS
Export intensity → formal learning	0.062	0.002	NS
Export intensity → innovation performance	0.100	0.002	NS

***$p < 0.001$

Model fit for the structural model is good (CFI = 0.984, RMSEA = 0.037 and CMIN/df = 1.522). Based on these results, H1a (formal earning → innovation performance) is rejected, while H1b (informal learning → innovation performance) is supported. All hypotheses including export intensity (H4a, H4b, and H4c) was rejected. We did find a positive significant path between psychic distance and formal learning (supporting H3b) while H3c (psychic distance → informal learning) and H3c (psychic distance → innovation performance) were rejected. Examining H2a, there was no significant positive direct path between export scope and innovation performance, but a path between export scope and informal learning.

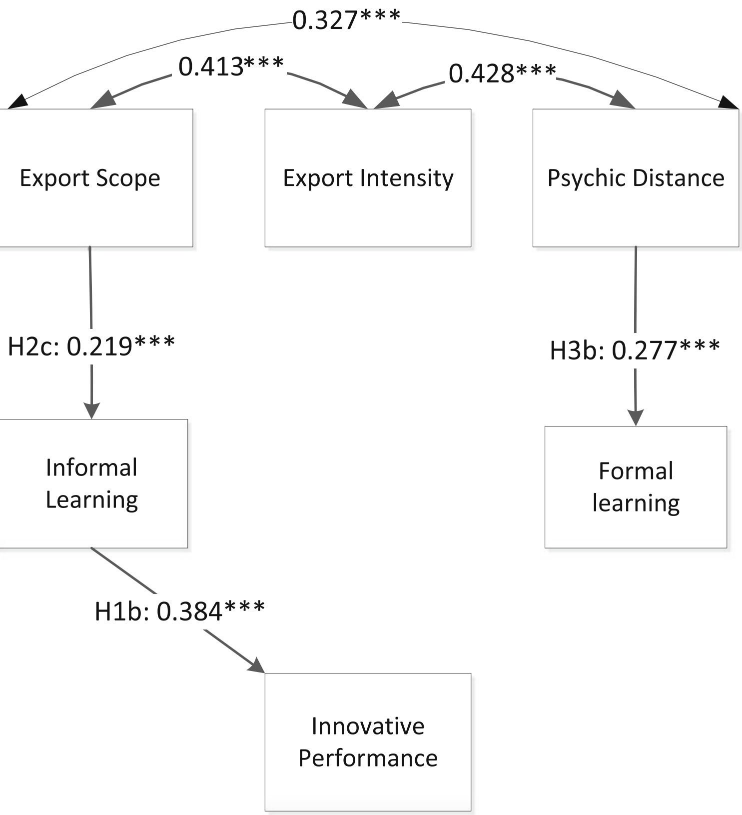

Fig. 3 SEM-results with significant paths included (CFI = 0.984)

Therefore, H2b is supported and H2a/H2c are rejected. The significant paths are illustrated in Fig. 3. As expected, the three measures of export activity were correlated and this is included in the model.

As we noticed, there is a strong interaction between export scope, export intensity, and psychic distance. In the discussion section, we will comment on possible reasons why export scope influences informal learning processes while psychic distance is found to be related to formal learning processes.

The analyses presented do not include the effect of combinations of different learning approaches (for example a high level of both informal and formal elements). We did perform a cluster analysis resulting in four groups (High/high; High/low; Low/low and Medium/medium) with different levels of attention to, respectively, informal and formal learning. We tested for group differences with the Bonferroni test; no significant difference was observed between the formal high/informal high group and the informal high/formal low group with regard to innovation performance, export scope, export share or psychic distance This suggests that there is no added value of combining informal learning with formal learning.

5 Discussion

We will organize our discussion according to the four key results of our study.

1. Systematical **informal** learning from international activities is important with regard to strengthening innovation performance.

Through hypotheses 1a and 1b we explored whether there is a positive relationship between the systematic use of formal and informal learning activities in international markets and firms' innovativeness. Looking at correlations, both informal ($r = 0.346$; $p < 0.001$) and formal learning ($r = 0.183$, $p < 0.01$) was significantly related to innovation performance. But when examined in a path model, the effect of formal learning disappeared. Also, the cluster analysis did not indicate an added value of combining formal with informal learning.

A possible explanation of the importance of informal learning is that the knowledge that fosters innovation is suggested by several scholars as being tacit (Nonaka, 1994; Zahra et al., 2009). Nonaka (1994) argues that such knowledge is hard to communicate and transfer because of its relatedness to the context. Transferring such tacit knowledge is ultimately about facilitating practice oriented relations and interaction between humans (Nonaka, 1994). Hence, an explanation of our results may be that the knowledge that leads to innovation is more easily captured and integrated by informal, and more practice oriented, learning activities. Zahra et al. (2009) further suggest that knowledge in foreign markets is often "tacit, embodied in people's experiences" (p. 84). This may mean that informal learning activities are needed in order to capture knowledge from international activity.

2. Higher levels of export scope, export intensity and psychic distance do not contribute **directly** to increased innovation performance.

In the structural model, no significant direct path was observed between any of the three export activity measures (scope, intensity, distance) and innovation performance. In all organizations, some kind of information exchange and learning will occur, independent of more structured formal or informal learning initiatives. As a result, we did also expect a direct effect.

One possible explanation is that this study is focused on internationalization in terms of export, which is a low-involvement market channel (Hollensen, 2012). Low-involvement market channels might mean that the learning potential is limited because the firm itself might not have a high presence in the foreign markets. Zahra et al. (2009) find evidence that the greater the use of high involvement modes of foreign market entry, the higher the number of future product innovations. High involvement modes require frequent interaction with important groups of people that possess important knowledge (Zahra et al., 2009), giving rise to learning opportunities not available for firms that do not have these frequent interactions. A high level of export intensity means that a high share of the products is exported through the chosen market channel, but does not necessarily mean a high level of involvement in the foreign markets the products are exported to. Therefore, it might not be the level of export intensity/scope or distance that influences knowledge capture from foreign markets, rather the level of involvement in international markets.

A second possible explanation is that even though the most important export marked is outside Europe and culturally distant, the company may have most of its exports geared toward this country and may have been involved in this country for several years. Therefore, the learning potential is already used as the relationship contributes a limited amount of new knowledge of relevance for innovation activities.

Third, Zahra et al. (2009) explain that a broad international scope "may spread managers' attention too far, stifling learning" (p. 84). Capturing internationally generated knowledge from a wide range of countries (i.e. a large international scope) requires time and resources. Hence, it might not be easy to capture this knowledge and embed it into innovation activities within an organization. This might be especially challenging for SMEs, as they experiences liabilities impeding their opportunities to "learn from their international operations and capture new knowledge" (Zahra et al., 2009, p. 82). Findings from Anderson and Lööf (2012) further underline this point; they find that innovation only increases with international presence for firms above a certain number of employees.

Fourth, SMEs' small size and lack of resources may affect the extent to which the firms are able to adapt products or services to new international markets. Exporting to distant markets does not necessarily imply more extensive learning opportunities if the product or service is not adjusted based on the local context. Where larger multinational enterprises might seek to combine the benefits of exporting to a range of countries to experience economies of scale and simultaneously adapt to local demand (De Wit & Meyer, 2014), smaller companies might not be able to reap the benefits of the latter possible source of knowledge due to resource restrictions.

Combined, the lack of direct paths between the export elements and innovation performance confirms the point by Ghoskal (1987) that international activity represents a learning and innovation potential—but mechanisms and processes are needed to transfer this potential toward actual learning and innovation.

3. Higher export scope combined with systematic, **informal learning** initiatives does contribute to better innovation performance.

We did find significant paths in the model from export scope to informal learning, and from informal learning to innovation performance. When we look at the results above describing the lack of direct paths, it seems as though managers may be able to organize internal processes in order to achieve an effect of the international activity on innovation performance. This is interesting, as factors mentioned in the previous section (degree of real involvement, resource constraints etc.) may represent barriers to learning and innovation.

We also observe that it is export scope, not export share nor export market distance that seem to be the key factor creating opportunities for increasing innovation performance. In order to evaluate this result, two elements need to be considered. First, these three variables are highly correlated, implying an underlying degree of export involvement. If we combine this into one factor, it would be significantly related to informal learning processes. Second, when we perform different statistical tests (correlation, stepwise regression, t-tests) the consistent result is that export scope is the most important of these three variables with regard to informal learning. One possible explanation is that a high export scope may give access to more diverse and heterogenic knowledge. If a company exports to 20–25 countries, these countries represent the highest level of variation along dimensions as in example culture, tradition, business practices, demand and usage patterns, competitor behavior, and regulations. If a company is able to extract and use the knowledge potential origin from many countries, this seem to be the best foundation for innovation performance development. A second reason for the relationship between export scope and informal learning processes is that a high number of targeting countries may increase the need for internal coordination of resources, and this coordination aspect contributes to informal learning processes.

4. Psychic distance is related to more formal learning processes, but this does not contribute to increased innovation performance.

There was a significant path between export distance and formal learning processes. No correlation existed between firm size or firm year of establishment and export distance, therefore these results do not reflect larger or older firms relying more on formal processes. It is possible that when the most important export market is distant from the home market, it increases the uncertainty experienced by firm managers and employees and one mechanism for handling this uncertainty is the introduction of more formal processes. As an example, exporting to the US may include the involvement of lawyers and contractual experts to a higher degree than exporting to neighbor countries and this triggers processes that are more formal. However, as we notice, these more formal processes do not increase the innovation performance. Still, they may have an effect in helping the firm handle distance related risk and their adjustments of the international strategy that are not focused on in our study.

6 Implications and Further Research

For managers, the most important implication is that informal learning processes based on the international activity has a significant and positive effect on innovation performance. Some of these processes will always exist in firms, but we have focused on how informal processes may be stimulated and facilitated by managers. This means that scarce resources for internationalization and innovation might at least to some extent be compensated for by introducing systematic informal learning activities in the organization. Within the dynamic capabilities perspective, this could be described as reconfiguration of routines (Teece et al. 1997). However, it is crucial to note that it is the informal learning activities (i.e., knowledge sharing in meetings and face-to-face discussions between different teams) that is important. More formal analyses and processes do not seem to be important. Therefore, merely imposing formal processes will be a waste of resources. Rather, enabling knowledge and ideas to flow to the part of the organization that develops and innovates new products or services through meetings and discussions between teams, seems imperative. The results confirm the findings of Pittiglio et al. (2009) of international firms' innovativeness increasing as a result of the knowledge acquired in international markets.

A second implication for managers is the potential innovation effect of selecting a broad export strategy, involving the firm in multiple countries. It seem as though such a strategy may have a side effect in increasing information heterogeneity and form a foundation for learning and innovation.

For research, one particular important factor to explore in further studies is whether internationalization in terms of high-commitment market channels (such as foreign direct investments) in combination with learning activities increases firm innovation. Also, internationalization in terms of import could possibly lead to closer relationships with foreign actors and hence lead to more knowledge being acquired.

One of the export activity measures, namely share of sales outside Europe, is based on a four-scale classification of countries. A possibility for further research is hence to include more advanced measures of psychic distance, not based on geography, but rather as part of the dataset, as done by Nordman and Tolstoy (2014). With this assumedly more explanatory variable it should be assessed whether innovation increases with increased psychic distance, given that learning activities are in place.

We have based our analysis on linear relations. It is possible that there are non-linear effects, for example a minimum number of countries or an export share threshold that influences the interaction effects and results. In further studies, non-linear relationships need to be analyzed.

As a final comment, we would like to underline the importance of more studies focusing on the transformation of information from export activity into learning processes and innovation effects. Zahra et al. (2009) contributed by including the role of social knowledge; our study contributes with a focus on systematic formal and informal learning processes. A variety of other factors (for example absorptive capacity, psychological safety, team heterogeneity, growth ambitions or perceived market dynamism) may also influence these processes and needs to be studied in further research. Even though it is 20 years since Ghoskal's (1987) notion that learning potential may be lost, this seems to still be relevant for innovative and international firms.

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Strengthening Innovation for Greater Exporting: A Strategic Path for Developing Country Firms

Cheryl Nakata and Erin Peregrine Antalis

Abstract Innovation and exporting together form a strategic path toward growth and competitiveness for developing country (DC) firms. The purpose of this study is to understand ways of strengthening the path of more innovation for greater exporting by examining the roles of DC firm resources and environmental factors in innovation and exporting pursuits. Guided by the Contingency Resource-Based View, we studied these pursuits by Romanian wine companies by conducting interviews with firm managers and industry experts. We determined that innovation-exporting is influenced negatively and positively by five organizational and managerial resources (i.e., international market orientation, production costs, and financial and human resources, passion for excellence, and self-referencing), and six environmental factors at domestic, regional, and global levels (i.e., market development, market integrity, regional funding and regulation, country-of-origin effects, and global competitive intensity). The combination of effects indicates a complex set of dynamics shaping innovation-exporting actions of DC firms. There are several managerial implications of, and future research directions resulting from, our findings.

1 Introduction

It is widely believed that exporting holds the key to growth for firms in developing countries. This belief rests largely on neoclassical economic trade theories by Adam Smith and David Ricardo positing that, as firms specialize productive resources toward making goods at home and selling abroad, while importing what they cannot make comparatively well, their financial fortunes rise in response to greater effi-

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ciencies (Ricardo, 2004; Smith, 2003). Many leaders of multi-lateral institutions, governments, and businesses share this view, such that it has become economic orthodoxy. For firms based in developing countries, exporting is particularly attractive as a path toward growth. The spectacular rise of China's economy, which has grown on average 9.5% annually for two decades (Head & Dougherty, 2015), provides visible proof of how transformational exporting can be. Other developing countries are following suit, such that over the past decade they along with China have increased their share of world exports from 25% in 1995 to 44% in 2014 (WTO, 2015).

While developing country (DC) firms are turning to exporting, their reliance on foreign sales also creates vulnerabilities. Foreign buyers who sought out low-end commodity-like goods in one country can shift orders to producers in cheaper countries. China for example has experienced rising wages, and seen Bangladesh and Laos picking up increasing shares of manufacturing contracts (Morris, 2015). Other foreign buyers who once happily ordered standard products are now demanding products with unique features (Schrage, 2011). DC firms unable to meet these new requirements lose sales. To reduce vulnerabilities, more DC firms are seeking to move up the value chain through innovation, i.e. making products with novel attributes in addition to low prices (Bello, Radulovich, Javalgi, Scherer, & Taylor, 2016; Milberg & Winkler, 2013). The result is a twin strategy of innovation and exporting.

The twin emphasis reflects the recognition that long-term business survival depends on value-based invention to satisfy the evolving needs of international markets. It has been theorized that investments in innovation, which yield improvements in product performance, enable firms to compete more effectively in the export arena (McGuiness & Little, 1981). In other words, innovation fuels exporting. There are also spillover effects into the domestic market, as the higher quality, more unique products designed for foreign markets are introduced locally, building advantages over local rivals (Golovko & Valentini, 2011). These positive effects of innovation on exporting thus represent a strategic path for DC firms pursuing export growth.

But how do DC firms pursue this path, or strengthen innovation in order to enhance exporting? Although innovation and exporting have been studied independently, there is limited understanding of what contributes to the innovation-exporting relationship for businesses based in developing countries. These businesses typically have limited resources and nascent competencies relative to those in the developed world. Furthermore, they operate in environments that are less munificent and more hostile towards commercial activities (Nakata & Sivakumar, 1997). Not surprisingly, studies indicate that innovation and export patterns differ significantly between industrialized and industrializing nations (Martins & Yang, 2009; Rubera & Kirca, 2012; Story, Boso, & Cardogan, 2015). Such differences may be attributable to distinct institutional, i.e. social, political, and market, environments as well as firm resource heterogeneity (Mueller, Rosenbusch, & Bausch, 2013). The aim of this study is to shed light on what contributes to the innovation-exporting tie, and in particular how firm resources and environmental factors help or hinder a DC firm's innovation and thereby export efforts.

To address this purpose, we apply a case approach, namely depth interviews with firm owners and managers in one industry in one developing country. The industry is wine and the country is Romania. As later explained, the Romanian wine industry provides a suitable setting for our study due to its significant size and growing exports, and because of the country's recent emergence from communism and participation in the global economy. In the following sections, we present the study's theoretical girding, methodology, findings, and implications for international marketing managers and scholars.

2 Literature Review and Theoretical Background

For sake of clarity, we begin by defining the terms innovation and exporting. Innovation refers to the activities undertaken by firms to initiate and implement new ideas, products, strategies, and processes in order to exploit opportunities in existing and/or new markets (Mengue & Auh, 2006; Miller & Friesen, 1982). We expand the term's meaning from the more confined notion of product innovation to account for novel improvements in any area of the organization. Nonetheless, new products —whether new to the world or the firm—represent the focus of most innovation efforts. Exporting refers to the making of a good domestically and selling it to customers in a foreign market (Hill, 2015). We elaborate this concept to refer to the firm's product presence in foreign markets, and plans to increase sales in current export markets as well as to more countries in the future (Ibeh, 2004).

Innovation and exporting have received considerable attention from scholars due to their contributions to firm performance (Medina-Smith, 2001; Rubera & Kirca, 2012). These two behaviors have generally been studied independently, such that a tie between them has only rarely been considered in the context of developing countries. One reason for the infrequent linkage is that the idea of globally competitive firms based in emerging markets is relatively new, as illustrated by the recent successes of Chinese and Indian companies such as Huawei and Tata Motors (Black & Morrison, 2010). Yet innovation and exporting behaviors have been posited as interconnected in order to explain why some companies export proactively and successfully, while others hesitate and languish even under similar organizational and market conditions (Samiee, Walters, & Dubois, 1993). It may be that the propensity to create and take risks, i.e. innovate, also underlies the inclination to accept the uncertainties and challenges of foreign markets, i.e. export.

2.1 Building on Knowledge of the Innovation-Exporting Link

When considering innovation and exporting, one question that arises is the nature of the tie. The possibilities are that innovation leads to exporting and that conversely exporting leads to innovation. While researchers have found evidence for both routes (Becker & Egger, 2013; Cassiman, Golovko, & Martínez-Ros, 2010; Salomon & Shaver, 2005), a handful of studies have gone a step further to explicate the routes specifically in a developing country context. One of these works is by Bravo-Ortega, Benevente, and Gonzalez (2014). Using a national survey of Chilean businesses conducted over seven years, the authors determined that innovation leads to exporting and not vice versa. Another is by Nguyen, Quang Pham, Nguyen, and Nguyen (2008), who examined over 112,000 small and medium enterprises distributed across major provinces in Vietnam. Accounting for endogeneity, Nguyen and colleagues likewise concluded that innovation makes a significant contribution to exporting. In sum, there is evidence that in developing countries innovation fosters exporting, also known as the exporting-by-innovating route.

With the innovation-to-exporting tie established, a key remaining issue is how DC companies strengthen the linkage to reap the rewards of greater sales from international markets. In other words, what are the contributors (or inhibitors) to this relationship and how do they work? Our review of the innovation and export literatures indicates that this question has not been fully addressed given the dearth of work at the intersection of these two streams. We therefore broach it with the aid of the Contingent Resource-Based View theory.

2.2 Guidance from the Contingent Resource Based View

The Resource-Based View has long been the dominant paradigm applied to strategic marketing behaviors like innovation and exporting. Recent examples of the theory's predictive powers are studies on knowledge and innovation strategies in emerging markets (Lynch & Jin, 2016), exploration and exploitation approaches to radical versus incremental innovations (Marin-Idarraga, Gonzalez, & Medina, 2016), and location influences on export-related resources, capabilities, and performance (Freeman & Styles, 2014). However, the scholars who developed the theory and their critics acknowledge that the Resource-Based View tends toward an internal perspective of the firm (Barney, 2001; Priem & Butler, 2001). Consequently, endogenous factors are given much higher, if not exclusive, emphasis in many applications, while externalities such as competitive intensity are discounted. In light of this acknowledgment, we turn to an expansion known as the Contingent Resource-Based View or CRBV. The CRBV provides a counterbalance to the internal focus of the original theory by attending equally to exogenous elements, and by so doing presents a more holistic portrait of a firm's strategic behaviors. We believe this portrait is useful given the distinctively challenging conditions of developing country firms. Since we aim to understand how the innovation-exporting effect is strengthened in DC firms, it is critical to account for their exogenous as much as endogenous circumstances.

According to the CRBV, firm behaviors such as innovation and exporting can produce sustainable competitive advantages and thereby superior performance.

Innovation and exporting behaviors represent complex capabilities that result from possession of heterogeneous resources and management of the business interface with natural environments (Aragon-Correa & Sharma, 2003). Complex capabilities are ones that enable firms to combine and configure internal resources in order to enhance organizational fit to varying environments (Brush & Artz, 1999). Due to the fundamental role of firm resources, without which innovation and exporting capabilities cannot form, and the distinctiveness of environmental conditions in developing countries, we attend to internal resources and the environments of DC firms as inputs to the innovation and exporting linkage. Future research may examine other potential inputs.

In terms of resources, managerial and organizational assets are likely to be the most critical, as suggested in prior innovation and exporting studies (e.g. Henard & Szymanski, 2001; Lengler, Sousa, & Marques, 2013; Leonidou, Katsikeas, & Samiee, 2002; Rubera & Kirca, 2012). Therefore in our study, we seek to identify managerial and organizational factors that elevate (or diminish) innovation-exporting behaviors. According to the CRBV, environments do not mechanistically determine the strategic actions of businesses. Firms choose the degree to which they monitor and respond to their natural environments. Those that apply higher degrees actively undertake measures to exploit external opportunities and ward off threats, improving their adaptiveness to surrounding realities (Brush & Artz, 1999; Zajac, Kraatz, & Bresser, 2000). Furthermore, the CRBV highlights that different levels of environments must be accounted for, as each can demand distinct organizational resources to ensure proper alignment and effective performance (Aragon-Correa & Sharma, 2003; Miller & Friesen, 1982). Consistent with our interests in DC firms that export, we propose three levels of environments are relevant to study: domestic, regional, and global. As best we know, this is one of the first studies to examine all three environments in relation to DC innovation-exporting actions.

The domestic developing country environment is the most immediate to the DC firm. Often characterized by economic stress, political uncertainty, infrastructure deficiencies, and market underdevelopment, that environment can hamper innovation and exporting activities as indicated in some studies (e.g. Allard, Martinez, & Williams, 2012; Grenier, McKay, & Morrissey, 1999; Teal, 1999). The regional environment is likewise relevant, particularly in view of the increasing participation of developing countries in regional trade agreements, such as Mercosur in Latin America, ASEAN in Asia-Pacific Rim, and the European Union across Europe (Hill, 2015). These political-economic arrangements enable DC firms to pursue export markets, lower transaction costs, and import advanced technologies and knowledge, shaping innovation-exporting behaviors. Finally, DC firms that export are interfacing with the global environment. By selling globally, they join the bevy of businesses vying for the attention, pocketbooks, and loyalty of customers in different parts of the world. DC firms can be hampered by negative perceptions of their country, known as the country-of-origin effect, as well as by limited experience in competing head on with better resourced multinational corporations (Bilkey & Nes, 1982). Thus the global environment is relevant to a DC firm's innovation and exporting thrusts.

Building on insights from the extant literature, alongside guidance from the CRBV, we conduct a study on Romanian wine businesses to understand the firm resources (managerial and organizational) and multi-environmental (domestic, regional, and global) conditions that facilitate or impede the innovation-exporting relationship and behaviors among DC firms.

3 Methodology

Romania is a developing country with per capita annual GDP of $8400, which ranks near the bottom of European countries and is 50% below that of Russia (World Bank, 2014). It has Europe's largest rural population, highest rural poverty rate, and greatest disparity in living standards between urban and rural dwellers (World Bank 2, 2014). As a former satellite of the U.S.S.R., it recently joined the European Union (EU), and is undergoing political, economic, and social reforms as conditions for and consequences of its membership. It thus represents a developing country embarking on modernization, including through efforts to export and innovate.

The wine industry has been a focus of modernization, due to the country's significant production of wine and long history of winemaking. Romania is the eleventh largest wine producer in the world and fifth in Europe, following France, Italy, Germany, Spain, and Portugal (Ladaru, Beciu, Vlad, & Padure, 2014). Despite this output, Romania is an emergent wine exporter, shipping less than five percent of its production to other countries (APEV, 2010). However, the sector is making concerted efforts to redirect consumption outwardly, so that wine becomes a chief export. Concomitantly, the industry is beginning to invest in innovation to make Romanian wine more competitive locally and internationally. Given Romania's developing country status and globalization interests, and the significant size yet nascent innovation and exporting activities of its wine industry, we chose to examine Romanian wine companies. We acknowledge that other developing countries or industries could also have served as study sites, but selected Romanian wine businesses due to their suitability for our study.

To address the study purpose, we conducted thirteen in-person depth interviews with managers and owners of seven domestic wine companies in Romania. Interviews followed a protocol that openly inquired into innovation and exporting efforts. The companies were selected to form a theoretical sample to capture a spectrum of views on the issues at hand. The organizations differed in size, age, origin, structure, location, and market interests. One firm for instance was of private origin, employed fourteen workers, and had been making wine for two years; another firm was formerly a state-owned enterprise, employed several hundred workers, and had been producing wine for several decades. We targeted managers or owners, and asked to visit them in Romania at the winery operation. We secured the participation of seven wine firms, including two of five largest in the country, and several smaller and newer businesses. At that time Romania had fewer than 40 wine companies, so the seven represented almost 20% of the total.

Furthermore, to ensure insights on environmental aspects of innovation-exporting, we conducted interviews with five wine industry experts in Romania: a consultant, academic, retailer, journalist, and trade association director. All interviews were guided by a semi-structured protocol, audio-recorded with permission, and carried out in English or Romanian. If Romanian, a research assistant provided translation into English during the interviews. Interviews were each one to three hours in length.

Subsequently, all interviews were professionally transcribed, producing about 1000 pages of double-spaced written transcripts, and checked against the audio recordings for accuracy. For data analysis, the interviews were triangulated. In other words, the perspectives within, across, and outside the firms indicated in the interviews were compared against one another to arrive at conclusions about firm resources and environmental influences on wine innovation-exporting in Romania. The transcripts were iteratively reviewed to identify these effects until data saturation was reached, i.e. no further insights were gained. The findings, summarized as a framework in Fig. 1, emerged from the data analysis.

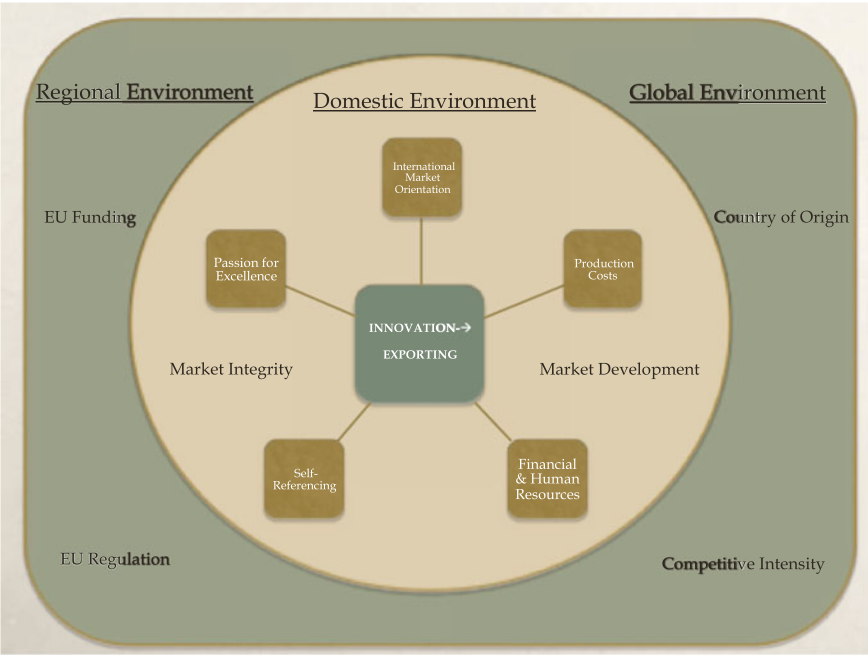

Fig. 1 Organizational, managerial, and environmental influences on developing country innovation-exporting linkage and behaviors

4 Findings

The data reveal that five firm factors impact innovation-exporting, of which three occur at the organizational level (international market orientation, production costs, financial and human resources) and two at the managerial (passion for excellence and self-referencing). The firm is surrounded by domestic, regional, and global environments, each of which influences a DC firm's innovation-exporting behaviors through six distinct elements. In the domestic environment, the forces are market development and market integrity. Within the regional environment, the EU has a profound effect, specifically its regulation and funding of the Romanian wine industry. In the global environment, competitive intensity and country of origin are salient factors in innovation-exporting behaviors. These findings are summarized by Fig. 1 and discussed hereafter. Due to space constraints, each factor can only be briefly elaborated by the qualitative data. All informant names are pseudonyms.

4.1 Organizational Factors

4.1.1 International Market Orientation

International market orientation is a key organizational resource that enables firms to innovate and sell their products to buyers in other countries. We distinguish this resource from general market orientation (Kohli & Jaworski, 1990) in that it is a specific emphasis on understanding and satisfying customers outside the country. Firms with this orientation engage in international marketing research (e.g., talking to and observing consumers in other countries), educate themselves on global consumption trends (e.g., the movement toward fruity "fresh" wines), segment markets individually by country to locate attractive targets (e.g., recognizing the burgeoning interest in French style red wines among the nouveau riche in China), and adjust the promotions to elevate market interest in their export items (e.g., by explaining Romania's geography and *terroir*). Donna, a marketing manager for a relatively new wine company, observed the differing wines in demand in emerging versus mature markets:

> "…Asia wants now baric [oak casket]. They like tannins and the wine dry. I didn't expect they will look for such wine and brands. If you go to Europe this year in London, I saw everyone looking for fresh wine, fruity wine…. So you know, you have to have this and that [different wines to satisfy varied preferences]."

Based on such observations, her firm has developed several new wines with differing taste profiles for export to China and the U.K. Exports to China have grown to the point where the firm is investing in an export distribution center in Hong Kong to reduce costs and improve delivery speed. Although such customization is done to address distinct customer preferences, firms also attempt to satisfy foreign customers based on a deep understanding of each market. For example, a manager named Tim at another firm noted that lower prices help export sales to Germany:

> "Each and every market has different characteristics. In Germany because of the huge competition…either from German wine but also from other foreign wines, the market, regarding Romanian wine, is a price driven market."

4.1.2 Financial and Human Resources

Besides international market orientation, another critical resource is financial. Romanian wine companies are generally not as richly endowed as multinationals in Italy, France, and the U.S., where the largest global industry players are headquartered. Romanian managers told us that much of their capital is tied up in equipment, inventory, and land, such that there is little available for efforts beyond serving the local market, the sector's primary and traditional focus. The wine business is capital intensive in that investments in vineyards do not yield a return for several years. The vagaries of weather can also destroy much of a year's crops, as it did recently through torrential rains and widespread mildew, producing significant financial losses. One owner described Romanian wine operations as "surviving and floating" but "not in the stage of taking off." All informants said more financial resources are needed to progress in developing and selling new wines for international buyers.

In additional to financial resources, some informants noted that human resources, especially in marketing and exporting, are scarce. Most desirable are workers who know how to cultivate relations and sales in foreign markets. The senior manager at one company shared some frustration that he has no export department and thus has to handle these responsibilities largely on his own. Critical as well are marketing staff. Ian, who heads a growing wine business, admitted a "lack of knowledge of best marketing approaches," particularly with respect to new product development, bottle design and labeling, and promotions to distributors and end customers. We observed that innovation among Romanian companies is mostly incremental in nature, and not guided by marketers with significant new product experience. Such inadequacies are characteristic of DC firms, where qualified and experienced professionals with the know-how to identify new product opportunities, shepherd product development, and work with international markets are few and far between.

4.1.3 Production Costs

Another organizational factor affecting DC firms' innovation-exporting activities we learned of is production costs. For DC firms that are saddled with legacy structures, including old vineyards and outdated processing equipment, the costs of production are very high, restricting the ability to innovate efficiently or export competitively.

Romanian wine companies face high domestic production costs. While labor is relatively cheap, the vineyards have low yields since their sizes are small, the vines are old, and the terrain often inhospitable to farming. On average, just twelve tons of grapes can be harvested from each hectare, which is half or less than in Italy or Spain. Given the low yield, Romanian wines are more expensive to produce and have a price disadvantage on foreign markets. This disadvantage is magnified in the context of plummeting price-quality ratios for wines globally, such that consumers are able to purchase superb wines from many different countries inexpensively.

Because Romanian firms are having to replant or resurface vineyards neglected during decades of communist rule, the costs of production also rise by virtue of delaying grape harvests for several years. In many instances revitalization of vineyards can only be done incrementally since capital is scarce. Consequently, almost all firms source grapes from other vineyards, as discussed with Dan, who owns a wine company with his father.

> Dan: There has [been] a possibility to make a fantastic and explosive modernization to our vineyards…
>
> Interviewer: You do or do not [modernize]?
>
> Dan: We have not have the possibility. We increase the technology [for vineyard revitalization] of only about a quarter of the existing surface.

4.2 Managerial Factors

4.2.1 Passion for Excellence

Along with organizational resources, managers and owners function as assets to their firms by helping to propel innovation-exporting. Among managerial attributes critical to facilitating these joint capabilities is passion for excellence. For example, David started a winery several years ago and has focused on producing Romanian wines sought by collectors and connoisseurs. He explains that he deliberately grows a variety of grapes in a small vineyard, enabling him to have a wide range of grapes at his disposal to blend into distinctive wines while maintaining close and direct control over the quality of grapes:

> "…we are the smallest winery in Romania…we are having fifty variants [grape varieties] capacity…we chose to have a winery [yielding] not more than fifty wagons because…to focus on the top wines, so we are producing just the top wines."

Ian is a third-generation winemaker who elaborates on the passion for excellence that he has inherited from his family:

> "I have Bucium [a region of Romania] blood. I am Bucium blood. My father, grandfather were all wine growers. And for us, it's a religion of winemaking. You dedicate heart and soul, body and soul. If you don't do your profession with passion, you don't do anything. At the end, it's not just the financial part."

Ian's comment that he is not preoccupied by the financial goal highlights that the passion exists for its own sake, rather than being instrumental for another goal.

At the same time, passion for excellence is not universally shared by all Romanian winemakers and wine companies. Several informants we interviewed are more focused on maximizing export sales by providing bulk wine to other countries such as Germany. The purchased wine is mixed with local German wine and bottled under the "product of Germany" label, masking its Romanian origins. Such efforts undermine those of wine producers who direct their passion for excellence toward creating innovative, high quality wines for domestic and foreign consumption.

4.2.2 Self-referencing

A second managerial factor affecting innovation-exporting is self-referencing, or using oneself as the standard. This orientation is so strong in certain cases that it is argued Romanian wine is well- known and -regarded internationally, contrary to widely held perceptions outside the country. The director of production for one of the largest wine companies reflects this self-referencing orientation in his remarks:

> "Everyone knows that Romanian wines are good wines. We're the fifth largest producer in Europe. And all these Romanian wines had success in the export markets even from the communist times. The Romania wines received lots of medals in international contests…. As far as the quality of the Romanian products, no one is doubting that the quality is not okay. Not one is doubting that—no one is doubting their quality."

This internal perspective limits innovation and exporting since the highest standards and best practices in the wine industry are outside of Romania. France, Spain, Italy, and Germany represent the standard bearers of traditional, 'old world' wines, while the U.S., Australia, New Zealand, South Africa, Chile, and Argentina are models of modern, 'new world' wines (Bartlett, 2009). As one wine consultant who has worked in the industry for over twenty years advises, Romanian managers and owners should travel to these and other countries to learn about the latest developments in order to improve the range and quality of wines at home.

Notably, the more innovative and export active firms are led by owners or managers with a more cosmopolitan outlook. These individuals are in a few cases foreign themselves or more often native Romanians who have traveled widely outside the country to gain an appreciation of how wine is made, sold, consumed, packaged, promoted, and distributed elsewhere. One viticultural expert we interviewed is a native Romanian who has lived in Australia and worked in its wine industry for almost twenty years before returning home to direct the vine-growing and grape-harvesting operations of a local company. Such experts introduce a "different mentality" into the trade, fostering an openness to new approaches to wine making and wine marketing.

4.3 Domestic Environment

4.3.1 Market Development

Consistent with the CRBV, we found several environments shaping innovation-exporting. The most immediate impact is from the domestic environment. The domestic environment surrounding Romanian wine firms is characteristic of many developing countries in terms of providing a less stable, resource abundant, and hospitable setting to conduct business. Our interviews surfaced two facets of this environment that especially affect wine innovation and exporting endeavors. One facet is the embryonic stage of the domestic market.

We found the maturity and development of the Romanian wine market to be in the early stage as indicated by (a) a strong preference for sweet and bulk wines over dry bottled wines; and (b) the prevalence of "gratuities" and other forms of discounting to entice purchases versus the acceptance of premium prices; and (c) a low interest in wines popular outside of Romania, especially those made in the "new world" styles. In response, we found the majority of Romanian companies accepting and maintaining this market stage of development by satisfying rather than attempting to alter consumer demands. Firms have concomitantly ignored export opportunities that require very different products and marketing, choosing instead to make sweet, simple, even sugared, lower grade wine in large quantities.

This situation was acceptable until the national economy fell into a major recession, following the global financial crisis that began in 2009. Suddenly, consumers were less able to afford discretionary items such as wine, or demanded much lower prices if they chose to buy a bottle. Having relied heavily on the domestic market for sales, Romanian companies who till that point had not been attending to foreign markets were unable to pivot quickly to satisfy the much higher requirements of wine consumers in other countries.

In contrast, Romanian companies who saw their long-term growth resting with foreign markets continued to create new wines, packaging, and promotional appeals to address non-Romanian customers. These firms were not only better able to weather the significant downturn in domestic sales, but also—by moving constantly up the learning and production efficiency curves—able to exploit openings in export markets in a timely fashion. Furthermore, the export-oriented innovations they developed are distributed locally to compete with the growing array of better quality and higher value wines from other countries such as Spain and Australia that are starting to enter the Romanian market since the country's accession to the EU.

What is demonstrated by these differing approaches to the under-developed domestic market is an intriguing connection between the domestic and foreign markets. As noted earlier, innovation efforts directed toward creating new products for exporting have spillover effects (Golovko & Valentini, 2011), such that those products destined originally for foreign customers can also be sold locally to make inroads against competitors. The data from our study indicate that the connection between the two markets also occurs in another fashion: when firms are primarily directed toward an under-developed domestic market, their innovation efforts remain at a low ebb to match the requirements of the market. Although this strategy may produce some short-term efficiencies, it concomitantly results in a diminished capacity to address the more developed and larger external market and to compete effectively over the long haul, including with foreign products in the domestic arena.

4.3.2 Market Integrity

A second aspect of the domestic environment shaping the innovation-exporting actions of Romanian firms is integrity of the local wine market. By market integrity, we refer to the adherence to ethical standards in wine production, distribution, and marketing. Rooted in its history of state-owned enterprises and Marxist ideology, the domestic wine market like many other sectors has been governed by opaque and capricious rules directed by central authorities. The market is dominated by a handful of large wine firms, which benefited from the collapse of communism by appropriating state assets during a time of tumultuous transition to a market economy and quasi-democratic political system (Keil, 2006). The result is a market with constantly changing regulations not entirely consistent with EU laws, ordinances that are poorly enforced and permit harmful practices (such as the sale of black market wines), and bureaucratic procedures that impede business development and innovation (such as the slow release of government funding to firms, which end up taking out loans to cover the gap and jeopardize their viability in the process).

As discussed by informants, the market is furthermore characterized by the open sale of "faux wines," which are made of fruit juices other than from grapes, with added sugars and other ingredients. Counterfeit wines are also widely available. These are wines in which nearly every aspect of best-selling wines are duplicated, down to the name and label. Regulators and distributors turn a blind eye to such products sitting on store shelves as they sell well. To the degree these practices are tolerated, they undermine the integrity of the market, take advantage of consumer ignorance, and financially reward firms who cross the line. At the same time, they dampen innovation and exporting activities by signaling that genuinely original and new products are not worth the time and investment, and by de-incentivizing export risk taking since it is easier to grab the low hanging fruit of illegitimate domestic sales.

4.4 Regional Environment

Since the end of the totalitarian era in 1989, Romania has been reinvigorating its wine industry. Joining the EU in 2007 greatly accelerated these efforts through access to viticulture experts, exposure to foreign markets, and availability of EU capital and marketing aid. This period of political and economic transition has nonetheless proven a challenge for the Romanian wine industry, given the depth and breadth of change required to bring the industry up to regional and world standards (Anderson, 2004; Bartlett, 2009).

4.4.1 EU Funding

Based on our interview data, the EU has been the most critical regional force shaping the Romanian wine industry generally and the innovation-exporting behaviors of firms specifically. Two factors of the EU-driven regional environment have had a major impact: EU funding and EU regulations. As an EU member state, Romania has received what are known as SAPARD funds to modernize its wine industry. These funds, while at times cumbersome to apply for, have been used by Romanian firms to restore vineyards, acquire new vinification technologies, obtain marketing and promotional support, and replace aging plant and equipment, some of which are holdovers from state-owned enterprises. Nearly all Romanian wine companies have received SAPARD funds. Significantly, some are receiving funds to market their wines abroad, including to other EU countries. Donna, a marketing manager, relays her excitement over the prospect of obtaining not merely a loan but an outright grant for this marketing:

> "…some [EU] grants they are very helpful for us. I'm just looking now for one…and it is good for us because you can go now to Europe, they give money…to go out in Europe…. And they give you eighty percent, for the marketing budget. Then [the rest] it's your cost."

Donna's supervisor is Amy, the owner of the firm and manager in charge of vinification. Amy elaborates how she has applied EU funds to improve key aspects of the business:

> "I've told you there are a lot of changes in the field in Romania in the last five years due to the funds we received from the European Union for new facilities, for new technology as well as for new vineyards, new plant. New vineyards mean establishing new vineyards in old places. I really believe that in the next five years all these investments will show their work."

Amy showed us some new products she had developed with the assistance of SAPARD funds. The products are interesting blends of native Romanian grapes such as Feteasca Neagra and noble French grapes such as Cabernet Sauvignon. She designed new labeling and packaging for the wines to present a more contemporary face for Romania. She has begun selling the products to buyers in Europe and China as well as distributing them locally.

4.4.2 EU Regulations

In addition to funding, the EU has introduced regulations to the industry with the aims of making the wines safe to consume and tradable across borders. Romanian producers must comply with EU laws regarding labeling, production, shipping, and sales procedures, which often supersede domestic laws. The requirement is reducing the volume of questionable wines sold, such as “faux wines,” and clamping down on other practices that harm consumers and sully the reputation of the industry. Managers we interviewed noted that ultimately EU regulations will make competition among Romanian firms fairer and more transparent. Moreover, as the industry becomes more EU-regulated, ferreting out unethical and unlawful practices, including counterfeiting and piracy, innovations and exports are expected to grow. Johan, a director of a formerly state-owned wine enterprise, welcomes the EU laws:

> “The EU regulations didn’t affect us negatively…. EU regulations are actually helping us because they will clear the market of faux wines that are fakes. …the money that comes from the European Union is also bringing control. To make sure laws are applied correctly…and the ones who don’t comply will be shut down.”

Fake products have eroded sales of legitimate products and fueled the reputation at home and abroad of Romania producing cheap, low grade, even toxic drinks. Firms aiming to improve product quality, create authentic native wine, and distribute to discriminating buyers outside the country believe such practices undermine their efforts. Not surprisingly, then, informants complain about lax industry oversight by Romanian authorities, tied to a culture of political corruption, and welcome EU intervention:

> “In terms of laws in Romania, this is another big problem in predictability because the Romanian laws are functioning very badly this time. It’s a very strong political situation. They’re [the local and national governments] fighting democracy.” [Michael, CEO of a wine firm]

4.5 Global Environment

4.5.1 Country of Origin Effects

Beyond the regional environment is the larger global environment, which also influences the innovation-exporting behaviors of Romanian businesses. Two factors have salient influences, namely country of origin and competitive intensity. Developing countries such as Romania often face a perceptual bias from buyers in other parts of the world against their goods and services known as the negative country-of-origin (COO) effect (Bilkey & Nes, 1982; Carter, 2014). Generally, economic development corresponds with this effect, such that more developed countries cast a positive halo over what they sell and make, while less developed countries tend to cast a negative halo. Eastern European countries, of which Romania is one, often suffer from a greater negative bias than their degree of economic development warrants (Bilkey & Nes, 1982).

Informants told us that the negative perception of Romania is perhaps strongest in Western Europe, which is Romania's chief export market. The perception is that wine from Romania, irrespective of objective quality, is barely drinkable. The image forms a low ceiling on prices and demand for Romanian wine, especially relative to wine coming out of positive image countries such as Italy and France. Romania's image challenge stems from past conditions such as Romania's historic emphasis on volume production of inexpensive sweet wines during communism, when sugar was added to mask imperfections, and a long period of autocratic rule that responded unusually harshly and violently, even by Soviet standards, to threats to its authority (Keil, 2006).

The negative COO hinders export sales and likewise innovation activities. Some of the managers/owners of Romanian wine firms we interviewed commented on how they are expected by foreign distributors to provide wine in bulk or broached form and keep prices very low due to these unflattering images. Thus the opportunity to sell unique bottled products at premium prices is relatively small, driven not only by the low expectations and demand from consumers but also from the distributors.

4.5.2 Global Competitive Intensity

The second factor in the global environment is competitive intensity. As already noted, Romanian wines are often at a price disadvantage due to higher production costs, but more generally they are at a competitive disadvantage since a quality reputation does not accompany the higher prices. Spain, Italy, Argentina, Chile, and other countries are able to make and sell wines of often superior quality at lower price points. Additionally, large foreign multinational firms such as Gallo, Constellation, and Pernod Ricard have comparatively greater resources, networks, and expertise to push their wine products into global channels and reach many consumers through their wide array of product offerings at different price points.

The managers and owners we interviewed are particularly sensitive to the difficulty of competing against other European wine businesses. For example, one informant described the situation as follows:

> "…we were put into a competition, into an unfair competition in my opinion…with other countries mainly from European Union, which was subsidized for ten, twenty years already…and which are still subsidized at a higher rate and then higher volume than Romanian [wine companies]. So in a couple of years, until 2007 up to 2009, we are supposed to become as competitive as any other country from European Union…with their twenty years of subsidizing and free market in the wine field."

Thus while the EU provides the benefits of fairer and more transparent regulation and funding, it also leaves Romanian companies open to head-to-head competition with fellow European wine firms, which have received many more years of financial and business development support from the EU. These rivals are also entering and investing directly in Romania to set up wine operations, leveraging their greater technology and capital, another source of concern for Romanian businesses.

Facing more competition at home and beyond, Romanian wine firms struggle to be on par with powerful rivals who have stronger innovation and exporting capabilities. Romanian firms are still moving up a steep learning curve to absorb modern viticultural and vinification methods, understand the taste preferences of wine consumers around the world, and market products effectively through branding, packaging, and varietal selection and blending. The EU has flung open the door to competition, and only those Romanian companies that are sufficiently adaptive and able to carve out market niches appreciative of their innovations and exporting efforts will likely survive.

5 Conclusion and Future Directions

The aim of this study is to shed light on what contributes to the innovation-exporting tie, and in particular how firm resources and environmental factors help or hinder a DC firm's innovation and thereby export efforts. To address this aim we were guided by the CRBV, and conducted depth interviews with managers and owners of wine companies in Romania as well as with Romanian wine industry experts. We determined that the innovation-exporting relationship and behaviors are influenced by five organizational and managerial resources at the firm level (international market orientation, production costs, and financial and human resources, passion for excellence, and self-referencing), and by six environmental factors at the domestic, regional, and global levels (market development, market integrity, EU funding, EU regulation, country-of-origin effects, and global competitive intensity). Some of these dimensions have positive effects, others have negative and still others have both. In combination the effects represent a complex set of dynamics shaping innovation-exporting actions of DC firms. There are several managerial implications of, and future research directions resulting from, our findings.

5.1 Managerial Implications

For managers in DC businesses, our findings can be used to direct and prioritize efforts. First and foremost, focusing on the twin and linked capabilities of innovation and exporting is fruitful based on this study. Although managers may treat these separately, they appear to have synergistic or complementary efficiencies, such that stronger innovation leads to greater exporting. We found many instances of this, as informants shared with us that new products, new brands, and new packaging are often directed to gaining sales in export markets, where the demand for innovation tends to be higher than within Romania. At the same time, these innovations are introduced into the domestic market in order to provide a hedge against local and foreign competitors. In other words, these changes provide a two-market-for-one-innovation efficiency, elevating returns on investment.

A second managerial implication is the need to vigilantly monitor *multiple* environments, not just the immediate local one, in order to seize opportunities for innovation-exporting and ward off threats. For example, focusing solely on the under-developed local Romanian market would suggest to managers that it is best to continue selling inexpensive, low-grade, non-distinctive wines to Romanian consumers. However, awareness of the global environment and the growing presence of highly competitive firms from Europe and elsewhere direct managers to begin planning a defensive, if not offensive, strategy to protect and strengthen their businesses at home and overseas. This outward, more global view will pay dividends in the future, as managers will not be blindsided by foreign businesses through a myopic focus on the home turf.

A third implication tied to the second is to actively manage those multiple environments in order to improve innovation-exporting activities. Rather than passively accepting the negative country-of-origin effect, managers can proactively seek out markets where that effect is low and leverage other environmental opportunities. For Romanian firms, that suggests exporting wine products to more open and less perceptually bound markets such as the U.S., while directing EU funding to develop wines and marketing approaches specific to those markets. In other words, strategically and opportunistically maneuver through the environments, seizing positions of strength rather than passively adhering to positions of weakness.

5.2 Future Research Directions

One future research direction is that, given the myriad effects on innovation-exporting at multiple levels, it is important to understand how these effects interact with one another and which are more critical to foster or inhibit the focal behaviors. Much of the past research investigating innovation and exporting separately has been directed at firm-level factors. What our study indicates is that environmental elements play a key role in the interconnection between innovation and exporting, and therefore warrant scholarly attention and more examination. Although we have uncovered various sources of impact from three environments, we do not know their embedded effects, since the domestic environment is subsumed by the regional, which is subsumed by the global. Future studies may collect quantitative data and perform hierarchical analyses to tease apart these different levels of effects and isolate their relative contributions to innovation-exporting activities. In addition, it would be helpful to understand how each firm resource and environmental factor interacts with others.

A second future research direction is uncovering other firm and environmental drivers and barriers to innovation-exporting. Our study is limited to one industry in one developing country. Scholars may investigate influential forces other than the eleven identified here, such as social, economic, and political conditions currently as well as historically that shape an openness or resistance to creativity and international trade. Innovation for example has been tied to national culture (Nakata & Sivakumar, 1996) and Westernization (Rubera & Kirca, 2012). Furthermore, factors themselves may have multiple, even contradictory, effects, as in the case of EU regulation.

A final research direction is to determine how much the findings of this study are limited to the wine industry in Romania. While the aim was to develop findings that apply to DC firms generally, future research should be conducted on other industries in other developing countries. These efforts will identify shared patterns in order to formulate a universal model of developing country determinants of innovation-exporting behaviors. It may be beneficial to carry out additional studies isolating industry from country effects, such as another study in Romania on a different industry or a study on the wine industry in a different developing country.

In conclusion, we encourage other researchers to understand how DC firms pursue the strategic path of innovation-exporting or strengthen innovation in order to enhance exporting. As these businesses succeed more in these endeavors, the hope is that their economies will grow to provide more employment locally and bring about greater participation and inclusion in the world economy.

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Antecedents, Marketing Capabilities Contingencies and Performance Consequences of Innovative Imitation Orientation: A Resource Orchestration Perspective

Carlos M.P. Sousa, Yu Li and Xinming He

Abstract Innovative imitation orientation, conceptualized as a multidimensional knowledge reconfiguration process composed of learning for adaptation, strategic direction focused on innovative imitation, and transfunctional support mechanism that encourages flexibility in reverse R&D, has received little attention until recently due to exporting firms' reluctance to admit to this and to discuss it publicly. Our research identifies three organizational-level attitudinal antecedents (export market openness, export competitive aggressiveness, and export market risk avoidance), which affects innovative imitation orientation. Drawing on the resource orchestration perspective, the authors further propose that the four constituent factors of marketing capabilities (communication, distribution, pricing and product management) interact with innovative imitation orientation to enhance export performance.

1 Introduction

Businesses favor innovation while disparaging imitation, as the latter is deemed less honorable (Kellaway, 2011). Nevertheless, Luke Johnson, the founder of Risk Capital Partners, views imitation as an inevitable part of the innovation process. In a column for Financial Times, he stated, 'The level of replication in any so-called new product or service is simply a matter of degree' (Johnson, 2012). In this study,

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we focus on innovative imitation orientation by investigating firms' behaviors of imitating (without fully cloning) their competitors' products or services. We define innovative imitation orientation as a multidimensional knowledge reconfiguration process composed of learning for adaptation, strategic direction focused on innovative imitation, and transfunctional support mechanism that encourages flexibility in reverse R&D.

The rapid growth of international trade provides ample business expansion opportunities for firms (Chi & Sun, 2013). A number of studies have shown that innovation increases the likelihood that firms will have positive export results (Vicente, Abrantes, & Teixeira, 2015; Deng, Guo, Zhang, & Wang, 2014). Under a highly turbulent international market environment, an innovative imitation orientation plays a pivotal role in bridging the gap between a firm's offerings and customers' needs in export markets. It enables firms to effectively and cost-efficiently refine highly profitable and thoroughly tested competitors' products and services in new and unfamiliar foreign markets (Johnson, 2012).

Indeed, the impact of exporting firms' innovative imitation orientation on performance may be more complex than previously thought. Our review of the existing literature highlights four problems that limit our understanding of exporting firms' innovative imitation. First, to the best of our knowledge, all innovative imitation research has focused on the domestic market, and no attention has been devoted to the conceptualization of innovative imitation orientation in the export literature. This inhibits the exploitation of elements that are essential for developing exporting firms' innovative imitation orientation and its potential impact on firms' export performance.

Second, the concepts of innovative imitation orientation and innovation orientation are used interchangeably in the literature, despite their fundamental differences regarding their sources of idea generation, their originality, their associated costs, and risks (Lee & Zhou, 2012; Posen, Lee, & Yi, 2013; Ethiraj & Zhu, 2008). Firms that are innovation-oriented aim to obtain a first mover advantage by becoming the pioneers that bring innovative products and services to markets, as opposed to innovative-imitation-oriented firms, which seek to challenge market pioneers' share of the pie (Zhou, 2006).Therefore, the validity of the research may be undermined by an inconsistent conceptualization of innovative imitation orientation.

Third, organizational attitudes are idiosyncratic to exporting firms (Yi, Wang, & Kafouros, 2013). They can predict firm's different strategic choices. However, little is understood about the role of organizational attitudes in aiding or impeding an innovative imitation orientation in exporting firms. Therefore, generating new insights in this respect is a scholarly and managerial priority.

Fourth, little is known about how the benefits of the innovative imitation orientation may depend on the exporting firms' marketing capabilities. Marketing capabilities are vitally important to exporting firms due to those capabilities' high levels of value, scarcity, inimitability, and non-substitutability, which influence the success of firms' exporting activities (Tan & Sousa, 2015). Resource orchestration theory suggests that the ability of a firm to 'orchestrate' the unique resources it controls facilitates the achievement of its strategic objectives (Sirmon, Hitt, Ireland, & Gilbert, 2011). However, previous models involving innovative imitation orientation offer no insights into how firms make the most of specific firm-level marketing capabilities that may help them reap rewards from innovative imitation orientation. This lack of knowledge represents a significant gap in the literature.

This study aims to shed light on these issues and to identify the right direction for exporting firms to effectively accrue value from an innovative imitation orientation with the help of appropriate marketing capabilities. The paper will proceed as follows: A theoretical background based on an overview of the relevant literature will be presented, followed by our research propositions. We will then discuss the theoretical contributions and implications, and conclude with directions for future research.

2 Theoretical Background and Research Propositions

2.1 Innovative Imitation Orientation Versus Innovation Orientation

To enhance the understanding of the innovative imitation orientation, it is necessary to differentiate it from innovation orientation. Innovation orientation, according to Siguaw, Simpson, & Enz, (2006, p. 560), refers to 'a multidimensional knowledge structure composed of a learning philosophy, strategic direction, and transfunctional beliefs that, in turn, guide and direct all organizational strategies and actions', which 'promote innovative thinking and facilitate successful development, evolution, and execution of innovations'. Thus, sources of idea generation, originality, associated costs, and risks are key concepts for understanding our proposed distinction between the innovative imitation orientation and the innovation orientation.

In relation to the sources of idea generation, an innovative imitation oriented exporting firm extends the R&D efforts made by export market leaders, whereas the innovation oriented exporting firm develops and offers new products and services based on its own R&D efforts and proprietorial knowledge (Chesbrough, 2003; Love, Roper, & Vahter, 2014; Lee & Zhou, 2012).

In terms of the level of originality, although an innovative imitation oriented exporting firm is prone to develop a product or service based on its competitors' imperfections, its 'new discovery' exhibits traces of its competitors' existing market offerings and causes less disturbance in the export market (Dickson, 1992). Since customers are familiar with these 'common elements', they may treat the 'new' offerings more as alternative options. Therefore, we expect the level of originality to be higher with an innovation orientation than with an innovative imitation orientation.

On the topic of associated costs, adopting an innovative imitation orientation incurs lower costs for R&D; for inter-departmental coordination and inter-firm collaboration compared with an innovation orientation (Zhou, 2006; Kotler, Keller, Ancarani, & Costabile, 2014). In addition, innovative imitators benefit from their competitors' established market presence through their competitors' advertising and promotion in the export market (Zhou, 2006).

Lastly, the risks associated with an innovative imitation orientation are relatively lower than those for innovation orientation. This is because the knowledge of competitors' successful innovations offsets the uncertainty and potential errors that may occur during innovative imitation experimentation, providing that the exporting firms' have reasonable expectations for their return on investment (Potter & Lawson, 2013). Consequently, the conceptualization of the innovative imitation orientation needs to be differentiated from that of the innovation orientation. In the following sub-section, we propose a definition of the concept of the innovative imitation orientation.

2.2 Innovative Imitation Orientation

Previous research has identified innovation as a multi-dimensional concept which is comprised of pure innovation and innovative imitation (Grahovac & Miller, 2009; Lee & Zhou, 2012). In an export market, where customer preferences are more dynamic, the propensity of a firm to remain creative and responsive in offering products and services with added and/or different sources of value relative to its competitors is critical for its international success (Boso, Story, Cadogan, Micevski, & Kadic-Maglajlic, 2013). Although previous research recognizes innovative imitation's potential for enabling firms to take advantage of pioneers' innovation efforts (Lee & Zhou, 2012), an investigation of the literature on innovative imitation reveals a lack of theoretically-derived operationalizations for the concept of an innovative imitation orientation and its application to the export market.

First, prior research recognizes the role of innovative imitation in supporting the objectives of learning for adaption (Lee & Zhou, 2012). For example, Lee & Zhou, (2012) discussed that innovative imitation behaviors involve taking advantage of market leaders' R&D efforts and learning from their mistakes in product design. Shenkar (2010a) urged firms to learn from the mistakes of failed firms to make appropriate adaptation when inventing their own commercialization models. Lee, Smith, Grimm, & Schomburg, (2000) held a similar view. They promoted the idea that firms learn from first movers' experiences so that they can benefit with more manageable development and testing costs. These conceptualizations strongly imply that learning for adaption is a central component of innovative imitation orientation. In the context of exports, we believe that the innovative imitation orientation is a learning-for-adaptation behavior that encourages all functional areas within a firm to learn from competitors in the export market in order to adapt to the demands of that market.

Second, prior work has shown that innovative imitation is a strategic direction (Levitt, 1966). Shenkar (2010b) pointed to the imitative activities that drives a firm's intentional, intelligent search for cause and effect that could generate additional value based on existing market reactions. Shenkar (2010a) explained that 'imitative' actions have gained popularity due to their lower costs incurred during product management, distribution, and service, around 60–75% of what these costs would be without any imitative action. Therefore, we believe innovative imitation is pre-planned to enhance an innovative imitator's low cost and differentiation advantages. Similarly, Levitt (1966) viewed innovative imitators' R&D efforts as pre-planned and directed towards the innovator's proven practices to achieve a speed premium. As such, in the context of exports, we believe the innovative imitation orientation is a strategic direction that guides firm-wide commitment to shorten the product-to-export-market time and to reduce the costs incurred due to the liability of foreignness through innovatively imitating competitors' products or services in the export market.

Third, the preceding work on innovative imitation argues for the introduction of an affirmative policy that can legitimize systematic innovative imitation thinking within the entire organization (Levitt, 1966). A set of common understandings and beliefs can propel a coherent effort among all functional units to actively engage in reverse R&D (i.e., working backwards from what competitors have done) (Levitt, 1966; Siguaw et al., 2006). Therefore, we believe the innovative imitation orientation is a transfunctional support mechanism that promotes flexibility in the reverse R&D of competitors' products or services in the export market. By synthesizing these three different facets of innovative imitation orientation, we define it as:

> A multidimensional knowledge reconfiguration process composed of learning for adaptation, strategic direction focused on innovative imitation, and transfunctional support mechanism that encourages flexibility in reverse R&D.

2.3 Proposed Conceptual Model

Exporting firms face problems associated with the availability, accessibility and quality of export information and of network and financial resources to compete with existing market players (Cadogan, Diamantopoulos, & Mortanges, 1999). We identify three key organizational attitudes that are needed to support an exporting firm's innovative imitation orientation. The three attitudinal factors being investigated in our research are export market openness, export competitive aggressiveness, and export market risk avoidance.

The belief that "what a firm does with its resources is at least as important as which resources it possesses" (Hansen et al., 2004; p. 1280) encourages an extension of the resource-based view for understanding how managers influence firm performance (Ireland, Hitt, & Sirmon, 2003). In response, there are two emerging research frameworks. They are resource management and asset orchestration. Both look explicitly at the actions managers take to effectively manage a firm's resources (Sirmon, Hitt, & Ireland, 2007; Helfat et al., 2007; Sirmon, Gove,

& Hitt, 2008). In their recent work, Sirmon et al. (2011) recognized the need for an integration of these two complementary frameworks. They adopted the term 'resource orchestration' to define the integrated framework.

Resource orchestration is concerned with the managerial actions involved in structuring, bundling, and leveraging a firm's resources for the purpose of achieving superior performance (Ireland et al., 2003; Sirmon et al., 2007). It is through leveraging processes that firm's idiosyncratic capabilities and their configurations are matched with market opportunities to achieve superior performance (Sirmon et al., 2007). The three critical elements of leveraging are mobilizing, coordinating, and deploying. These three elements requires the synchronization of capabilities to be leveraged effectively (Sirmon et al., 2007).

Mobilizing is the process of identifying the capabilities needed to support the capability configurations necessary to exploit opportunities in the market before the capabilities can be coordinated and then deployed. Coordinating is required to integrate the mobilized capabilities in an effective and efficient manner to create capability configurations. Deploying involves physically using capability configurations to support the chosen leveraging strategy (Sirmon et al., 2007). These three mechanisms are particularly important when decoding the tacit know-how's that are embedded in competitors' products and services for knowledge regeneration.

In our model, we contend that the innovative imitation orientation acts as a mobilizing vision that guides how firms use their resources to identify the capabilities needed to exploit opportunities in the export market. However, mobilizing through an innovative imitation orientation is insufficient for realizing performance effects on its own, because the coordinating and deploying processes are necessary to maintain effective leveraging. As marketing capabilities are rooted in valuable, non-imitable, and non-substitutable market knowledge, skills and experiences regarding customers' needs in the export market (Zou, Fang, & Zhao, 2003; Tan & Sousa, 2015), the possession of such capabilities is relevant to exporting firms for accruing benefits from innovative imitation orientation. Lee & Zhou, (2012) further provided evidence that showed that innovative imitation benefits from the presence of general high marketing capabilities. As such, we focus on how marketing capabilities moderate innovative imitation orientation-export performance relationship. Consistent with Katsikeas (1994), four functional export marketing capabilities (i.e., communication capability, distribution capability, pricing capability, and product management capability) are included in our framework.

The intent of coordinating is to integrate mobilized capabilities in an effective and efficient manner for the implementation of innovative imitation orientation. Sirmon et al. (2007) first referred to the coordinating role of communication and distribution capabilities whose purpose is to facilitate the effective integration of co-specialized assets, such as heterogeneous yet complementary new technologies and export market information held by a diversified portfolio of collaboration partners (Gesing, Antons, Piening, Rese, & Salge, 2015; Laursen & Salter, 2006) in ways difficult for competitors to observe and duplicate.

Specifically, communication capability shows the ability of an exporting firm to effectively deliver their intended marketing communications to their export customers, while distribution capability reflects an exporting firm's ability to maintain a close relationship with its export distributors (Zou et al., 2003; Tan & Sousa, 2015). The coordination process ensures synergetic efforts are put into sharing newly acquired or accumulated resources among different organizational units (Sirmon et al., 2011). While communication capability facilitates the smooth flow of marketing communication between an exporting firm and its distributors and customers (Tan & Sousa, 2015; Murray, Gao, & Kotabe, 2011), distribution capability enhances an exporting firm's access to important information about local markets, customers, and distributors' marketing services (Sousa & Bradley, 2009).

Pricing capability, which is the ability of an exporting firm to use and manage pricing tactics based on its skills and accumulated knowledge, is needed to fulfill the deploying mechanism. Codifying gathered and absorbed market information into organizational routines improves an exporting firm's sensitivity to changes in the export market (Zou et al., 2003; Wales, Patel, Parida, & Kreiser, 2013) and leads to effective deployment of related capabilities (Sirmon et al., 2007) to develop innovative imitative products and services. On the other hand, the product management capability, the ability of an exporting firm to develop and manage a balanced product portfolio in order to satisfy export customers' needs (Morgan, Vorhies, & Mason, 2009), is also needed for the deployment process. Product management capability heightens the efficiency of a firm as it broadens its product portfolio by allocating resources wisely for the rapid launch of innovative imitation products and/or services to exploit new export market opportunities (Murray et al., 2011; Vorhies & Morgan, 2005).

Taken together, the three antecedents of innovative imitation orientation and the moderating effect of the four dimensions of marketing capabilities provide a more complete perspective on how firms can overcome their liability of foreignness in the export market by improving their resource orchestration's efficiency and effectiveness. Our conceptual framework is based on the aforementioned arguments and appears in Fig. 1.

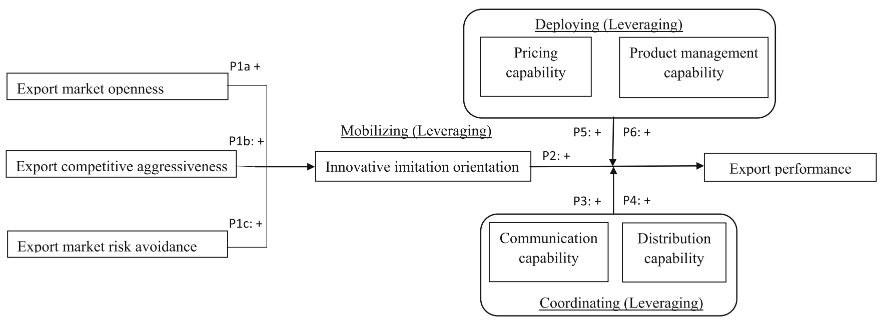

Fig. 1 Conceptual framework

2.4 *Antecedents of Innovative Imitation Orientation*

2.4.1 Export Market Openness

Export market openness captures attitudes that facilitate a firm's internal receptiveness to new ideas and innovations of competitors in the export market (Vicente et al., 2015). It involves the coordination of attitudes and behaviors among different departments to closely monitor and study competitors in the export market (Vicente et al., 2015). As such, it can indicate the extent to which an exporting firm is willing to adopt approaches that are new and that have been successfully tested by their competitors in socially and culturally different export markets (Sousa & Lages, 2011; Calantone, Cavusgil, & Zhao, 2002).

We contend that export market openness is fundamental for exporting firms to access knowledge resources that may subsequently be reconfigured with their existing resources in a way superior to their competitors' deployment. As an innovative imitation orientation encourages exporting firms to search for new ideas and technologies for innovation based on competitors' existing products and services (Lee & Zhou, 2012), export market openness is likely to help exporting firms catch up to or surpass their competitors by moving toward the technological frontier (Kafouros & Forsans, 2012).In other words, export market openness contributes to firm's propensity to innovative imitation; that is, it adds more novelty value to competitors' innovations through reconfiguring one's knowledge resources more creatively due to its willingness to adapt new approaches and ideas. Therefore, we believe high export market openness leads to exporting firms making greater efforts to innovative-imitate competitors' ideas. Therefore, we propose that:

P1a: There is a positive relationship between a firm's export market openness and its level of innovative imitation orientation.

2.4.2 Export Competitive Aggressiveness

Export competitive aggressiveness captures an exporting firm's attitude towards directly and intensely challenging its competitors in an unconventional way using the limited resources it possesses (Gupta & Pandit, 2012; Porter, 1985). This approach increases the likelihood of it introducing innovative products or services based on their competitors' innovations in the export market.

The dynamic environment of the export market suggests that a competitive advantage is ephemeral. As such, exporting firms need to speed up the product-development cycle time by 'fast-following' export market leaders to replace or overtake them with improved products or services (Schilke, 2013; Gupta & Pandit, 2012).Greater innovative imitation orientation is therefore a result of exporting firms' increased awareness of competitors' innovation-related moves and proactively allocating resources wisely in support of reverse R&D on competitors' products and services so that they could challenge their competitors' market positions (Lumpkin & Dess, 1996; Dickson, 1992). Therefore, we propose that:

P1b: There is a positive relationship between a firm's export competitive aggressiveness and its level of innovative imitation orientation.

2.4.3 Export Market Risk Avoidance

Export market risk avoidance reflects the attitude of an exporting firm towards risk-averse activities when conducting uncertain innovation projects in the export market (Covin & Slevin, 1991). High export market risk avoidance shows as exporting firm's preference for imitating competitors' established products and services in the export market over developing new products and services from scratch, as the former is time-proven and runs a lower risk of failure (Jaworski & Kohli, 1993). The greater the export market risk avoidance a firm possess, the more likely the exporting firm displays an innovative-imitation-oriented behavior.

Managerial actions are directed towards the development and realization of strategic resources throughout the firm to facilitate conservative investment decisions under uncertain, diverse, and idiosyncratic foreign environments (Chirico, Sirmon, Sciascia, & Mazzola, 2011; Covin & Slevin, 1991; Sousa & Bradley, 2005). To avoid a commitment of significant resources to new-to-the-market products and services with no guaranteed returns, exporting firms that are more risk adverse will devote more effort to developing products and services targeted for the export market that are based on tried and proven innovations of competitors with positive returns expected. They thereby incur a lower risk of failure (Lumpkin & Dess, 1996). Therefore, we propose that:

P1c: There is a positive relationship between a firm's export market risk avoidance and its level of innovative imitation orientation.

2.5 Innovative Imitation Orientation and Export Performance

A high innovative imitation orientation increases an exporting firm's flexibility to orchestrate resources, as it enables the firm to identify the resources necessary to take advantage of a competitors' innovation efforts while giving them newness (Lee & Zhou, 2012; Shankar, Carpenter, & Krishnamurthi, 1998). Specifically, innovative imitation orientation guides exporting firms to use resources for R&D, production, their sales force, and advertising at reduced costs. It also guarantees a low switching cost for customers in the export market, who perceive less risk in purchasing similar products or services that have an established market presence compared with completely new ones (Lee & Zhou, 2012). Further, innovative imitation orientation directs exporting firms to improve or create new products and service features that could generate more defensible customer value to compete with their competitors' existing innovation offerings. Resource orchestration efficiency increases as new product and service offerings with higher probabilities of meeting and exceeding customer market needs are pursued, which will lead to superior export performance (Wales et al., 2013). Therefore, we propose that:

P2: There is a positive relationship between innovative imitation orientation and export performance.

2.6 Moderating Roles of Marketing Capabilities

2.6.1 The Moderating Role of the Communications Capability

While an innovative imitation orientation provides an exporting firm with a mobilizing vision that guides the use of resources, its communication capability plays the coordinating role in the resource orchestration process. This capability maintains a smooth flow of marketing communication between the exporting firm and its distributors and customers in the export market (Tan & Sousa, 2015; Murray et al., 2011). Specifically, it facilitates the discovery of innovative imitation opportunities in the export market by keeping potential conflicts within the supply chain to a minimum (Murray et al., 2011).

Moreover, an exporting firm with a greater communication capability is more effective in coordinating within its supply chain for supportive interactions. Good communication helps create positive opinions among customers (Wales et al., 2013) regarding the exporting firm's innovative imitation oriented products and services and drives brand trials and new product diffusions in the export market (Lee et al., 2000). Consequently, these positive views enhance an exporting firm's product acceptance and market position in the foreign market (Lee & Zhou, 2012; Zou et al., 2003), allowing more return to be accrued from increasing levels of innovative imitation orientation. Therefore, we propose that:

P3: Communication capability positively moderates the relationship between innovative imitation orientation and export performance

2.6.2 The Moderating Role of the Distribution Capability

An exporting firm may lack export market knowledge or the confidence to operate directly in foreign markets (Sousa & Bradley, 2009). Distribution capability, the skills and knowledge a firm uses to support its distributors (Zou et al., 2003), helps generate crucial knowledge resources that fuel the firm's innovative imitation orientation. Greater levels of distribution capability increase the efficiency and effectiveness of resource coordination within an exporting firm by facilitating its access to important information about local markets, customers, and their distributors' marketing services (Sousa & Bradley, 2009; Wales et al., 2013). Furthermore, possessing a strong distribution capability provides the coordination mechanism that helps an exporting firm maintain constructive interactions and knowledge-sharing with its distributors. It ensures innovative imitation orientation is effectively and efficiently managed, marketed and serviced properly in the export market, leading to superior performance outcomes. Therefore, we propose that:

P4: Distribution capability positively moderates the relationship between innovative imitation orientation and export performance.

2.6.3 The Moderating Role of the Pricing Capability

A greater degree of effectiveness in its pricing capability, defined as a firm's ability to choose the appropriate pricing practices, improves the efficacy of an exporting firm's deployment efforts. It improves the configuration of its pricing-related competitive posture, price-setting philosophy, and its pricing processes and practices that addresses changes in customers' needs (Zou et al., 2003) and are difficult for competitors to replicate. Specifically, a highly effective pricing capability motivates an exporting firm to conduct frequent pricing reviews and make flexible adjustments during this review process (Tan & Sousa, 2011). In this way, an exporting firm could perfect its organizational routines for collecting, analyzing, and monitoring its pricing more effectively (Kemper, Engelen, & Brettel, 2011; Murray et al., 2011), which would help it set the right prices for accruing the most value from its innovative imitation products or services.

Pricing capability also reflects an exporting firm's ability to choose the appropriate pricing practices regarding price adaptation, the level of the export pricing relative to the domestic price, the level of innovative imitation pricing relative to its competitors' prices, the choice of currency, and price discrimination (Tan & Sousa, 2011). It serves to increase an exporting firm's ability to reduce asymmetries between the current and the optimal pricing based on the deployment of its skills and knowledge of tacit nature (Wales et al., 2013). As a further consideration, identifying and benchmarking the prices of competitors' innovations enables an exporting firm to identify optimal profit margins and the configuration of capabilities to achieve it (Kemper et al., 2011). An exporting firm could thus secure a unique innovative imitation product position and enhance the benefits associated with its innovative imitation efforts. Therefore, we propose that:

P5: Pricing capability positively moderates the relationship between innovative imitation orientation and export performance.

2.6.4 The Moderating Role of the Product Management Capability

Possessing a well-developed product management capability enables an exporting firm to effectively and efficiently deploy its capabilities configuration to respond to export market needs when updating its product portfolios (Schilke, 2014; Vorhies & Morgan, 2005). Prior experience in developing and managing products and services facilitates an exporting firm's creative thinking concerning ways to improve upon competitors' existing innovation offerings and to allocate resources wisely to internal R&D and to R&D outsourcing to achieve that purpose (Grimpe & Kaiser, 2010). Specifically, product management capability allows an exporting firm to integrate technology, internal R&D, and export customers' needs (Tan & Sousa, 2015) into a configuration that supports minimal R&D costs and maximum operational efficiency for the whole product portfolio (Subramaniam, 2006). Consequently, this configuration enables exporting firms to react to market opportunities in a timely manner and quickly develop and launch competitive new products that are of higher quality and more tailored to meet customers' preferences than those of their competitors in the export market (Murray et al., 2011; Vorhies & Morgan, 2005). Therefore, we propose that:

P6: Product management capability positively moderates the relationship between the innovative imitation orientation and export performance.

3 Contributions

This research contributes to three important streams of the literature: innovative imitation, international marketing, and resource orchestration, by detailing the mechanisms undertaken by exporting firms through which an innovative imitation orientation and marketing capabilities can add value to their export performance.

It first contributes to understanding the richness of a product and/or service strategy by providing a theoretically driven definition of innovative imitation orientation, the applicability of which is extended to the export context. We conceptualize an innovative imitation orientation as a multidimensional knowledge reconfiguration process composed of learning for adaptation, strategic direction focused on innovative imitation, and transfunctional support mechanism that encourages flexibility in reverse R&D. This improves our understanding of specific behaviors related to all areas of innovative imitation, which is required to achieve a competitive advantage in the export market.

Second, a review of existing literature shows that an innovative imitation orientation is largely ignored in the export literature, and our study improves the understanding of the innovative imitation orientation by differentiating it from innovation orientation. A comprehensive comparison of the four key attributes, namely, the sources of idea generation, originality, associated costs, and risks between the two constructs is provided. Innovative imitation orientation advocates extending the R&D efforts made by competitors. Though it has relatively lower originality value compared with to an innovation orientation (Lee & Zhou, 2012), firms applying an innovative imitation orientation benefit from lower associated costs and risks (Zhou, 2006; Kotler et al., 2014). This highlights the underlying rationale explaining why an innovative imitation orientation could offer a plausible alternative for exporting firms to roll out imitative products in foreign markets. From a practical standpoint, our study encourages managers be more open minded to adopting an innovative imitation orientation and to consider including it in their formal export planning.

Third, to the best of our knowledge, we are the first to explore the antecedents of the innovative imitation orientation. The factors impacting an exporting firm's innovation orientation do not directly lend themselves as the antecedents to a firm's innovative imitation orientation (Zhou, 2006). We argue that promoting innovative imitation is worthwhile for exporting firms with high levels of export market openness, export competitive aggressiveness, and export market risk avoidance.

Fourth, our study provides theoretical contributions to the innovative imitation and international marketing literature by recognizing the importance of innovative imitation as a critical product or service pathway for exporting firms to achieve superior performance. Concerning the highly competitive, dynamic, and culturally-distant nature of export markets, exporting firms need to be more flexible in planning their innovations to offset their short-lived competitive advantage in the foreign market (Sousa & Novello, 2014). Innovative imitation becomes particularly valuable when firms export because it allows firms to develop products and/or services that match foreign market requirements within a shortened product or service-to-market time and at reduced cost compared to pure innovation (He, Brouthers, & Filatotchev, 2013).

Fifth, based on resource orchestration theory, we are making the first effort to link the constructs of innovative imitation orientation, marketing capabilities, and export performance. Our study illustrates how marketing capabilities can be aligned with an innovative imitation orientation to achieve performance gains in the export market. We explicitly explain how communication, distribution, pricing, and product management capabilities individually contribute to the enhancement of innovative imitation efforts through a more effective orchestration of an exporting firm's resources. In particular, this study proposes that communication and distribution capabilities should be coordinated to facilitate knowledge sharing and supportive interactions within a firm's supply chain, while pricing and product management capabilities are deployed to achieve an optimal profit margin and a balanced product portfolio.

4 Implications for Future Research

While this chapter has provided a new conceptual framework that could be useful in the study of innovative imitation orientation in the context of exporting, considerable potential exists for future research to improve this framework and to elaborate on the innovative imitation literature.

First, priority should be given to developing a standard measure of innovative imitation orientation based on the elements defined in this study. We encourage researchers to refine and verify the constituent factors within innovative imitation orientation by identifying new factors applicable to research based on further qualitative and quantitative research. We could then compare one dimension of innovative imitation orientation with others to pinpoint that dimension that contributes the most to firms' export performance.

Second, future studies are also encouraged to empirically compare the effects of an innovative imitation orientation on export performance with the effects of an innovation orientation. Due to the distinction and tension of resource allocation between these two innovation-related orientations (Zhang et al., 2015), contrasting the differential effects of innovative imitation orientation and innovation orientation in distinct export outcomes could provide us valuable insights for achieving an optimal balance between the two.

Third, three organizational level attitudinal antecedents unique to exporting are identified as playing a potentially important role in influencing an exporting firm's innovative imitation orientation. More antecedents should be explored in future studies. For example, prior studies suggest that absorptive capacity-the ability of an exporting firm to recognize the value of information from competitors in the export market and to assimilate and apply this information to its own innovation (Cohen & Levinthal, 1990), enables a firm to anticipate current opportunities and future developments (Wu & Voss, 2014). We believe further study may tell whether absorptive capacity can identify the need for innovative imitation.

Fourth, while we have theorized the moderating role marketing capabilities play in the innovative imitation orientation–export performance relationship, we have not explored other contingent factors that may influence this relationship (Lumpkin & Dess, 1996; Lee & Zhou, 2012). For example, the institutional based view emphasizes that institutional factors shape the behavior of actors in the export market (Yi et al., 2013). Future research could integrate the resource orchestration theory and the institutional based view into a coherent theoretical model, and examine the complementarities and interactions between different external (e.g. competitive intensity and customer dynamism) and internal (e.g. foreign ownership, government relationship, business group) institutional conditions and innovative imitations. This research could provide insights into the role each institutional factor plays in promoting or hindering an exporting firm's resource orchestration processes in the export market when pursuing an innovative imitation orientation.

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Part V
International Customer Behavior

Comparative Thick Description: Articulating Similarities and Differences in Local Beer Consumption Experience

Jean-Claude Usunier

Abstract International marketing decisions are the result of complex trade-offs between global standardization and local adaptation. Similarities are too substantial and differences go too deep to be ignored. This chapter tries to articulate similarities and differences in local consumer experience across multiple contexts. It shows how language can be used as a discovery tool, along with depth interviews and checks of researchers' interpretations by informants, to generate cognitive maps of consumption and taste experiences. Local words, used as *emic* signals, are combined into full profiles of the local experiences as narratives linking people to products and taste. Local profiles can then be merged to derive differences dealing with creolization patterns, local consumption experience, local preferences, perceptions and associations as well as commonalities emergent *from within* the contexts studied. The comparative thick description framework is applied to the beer consumption experience in ten countries (China, Croatia, France, Germany, Japan, Thailand, Tunisia, Turkey, El Salvador, Mexico) and 9 languages.

1 Introduction

Because language is used daily in local contexts, it is reflective of *local knowledge* in the sense of Geertz (1983), more specifically of local consumer knowledge when people talk about individual and social consumption experiences, and explain product recipes, taste and pleasure related to food and drinks. While this may be important and meaningful to people as consumers, and therefore very useful for international marketing (IM), it is largely forgotten by the prevailing academic research system. Too often, a single conceptual framework is applied with the view that a general rule is appropriate, whatever the context. In this chapter, we outline and illustrate a method to search for local meanings in a qualitative, multi-*emic* perspective with similarities emerging *from within* contexts rather than *across*

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contexts. Our perspective is based on words and anecdotal knowledge, however central in the local worldview. Small sketches, using local texts, can be seen as a "*mise en réalité*", a staging of consumer views about products, tastes and food experiences (Usunier & Sbizzera, 2013).

It is important to embark on a comparative thick description (CTD) because CTD provides us with unique insights on how local informants experience consumption for a particular product or service. Language-related investigation facilitates the emergence of *emic* insights. Cognitive Mapping (CM) then enables us to put in perspective the diversity of national/cultural results and let differences and commonalities emerge. The main advantage of thick description (TD) is that it provides in-depth, *emic* accounts of reality. Ponterotto (2006, p. 542) cites the following aspects of TD: "Thick description involves accurately describing and interpreting social actions within the appropriate context in which the social action took place. Thick description captures the thoughts, emotions, and web of social interaction among observed participants in their operating context." CTD can help understand international consumer behaviour, especially if TD is followed by integration through CM across several national/cultural contexts.

There are, however, drawbacks to TD. It is exploratory in nature, interpretive, and seems at first to lead to unique, difficult to compare results. Cross-national/cultural integration of the within-context findings (possibly unfamiliar to the researcher, because of language and/or cultural differences) seems problematic. In the academic literature each of the three perspectives, TD (Geertz, 1983; Ponterotto, 2006), CM (e.g. Christensen & Olson, 2002; Brun, Durif, & Ricard, 2014) and language-based investigation (Usunier, 2011) has been developed separately. This chapter tries to develop a framework that integrates the three perspectives. The CTD approach is appropriate for the analysis of culture and its influence on cross-cultural consumer behavior, because it derives information from cultural insiders. It is language-related, and therefore susceptible to generate meaningful *emic* insights, even if only at an exploratory level. The first objective of our study is to show how the TD approach can be used in conjunction with language-enriched interviewing and then made comparable by representing the information gathered into an organized scheme where the main commonalities and idiosyncrasies appear in a synthetic cognitive map. By applying this approach to beer consumption cross-culturally, we also aim to practically demonstrate that language-enriched CTD followed by CM should be used as the first, exploratory, step in cross-national market research intending to derive globally applicable outcomes.

Food habits as well as taste are culturally constructed as central categories of the local lifestyle (Ger, Askegaard, & Christensen, 1999). People enjoy orality (in the Freudian sense) related to speaking the native language and eating familiar foods. The whole chain of meaning surrounding food extends from ingredients and recipes, the search for and purchase of food items, the preparation of meals (or the choice not to prepare) to the individual and social enjoyment of food moments. Language also specifically reflects a number of local food experiences related to ingredients, to cooking, to the enjoyment of meals in familiar settings, all this being summed up in the German term *Esskultur*. Therefore, linguistic cues mostly based on semantics, etymology, and phonology provide insights into *emic* meanings that may represent key information for the end-customization of product and communication policies in local markets. A number of areas of cross-cultural equivalence (conceptual, functional, translation, experiential) can be investigated through the use of linguistic cues. This chapter shows how local words, used as *emic* signals, can be combined into full profiles of the local experiences in their uniqueness as narratives linking people to products and taste experiences, which can then be merged to derive commonalities emergent *from within* the contexts studied.

The first part of the chapter deals with how TD can be applied comparatively to first uncover differences, then proceeds to take the true measure of similarities derived from within local contexts. The second part applies this TD framework to the beer consumption experience within ten countries (China, Croatia, El Salvador, France, Germany, Japan, Mexico, Thailand, Tunisia, Turkey); in fact eleven countries, since The UK and the English language serve as a country baseline case and a language reference point. This chapter uses e*mic* concepts, along with depth interviews and checks of researchers' interpretations by informants, to generate CM of consumption and taste experiences. Local words, used as *emic* signals, are combined into full profiles of the local experiences as narratives linking people to products and taste. Local profiles can then be merged to derive commonalities emergent *from within* the contexts studied. We show how beer consumption experiences locally intermingle with history, socialization, gender and age, religion, and language to build "local beer knowledge". However, they can be related together in a common framework emphasizing how commonalities and idiosyncrasies can be discovered when later applied to other country/culture contexts. We conclude on the practical applicability and the managerial relevance of the CTD method.

2 Comparative Thick Description

To compare is to put side by side two objects or phenomena to study their similarities and differences. In IM we often implicitly compare cross-nationally or cross-culturally. The question seems to be "Is the phenomenon similar **or** different?", implicitly assuming that the object or phenomenon cannot be similar **and** different at the same time. However, what looks similar in the eyes of marketers (researchers) may actually be perceived as different by consumers (respondents, informants). This may result in marketing blunders, often treated as mere anecdotes that cannot be generalized, and are assumed inevitable. From a pragmatic perspective, the issue is whether overlooked differences will result in marketing policy failures. However, similarities can be self-fulfilling prophecies, the global solution being imposed on the local context without too many problems. Geertz (1983: 41) writes about differences and similarities (his emphasis on *do* and *are*) as follows:

> "The differences *do* go far deeper than an easy men-are-men humanism permits itself to see, and the similarities *are* far too substantial for an easy other-beasts, other-mores relativism to dissolve."

Do IM researchers favor the search for differences or similarities? Personal interests and beliefs may be a source of bias, "colonial" designs favoring the emergence of similarities. A common mindset, shared knowledge, recognized scientific approaches, anonymous reviewing, and academic journals tend to favor the similarity view, or at least to favor the discovery of differences in *degree* rather than in *nature*. An identical research design may not be appropriate for the discovery of both similarities and differences across national/cultural contexts. Qualitative research designs favor the discovery of differences because they emphasize local meaning and interpretation. On the other hand, quantitative or *etic* research designs favor similarities because they assume shared concepts, and use directive research instruments that channel the informants' insights into the researchers' pre-established frames. We have to take into account not only actual versus perceived similarities/differences but also differences in *nature* (incommensurable) versus differences in *degree* (commensurable). Incidentally, qualitative research may work as a magnifying glass and lead to overestimate differences in nature, because similarities as explained by Geertz in the citation above are "far too substantial" to be ignored.

Globalization is proceeding at a fast pace. One may wonder how long IM research findings emphasizing differences will hold if these differences wane over time and finally become outdated. Convergence is taking place at three interconnected levels: actual convergence (we are more "the same"), perceptual convergence (we feel that **it** is similar even though **it** may later appear different), and creolization (we 'reconstruct' global items into localized ones, rebuilding differential meaning into these apparently similar items; cf. Ger et al., 1999; Kragh & Djursaa, 2001). Creolization is the outcome of a search for (lost?) identity in a globalizing world combined with the search for utility, which remains a universal consumption motive. To take the true measure of convergence (in consumer behavior, distribution systems, etc.), we would need to regularly replicate studies to assess the stability of findings over time. However, since replication studies are not favored by journals, the only way to assess convergence is to look at the deeper sources of cross-national differences, to try to qualitatively assess whether they are mere 'vestiges of the past' or long-lasting phenomena. Among the key sources of sustained differences are religion, cultural values (such as individualism and collectivism), and language and the associated mindset.

Should researchers start with the search for differences or for similarities? Searching first for similarities is likely to tone down differences, most of which will remain unnoticed. Most differences are unimportant in the sense that late discovery does not impair the success of a locally implemented marketing policy because *ex post* adjustment is feasible. Searching first for differences is likely to unveil key differences, sometimes with a magnifying glass effect. The next step is to take the true measure of such differences and to progressively discover that much is in fact shared. Researchers should start with the search for differences if they want to later assess meaningful similarities. This can be done through *thick description*, which Geertz explains as follows in his 1973 paper:

> … the essential task of theory building here is not to codify abstract regularities but to make thick description possible, not to generalize across cases but to generalize within them. (1973, p. 24)

Generalizing (i.e. largely “forgetting” about differences in favor of emergent similarities) *from within cases* rather than *across* cases is related to TD. TD is explicitly borrowed by Geertz from the English language philosopher Ryle (1968). The notion of thickness deals with fine-grained accounts, contextualisation, the combination of multiple perspectives, and reflexivity. Language is an instrument to put cultural experience in comparative perspective. To take a geometrical metaphor: TD, rather than describing phenomena in a two-dimensional surface, tries to offer a description in a three-dimensional space or, even better, in a multi-dimensional hyperspace. For Geertz, the notion of “found in translation”, rather than “lost in translation” is part of TD. When he entitles Chapter 2 of *Local Knowledge* “Found in translation: On the social history of moral imagination”, he comments that, despite the Balinese language having no word for art and artist, art is pervasive in Bali. Another component of TD, that is, moral imagination (as illustrated in Geertz (1983) by the TD of the cremation of three living Hindu widows by a Danish traveler in 1840) translates quite well into the universe of products, consumption and marketing. For instance beer, because it is an alcoholic beverage, is sensitive to moral imagination related to religious taboos, gender stereotypes, as well as behavioral codes. Minor “eating incidents” such as making noise when chewing are neutrally or positively viewed in many cultures, however negatively by the Germans who use a verb (*schmatzen*) to express their disgust of eating noisily. In this chapter, we use language as a multi-*emic* research instrument. Lexical equivalence typically hides meaning differences. This is particularly true for replications of psychometric scales performed with ‘blind’ back-translation. However, overlap of semantic fields implies that concepts may be partly similar and partly different between different linguistic/cultural contexts. Back-translation is most often presented as a mechanical task. Following established back-translation processes (Brislin et al., 1986), the survey instrument was first drafted in English by a bilingual researcher fluent in both English and Chinese, then translated into Chinese by another bilingual researcher fluent in both languages.

In contrast to this instrumental view of language, translation and back-translation can be used as an instrument for investigating cross-cultural equivalence (Usunier, 2011). *Emic* concepts can be kept in their original language to highlight differences. Researchers are somewhat obsessed with the need to reach full cross-cultural invariance. However, they should feel more relaxed: discovering non invariant aspects across cultures is not a sin.

3 Research Methodology

3.1 *Scope of the Study: Similarities and Differences in Local "Beer Universes": A Cross-National Investigation*

As the citation of Clifford Geertz above magnificently explains, similarities are too substantial to be ignored, and differences go too deep for uniformity to be declared. The CTD paradigm tries to articulate similarities and differences, rather than declare them "vestiges of the past" in a simplistic view of consumers as being exclusively concerned by value for money (Levitt, 1983). Even though apparently small in magnitude, differences may be highly meaningful for assessing the degree to which a product has to be locally adapted and the nature of customization for successfully localizing marketing strategies, in terms of advertising copy, slogans, branding and/or packaging. In essence, differences are highly qualitative, dealing with creolization patterns, local consumption experiences, preferences, perceptions, and associations, cultural taste, as well as history. Individuals invest meaning in their consumption experiences. Even if figures seem to demonstrate broad convergence, quantitative convergence hides in fact huge qualitative divergence as far as local experiences, contexts, perceptions and interpretations are concerned. To highlight the local beer experience, informants were asked to cite relevant *emic* terms related to the beer universe and elaborate on their meaning in context related to shared situations, habits, and stories around beer. They were invited to comment on how the product is reincorporated in a universe of locally shared meanings which may surface in details, for instance the shape and size of beer glasses. The Bavarian *Krug* (a one-liter large glass mug) does not give the same 'taste' to beer as the French *demi* (a quarter-liter stemmed glass) or the English pint.

CM has been used in IM for international market selection (Andersen & Strandskov, 1998), for consumer behaviour to investigate consumers' mental models by first eliciting then mapping their knowledge structures (Christensen & Olson, 2002) as well as for investigating E-relationship marketing in the banking sector (Brun et al., 2014). A review covering ten years of CM applications for business in general (Papageorgiou & Salmeron, 2013) shows that CM is used in business for planning, decision making, decision support, modelling, and prediction. Cognitive maps based on CTD can be elaborated for product categories, and/or target a particular taste experience, distribution channels, or competing global, regional, and local brands, etc., to investigate perceptions and experiences within and across local contexts. CTD applies to B2C as well as to B2B markets in as much as key aspects of business relationships can also be thickly described. Finally, an important point is that the English language, the *lingua franca* of international trade, and therefore of IM, serves as a baseline case, a common reference point without which CTD is not feasible.

3.2 The Cognitive Mapping Technique

The steps leading to cognitive maps in the beer universe are detailed below.

1. Generate categories that are significant for the beer experience: product, places, times, taboos, product attributes, product functions for the individual (e.g. age, gender, and social (socialization, religious prohibition, etc.));
2. Do secondary research on beer consumption as homework before interviews to generate a list of themes for the in-depth interviews;
3. Investigate local *emic* terms (labels) that are reflective of local consumption in some of the target countries to generate local cognitive maps in the beer universe;
4. In-depth, non directive discussion with informants on the beer consumption experience in their native country to derive first insights on *etic* and *emic* aspects of the beer consumption experience;
5. Discuss the cognitive map between the researchers and prepare a first version (several sub-steps, including successive drafts of cognitive maps);
6. Check the individual insights (per country) with informants based on feedback on text and cognitive maps with instructions to deal with their own national/linguistic context.
7. Finalize the general cognitive map of the beer universe and the accompanying text.

3.3 Research Instrument and Data Collection

Interview themes were discussed in a relaxed, conversational, in-depth interview format, typically one and half hour long. During the in-depth interviews, conversations were recorded. A written transcript was prepared for further qualitative analysis and sent to informants for feedback and possible revision. Informants were insiders of the country/language concerned, as nationals of the target country and native speakers of its language. If several languages were spoken, including minority languages, informants were instructed to consider the dominant local language (e.g. China/Mandarin, Tunisia/Arabic, etc.). Interviewees were recruited by the researcher and assistants from their own network of acquaintances. They had to be born in the country, national, fluent (native) in the (dominant) local language, strongly related to the cultural context, although they were mostly interviewed in the researcher's country (Switzerland). However, the area around Lake Geneva is highly cosmopolitan and has a wealth of cultural insiders. Informants were not required to be experts in beer and beer consumption. Rather, they were told that they did not need to be regular beer drinkers themselves and that they were supposed to have insider rather than expert knowledge about local beer consumption. Although instructed and encouraged not to answer whenever they thought they did not have enough information, they always proved knowledgeable. Out of 20 informants (2 per country/language), 10 were male and 10 female. Some female informants (China, Thailand, and Tunisia) were at first a bit reluctant to participate, their view being that beer was typically a male beverage. They considered themselves, as women, to be somewhat less knowledgeable on the local beer universe. However, it was later clear that they were perfectly familiar with the beer consumption experience in their country.

3.4 Interview Themes

Informants were invited by the interviewer, as is usual in depth interviews (Jones, 1985), to elaborate on the history of beer in their country, especially mentioning when beer was introduced and how. The degree of foreignness was investigated: Was beer at first considered a foreign item? Was beer still considered a foreign item? We also asked interviewees whether some sort of creolization process[1] had taken place so that a previously foreign item had become a national beverage.

The local product universe in terms of manufacturing and branding was discussed with the interviewee, in particular: Does beer relate to local fermented beverages (e.g. based on local cereals rather than barley or wheat)? To what kind of category is beer associated (e.g. local carbonated drinks, local fermented drinks)? Are there local brands and to what extent do they compete with foreign brands? What are the typical denominations used such as "*Pils*", or "*Lager*"? What are the typical product functions in the country context? Is beer a standard beverage to be taken with most meals or mostly outside home in social settings, or a refresher when it is warm, or a way of getting more or less inebriated, if not drunk? Interviewees were asked to state to what extent people, and which people, in terms of age and gender, drink beer as a means of getting inebriated/intoxicated.

We also investigated the local consumption context with individual versus social cues: Is beer associated with socialization? Is beer also drunk individually, when not with others? Issues related to alcohol consumption were examined, especially whether there are social taboos or religious prohibition and to what extent they impact beer consumption? Sharing a happy moment with friends and/or relatives is associated with consumption places and circumstances beer being drunk at home and/or outside in pubs, cafés, bars. Interviewees were asked to identify the typical

[1]The creolization process takes place when foreign items are assigned new meanings and uses by local cultural and linguistic contexts, even when being transferred without apparent change. In the creolization paradigm, the researcher's attention focuses on the reception and domestication process of global goods in local contexts (i.e. differences within similarities), as opposed to the Coca-colonization paradigm, where emphasis is on uniformity (Howes, 1996). A good example of such localization of consumption is Disneyland Tokyo, a perfect replica of the American model which is, however, completely Japanized, that is, fully reinvested by local cultural codes (Brannen, 1992).

local names for places where beer is drunk such as a *pub* for Britain or a *Biergarten* for Germany. The significance of gender and age on consumption patterns was examined, namely, the extent to which beer drinking is associated with gender (e.g. males rather than females drink beer, or males drink beer in larger recipients, or in some countries beer consumption is traditionally associated with breast-feeding etc.), as well as with age, and/or social class (if locally relevant).

Finally, the consumption experience in context was investigated with interviewees: What kind of physical and sensory attributes do people like in beer: alcoholic content, beer color, suds, bubbles, bitterness, sweetness, etc.? Is beer consumption associated with seasons (e.g. more beer consumed in summer or when it is hot), days of the week (e.g. weekend rather than working days), with meals and events such as lunch, dinner, parties, ceremonies, as well as with other beverages (e.g. spirits) or food (e.g. snacks, nuts, sandwiches, cold rather than hot meals, foreign rather than local food, etc.).

In addition to depth interviews, we gathered secondary data on local beer scenes (e.g. per capita consumption per year, beer industry history) and visited web sites from local beer brands, chats and forums, as they feature products and experiences in context. This was intended to derive a general framework in line with the first part of this chapter dealing with similarities and differences across contexts. The idea was to generate joint (similar) categories across countries (e.g. beer and gender, home versus outside beer consumption) as well as purely *emic* categories (locally specific, e.g. beer and Islam) and later let cross-national differences emerge in the way beer consumption is locally experienced (i.e. different ways of creolizing beer). Based on both the interview transcripts and the secondary data, the researchers generated the *etic* and *emic* categories, and later discussed key illustrations of differences *within* similarities. *Emic* labels (e.g. places, glasses, beer types, brands becoming generic, etc.) were also derived and assembled within cognitive maps (Eden, 1992), as shown in the next section for four countries/languages. Cognitive maps (see Figs. 1 and 2) were independently generated by the researcher and his assistants, then compared, discussed and merged.

We analyzed differences and similarities of local beer universes across ten countries: China, Croatia, El Salvador, France, Germany, Japan, Mexico, Thailand, Tunisia, and Turkey. These countries were chosen because they represent different continents, religions (i.e. five predominantly Christian countries (among them, one country with a minority Muslim population: Croatia), three Buddhist countries (among them, two countries with a minority Muslim population: China and Thailand), and two Muslim countries) and important world languages with three countries using writing systems not based on the Roman alphabet.

4 Research Findings

4.1 Local Cognitive Maps

This method, based on organized semantics, is illustrated by the case of beer in three European countries, France, Germany, and the United Kingdom, and Turkey in Fig. 1. We use words and narratives to describe *Emic* product universes for what they mean in context, especially salient product attributes which provide consumers with key benefits and also how beer is consumed in specific situations and corresponds to the fabric of local life.

Beer differs according to bitterness, foam, bubbles, sweetness, and alcoholic content. Many British beers are high-fermentation with lower alcoholic content than beers on the continent. Beer consumption in Germany has a different meaning from that in the United Kingdom or in France. In Germany, beer is consumed in a *Bierstub* (i.e. a sort of German Pub) or *Kneipe (*i.e. a tavern), or enjoyed in a *Biergarten* (i.e. a garden where beer is served with food) during the summer. For home consumption, it is generally bought from a *Getränkeshop* (a side-store to a supermarket entirely dedicated to beverages, a nice combination of German and English). Local beers (including *Weissbier*, wheat-based beer) play a dominant role in the German beer universe. In the Cologne region, for instance, the *Kölsch* beers, some ten high-fermentation beer brands, are consumed as a reference to the place, somewhat similar to wines in France. German half-litre returnable bottles fit in with a densely populated landscape, where people are concerned with recycling glass. German beers will always refer to the beer purity law (*Deutsches Reinheitsgebot*) of 1516, which states that beer should be made only with malt, hops, and spring water.

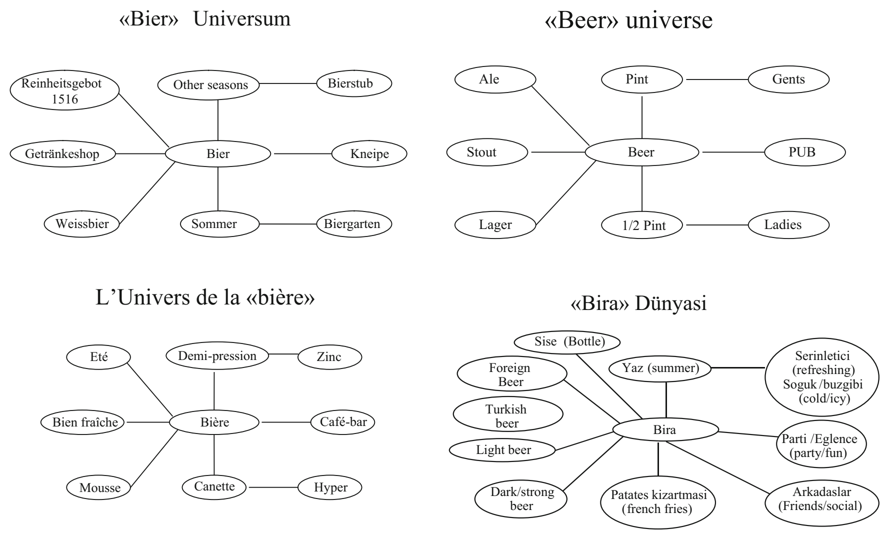

Fig. 1 Local Beer Universes (Germany, UK, France, and Turkey)

In a pub, in the British Isles, drinking a pint (0.57 L) or half pint of beer is a different experience; the pub is a comfortable place which invites people to imagine they were at home. If people are to resist drinking more than one simple pint of beer, it must be low in alcohol. Much beer can be drunk without 'getting plastered', especially if staying at the pub for quite a long period of time. Keywords are ale, stout, and lager for products, while the code is quite clear as concerns glass size, the full pint (larger than most continental European glass sizes) is for 'gentlemen', while the half-pint is generally in the hands of 'ladies'.

A pub is a totally different universe from the French *café-bar*, with its tiled floor and its rather cold interior design; in France regular customers see the place with their own sense of comfort and human warmth and do not really need to have comfort materially demonstrated in the place. They often drink beer ar the bar (*Zinc*, originally a bar covered with a mix of tin and lead, now mostly in wood or stainless steel), But irregular customers will never find in a *café-bar* the immediate comfort which they find in most British pubs. *Bière* is not a traditional French drink although there is some tradition for it in the very northern and eastern part of France. The *demi-pression* (shortly 'demi') is a small size draught beer (0.25 L); many people drink *bière* seasonally, that is in summer (*été*) as a refreshment (*bien fraîche,* chilly). More than in Germany and England, people are fascinated by beer foam (*mousse*) to the point that *bière* is colloquially termed *une mousse* ('a foam'). When drunk at home, beer is most often bought from the *Hyper* (i.e. *Hypermarché*, a very large supermarket) in packs of small (25 and 33 centiliters) beer bottles called *Canettes.*

Although alcohol consumption is a sensitive issue in Muslim-populated Turkey, beer consumption is perceived as part of social activities (*Arkadaslar*) which is central in the Turkish beer universe (*Bira Dünyasi*). Turkish people drink *bira* with friends, family, and/or colleagues during special occasions such as celebrations and parties (*Parti/Eglence*), dinners, sports events, outings, etc. Beer is generally not consumed during the day. Turkish people prefer to drink alcohol in the evening or at night. Beer consumption is strongly associated with *Yaz* (Summer). During hot summer days and summer holidays, people drink beer in *Sise* (bottle) during the day as well. Summer temperatures are high in Turkey in many regions. Therefore beer is served very cold as a refresher (*Serinletici*) or even *Soguk/buz gibi* (very cold/icy) and often with *Patates kizartmasi* (French fries). *Efes Pilsen* is the most consumed, preferred, and known local beer brand in Turkey. Although, there are more and more foreign beer brands entering the country, Turkish consumers mainly associate beer with their *Efes Pilsen*, named after the town of Ephesus in South Turkey. This brand is also popular among young people as the company organizes events and music festivals in Turkey.

4.2 A General Cognitive Map of Beer Universes

In the general cognitive map of beer universes (Fig. 2), we have grouped the findings in general categories which are common to countries, and in some cases to all countries examined adding also what is country-specific.

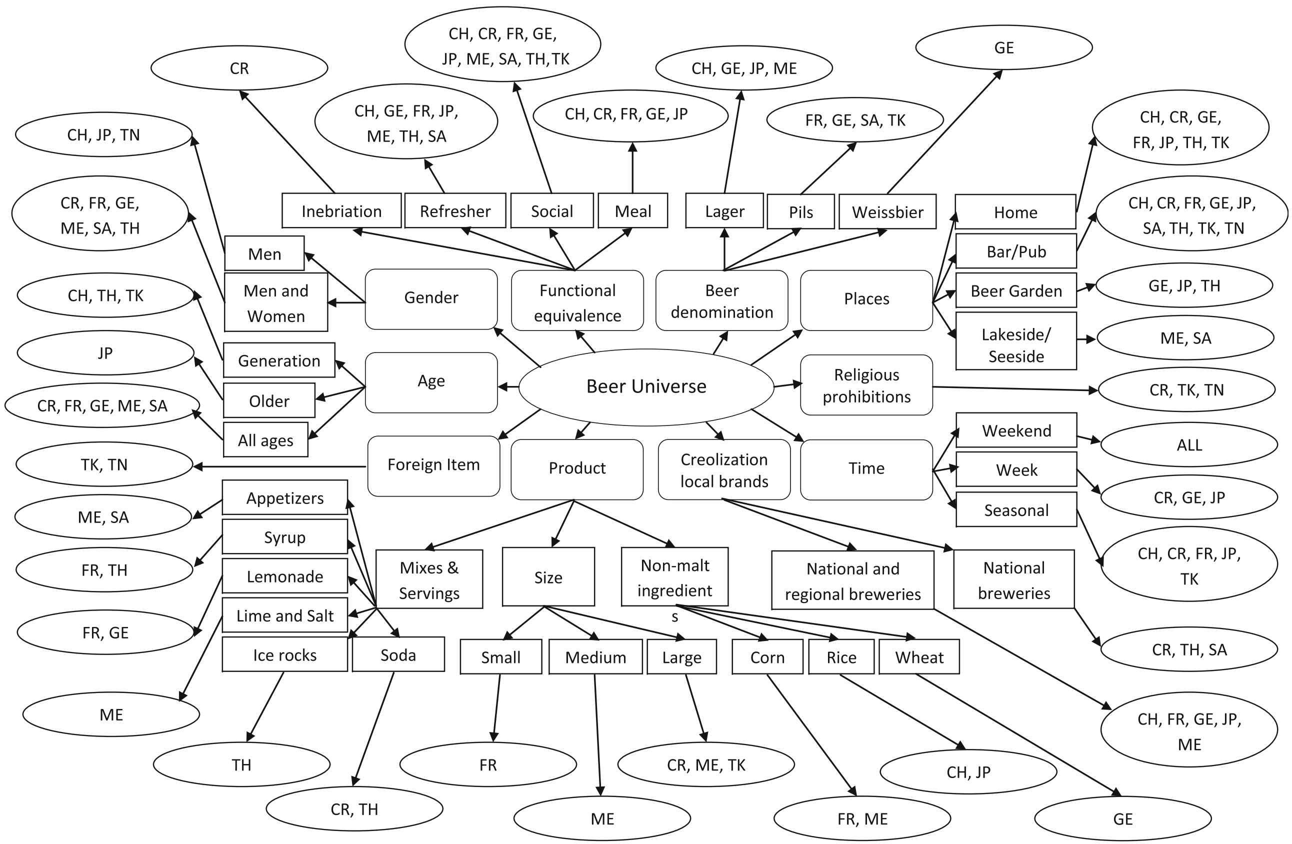

Fig. 2 Cognitive map of beer consumption experiences. *Legend*: *CH* China; *CR* Croatia; *FR* France; *GE* Germany; *JP* Japan; *ME* Mexico; *SA* Salvador; *TH* Thailand; *TK* Turkey; *TN* Tunisia

4.3 Beer Histories

Many cross-national similarities and differences have emerged in the historical context of beer. The first element explaining similarities and differences across local contexts is how beer, including beer manufacturing technology, has been historically developed and how consumption may be impacted by macro-political phenomena such as the almost 50 year Chinese Communist period attitude to a typically Western and European beverage. The very principle of fermented beverages is known all over the world since millenaries. What makes beer original vis-à-vis other fermented beverages (e.g. sake or mil-based beer in Africa) is that it is based on a northern European cereal, barley. There are strong beer traditions from northern and eastern France up to northern (Scandinavia) to eastern (e.g. The Czech Republic) and western (e.g. Great Britain and Ireland) Europe. The strongest written tradition for beer comes from Germany with the *anno 1516* Beer purity law (*Reinheitsgebot*) which, as explained above, requests that only barley, malt (roasted barley), hops, and pure source water be used in beer manufacturing. Some countries in our sample partly use other cereals to manufacture beer (corn/maize in France and more generally Southern Europe) or rice (in Asian countries for lower quality, cheaper beers), which is a clear infringement of the *Reinheitsgebot.* Since the 19th century, Germany has been the prominent exporter of beer manufacturing technology in most non European Countries. As a consequence, Chinese, Japanese, Thai, Turkish, Mexican, and Salvadoran beers are originally German and sometimes even based on German brands. However, changing ownership in breweries, the two world wars, and the creolization of beer in some countries (especially China, Japan, Thailand, and Turkey) accounted for a decrease in the local association of beer with Germany and an increasing feeling that beer was a local beverage. For instance, a Thai informant insists that Thais are very proud of their Thai beer.

4.4 Religion and Foreignness in Muslim Contexts

Tunisia and Turkey are Muslim countries and subject to the religious prohibition of alcoholic drinks. Hence, this category can be considered as purely *emic* since it is locally specific. In Tunisia, 91.9% of women and 80.5 percent of males do not drink at all (i.e. they are life time abstainers), with 91.4% of males and 97.1 of females being abstainers over the last 12 months (WHO, 2017). In addition, according to our informants men over sixty years old do not drink alcohol at all because they become more religious. In Turkey, religious prohibitions exist but they are less binding. For instance, although 99% of the Turkish population is Muslim, 65.9 percent of male and 92.4 percent of female Turks do not drink alcohol for religious or health reasons (WHO, 2017). Additionally, due to religious prohibitions, in Turkey, drinking beer in pubs is tolerated whereas drinking beer in the streets is not.

Interestingly, in Thailand (a predominantly Buddhist context with Muslims in the South), although social or religious taboos are inexistent, alcohol sales are banned during major events such as public holidays, elections, royal birthdays and religious holidays.[2]

In Tunisia and Turkey, beer is still considered a foreign item. Indeed, beer is not perceived as a national beverage. Tunisian beer is produced exclusively by the only national beer producer named *Celtia*. *Celtia* serves the very small fraction of the Tunisian beer drinking population but essentially addresses tourists.[3] *Celtia* beer is distributed through hotels, certain restaurants but mostly in tourist locations. The Turkish beer market is dominated by *Efes Pilsen*, the major national beer producer with 80% of the market. In fact, *rakı*, an unsweetened, anise-flavored hard alcoholic drink is considered the national alcoholic beverage and is consumed more frequently than beer.[4]

4.5 Differences Within Differences: Age, Gender, Religion, and Diaspora. Tunisia Versus Turkey

In Tunisia, gender and age interact in the following way: Men usually drink until they are 55–60 years of age. Then they start thinking about the next world, become concerned with God and religion and stop drinking alcoholic beverages including beer. The influence of the Tunisian Diaspora is noted by our informants. A very small percentage of the Tunisian population is secular (possibly not even 5%). However, about 30% drink beer during the summer because many Tunisians come from abroad for marriages. One of our Tunisian informants adds that when he was a child (he is now about 55), people brought vans full of beer to marriages. Musicians had to be provided with beer or spirits for them to heat up the party. Nowadays, there is much less beer drunk in marriages. Some musicians and singers are abstinent. Drinking is considered a sin. Women are virtually all abstinent with the rare exception of intellectual women with foreign higher education who most often live abroad. Most other Tunisian women would not dare to touch a beer bottle, even for disposal, because, for religious people who follow the principles of Islam, it is the same sin as sitting with a beer drinker. Beer can be bought in special shops at fixed times. Bottles and cans are always hidden in the back shop, and secretly sold by the shop owner because alcohol is forbidden by law. If a policeman finds beer or spirits in a car, the driver can go to jail.

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[2] Thai Pulse. Thai Beer and other Alcohol. 2009. http://www.thaipulse.com/essentials/thai-beer-alcohol/, accessed February 4, 2017.

[3] http://www.scoopergen.co.uk/scoopingabroadtunisia.htm, accessed February 4, 2017.

[4] Fethiye Days.Turkish Raki. http://www.fethiyedays.com/eng/turkish-raki/, accessed February 4, 2017.

Turkey stands in rather sharp contrast. A Turkish informant mentions “The thing is that we do not have much vocabulary and many types of beer. We just have beer, in Turkish, *Bira*. Turkish people are almost all Muslim and for them, drinking alcohol is against their religion. However, people drink beer throughout the year, mostly during the summer when it is hot. Drinking beer is not a problem if you are in a bar, a restaurant, a café, even if you are sitting outside. However, you do not walk with a beer in your hands in the street.” There is little gender difference and our informant explains “It is quite equal for both men and women. For example, *Raki* is more associated with men but beer is for both genders.” Contrary to Tunisia, there is no influence from Germany and the Turkish Diaspora in Germany on the beer *bira Dünyasi.* Despite a strong historical linkage between Germany and Turkey and the fact that beer is considered an ethnically German product, the Turkish Diaspora has virtually no influence on beer consumption in Turkey in terms of introducing German brands, or knowledge about beer types.

4.6 Product Ethnicity, Creolization, and Beer Business Models

In virtually all countries except Germany, that is, China, Croatia, El Salvador, France, Japan, Mexico, Thailand, Tunisia, and Turkey, a creolization process has taken place in which beer has been assigned new meanings and has been reinvested with local cultural codes. In China, local beer is preferred because the quality of local sources of water and local beer is considered fresher since they are not transported from remote locations. In Mexico, local beer is traditionally associated with a local fermented beverage called *pulque* and is clearly preferred over foreign brands. In countries where creolization has taken place, beer is perceived as a foreign product but is also considered a national beverage, beer being marketed through local symbols, brands and having a specific local taste. Local beers can be found for instance in El Salvador, where beer offers a very light, fresh and dry taste and in Thailand, where Thai beers are known to be sweeter and more bitter than foreign beers.[5] Branding is strongly related to creolization: In a country deeply attached to its king, the logo of the Thai beer brand *Chang* represents an elephant, a symbol of superiority and royalty.[6]

Beer business models differ according to countries where creolization has taken place in terms of its being regional and/or national. The beer industry in China, Mexico, Japan and Germany has large beer producers but also a multitude of smaller breweries spread across regions, each having its specialties and offering particular tastes and quality. Japanese beer is produced by 4 large national

[5]Beers Brewed in Thailand. EZ in Articles. March 2011. http://ezinearticles.com/?Beers-Brewed-in-Thailand&id=6271404, accessed February 4, 2017..

[6]iFood TV. Chang Beer. http://www.ifood.tv/network/chang_beer, accessed February 4, 2017.

breweries and by over two hundred local microbreweries[7] In Japan, locally brewed beers are called *ji-biru*.[8] As in China, Japanese people prefer to drink local beer. In Germany, local breweries comply to the *Reinheitsgebot* traditional quality code. These German breweries have a strong local presence and notoriety. Conversely in Thailand and El Salvador, the beer industry comprises large national beer producers with no extensive network of local breweries. Besides, in El Salvador, beer is considered a German beverage but beer is also perceived as a national product. For instance, beer is sold by local brands and has a distinctive local taste and quality. However, El Salvador lacks a real beer culture and deep knowledge about beer. Indeed, Salvadorans do not clearly distinguish in which circumstances beer should be drunk, in what quantity and with what dishes.

4.7 Cross-Cultural Functional Equivalence Issues

Four main functions emerge from our data: socialization, beverage with meal, refresher, and inebriation. A major commonality is the social function of beer across all contexts. Regardless of country, beer is a social beverage, consumed in social settings to facilitate bonding. However, different "drinking etiquettes" exist across countries. While in China, the quantity a person drinks depends on the closeness of relationship with others,[9] in El Salvador, people follow the principle "you drink whenever you can". A Turkish informant phrases it in the following way: "It is more a social drink, when people come together, when there is a party, a social event or a football game". It is also used as a refresher in most contexts, however with differences in seasonality, beer being more consumed as a summer drink as temperature averages differ widely between summer and winter time. Beer is taken with meals and on a daily basis only in Germany. Another commonality is that informants from all countries—irrespective of religion—agree that beer is not used to become inebriated, not only from a normative standpoint (people should not do it) but also from a positive perspective (people do not get intoxicated with beer, at least not with beer only) with the exception of Croatia. Because of the availability of cheap local beer, young Croatian males tend to drink beer in groups, mixing it sometimes with local brandy (*Medenica*) to become intoxicated. Rather, the low alcoholic content of beer is used to reduce shyness in social settings, to become relaxed and comfortable with others as mentioned by a Thai informant. With minor differences which appear in the cognitive map of beer universes, there is much functional equivalence in the beer consumption experience across countries.

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[7]Microbreweries in Japan. Central Japan. http://www.centraljapan.jp/eating_details.php?id=9, accessed February 4, 2017.

[8]Japanese beer. Lars Blog. http://www.garshol.priv.no/blog/107.html, accessed February 4, 2017.

[9]China's Fresh Beer Code. Semionaut. September 2010. http://www.semionaut.net/chinas-fresh-beer-code/, accessed February 4, 2017.

However, there are significant differences in respect to other functions of beer. In China, beer is taken with meals, is consumed in social settings with friends, is a refresher when it is warm and is also a way of getting inebriated. In France and Germany, where beer has been present for centuries, beer functions differ from countries where it was later introduced, with beer being taken with meals, in social settings and as a refresher, however not as a way of becoming inebriated. Similarly, in Japan, beer is taken with many typical dishes and is consumed in social settings. Particularly, Japanese men enjoy drinking in a relaxed atmosphere after work with colleagues or friends, especially in large cities. In El Salvador and Thailand, beer is taken with local meals and all food types but the seasonal refreshing function of beer is not pertinent due to the warm climate throughout the year. In Mexico, beer is not taken with traditional meals but is definitely a refresher and consumed in social settings, for example during a football game. However, if Mexicans strive for inebriation, they will rather drink tequila or rum. In Turkey and Tunisia, beer is not taken with meals, but essentially consumed in social settings. In fact, *rakö* and wine are preferred to accompany meals.[10]

4.8 Beer as a Social Drink: Age, Gender, and Social Class as Local Determinants of Beer Consumption

Meaningful discrepancies exist between countries in respect to age. For example, in China, people between 23 and 29 years old are the most frequent beer consumers.[11] Because of the communist period, older people in China did not have the opportunity to buy beer and are consequently not used to beer. Similarly, in Thailand, beer consumption depends on generation. In France, El Salvador, Mexico and Germany, beer consumption does not depend on age. In Mexico, people start to drink at the age of 15 and they will continue to drink beer during their lifetime. Furthermore, in Turkey, beer is consumed essentially by young people whereas in Japan, beer is essentially consumed by men between 30 and 60 years of age. Young Japanese people do not drink alcohol because of their studies and discipline.

Significant differences appear across countries in respect to beer consumption across genders. In Tunisia, China, and Japan, beer is mostly consumed by men. In China, approximately 90% of beer consumers are men. Chinese women drink solely when they are attending a particular meeting, event or social setting. However, the number of Chinese female beer consumers is actually increasing. In El Salvador, the impact of gender on beer depends on social class. In the lower class

[10]Drinking in Turkey. Instanbul eats. http://istanbuleats.com/tag/turkish-beer/, accessed February 4, 2017.

[11]China Is Now The Beer Kingdom, But Are Chinese Consumers Happy With Their Brew? http://www.chinapolling.com/insights/china-is-now-the-beer-kingdom-but-are-chinese-consumers-happy-with-their-brew.html, accessed February 4, 2017.

and lower middle class, beer is perceived as a virile and masculine beverage and is therefore consumed essentially by men. In the middle and upper classes, beer is seen as a superior good and is consumed by men and women in roughly the same proportions. Social class has an impact on beer consumption frequency as higher social classes in El Salvador tend to consume beer more regularly than lower social classes. Surprisingly, even though social differences are significant, Mexicans drink the same beer brands regardless of their social class. Beer gathers people and therefore appears as a truly social beverage. In Thailand, Turkey, Mexico, Germany and France, beer is generally consumed by men and differences are minor. In Germany, the impact of gender on beer consumption is less notable than in France as French women are somehow reluctant to drink beer in public.

4.9 The Beer Consumption Experience: Places, Times, and Mélanges

Places where beer is consumed strongly vary across countries. In China, Japan, Thailand, France, Germany and in El Salvador, beer is commonly consumed in restaurants, in bars, at home and in nightclubs. Beer is often consumed and particularly during summer, in Germany in a *Biergarten* and in Thailand, in the so-called *lan beer*, which is the Thai equivalent of a *Biergarten*. Likewise, in Japan, beer is often consumed in "beer gardens" and also in karaoke bars. In Japan, most of the beer produced is sold through stores and vending machines whereas beer sold through bars and pubs account only for one fourth of total sales (Kissmeyer, 2011). This indicates that beer is generally more consumed at home and with friends. In El Salvador and Mexico, beer is regularly consumed on beaches and by lakes with friends. Mexicans tend to prefer high alcohol content beverages when going to nightclubs. In Tunisia, beer is consumed mostly in bars. Beer in Turkey is generally consumed at home and mostly during dinner, parties and social events such as football games.

Regardless of country, beer is usually consumed starting from noon, and especially during evenings and weekends. Nonetheless, Japan is in some way an exception as beer is on average more generally consumed during the week, specifically after dinner. One particular aspect of beer consumption in Japan is that the quality of beer can be effortlessly inferred from its price. In fact, many Japanese consumers tend to buy poor quality beer during the week and high quality beer during the weekend.[12] Beer is consumed more frequently in Germany than in all other countries [around 110 L yearly per capita versus 20 L in Tunisia]. In China, beer is a seasonal beverage as wine is consumed during winter and beer during summer. In addition, the Chinese tend to consume larger volumes of beer over a

[12]Japanese beer. Lars Blog. http://www.garshol.priv.no/blog/107.html, accessed February 4, 2017.

short period of time more easily.[13] In France, Japan, and Turkey, beer is usually drunk during summer. National Japanese brewers offer seasonal beer with alcohol content and beer packaging varying according to season.

There are notable differences in respect to preferences across countries. For example, Thailand is the only country where beer is consumed on the rocks. In Germany, beer is often mixed with lemonade whereas in France beer is mixed mostly with syrup, such as a *perroquet* (a parrot, beer with mint syrup). In Thailand, beer is mixed with sodas such as Sprite but also with syrup. In Germany, beer was originally often mixed with *Schnaps* (hard liquor). However, it appears that lemonade began to progressively be mixed with beer over the years (*Alsterwasser*). In Mexico, beer is consumed with lime juice and salt. A *michelada* is a Mexican cocktail made with beer, lime juice, and assorted sauces, spices, and peppers and served in a chilled, salt-rimmed glass. In El Salvador and Mexico, people truly enjoy drinking beer when eating appetizers such as tortilla chips or nuts, whereas in Japan beer is generally consumed with hot dinner dishes.

In Thailand, color, freshness and bitterness of beer are appreciated. In El Salvador and China, bitterness is not usually appreciated as dryness and freshness are the most important preferred attributes of beer. The Chinese do not appreciate dark beer since it reminds them of the bitterness of Chinese medicine.[14] Chinese consumers tend to buy healthier alcoholic beverages, with a lower alcohol content. Chinese manufacturers such as Gold Jiu and Han Fang Nuan Pi have developed new products that are health oriented.

4.10 Beer Attributes, Beer Denominations, and Brands, Local and Global

Despite the normative content of the German *Reinheitsgebot* (i.e. barley, malt, hops, and spring water as only ingredients), differences exist regarding the local ingredients used to brew beer. Corn is used to produce beer in Mexico and France (and in fact many other countries). In China and Japan, malt and rice are usually jointly used to brew beer. Frequent beer denominations, *Pils* (West Czech origin from the city of Plzen not far from Germany) and *Lager*, correspond to high fermentation beers. In France, Germany, Japan, Mexico, China and Tunisia, the denomination of *Lager* is used whereas in El Salvador and Turkey the denomination *Pils* is used more. In El Salvador, the largest beer producer is called *Pilsener*, while in Thailand, neither *Lager* nor *Pils* are used. The difference between low and high-fermentation is unknown to our informants. People know that beer can be dark or light but they have little sense of beer ingredients and recipes. *Weißbier* (a low-fermentation beer

[13]Premium beers reach dizzying heights'. China Daily USA. April 2012. http://usa.chinadaily.com.cn/business/2012-04/04/content_14976454.htm, accessed February 4,2017.

[14]If You Have a Beer in China, Thank a Pole. eChinaCities. July 2011. http://www.echinacities.com/expat-corner/if-you-have-a-beer-in-china-thank-a-pole.html, accessed Fevruary 4, 2017.

made with wheat, popular in Germany and Belgium as *bière blanche*) is an appreciated exception to the *Reinheitsgebot*. However, none of our informants has expert knowledge about beer ingredients, or beer type (e.g. in England pale and stout). There is little knowledge of different varieties of beer, so that beer attributes and beer denominations appear relatively unimportant for consumers with the probable exception of countries with a strong beer culture (e.g. Belgium, Germany, Ireland, and the UK).

People rely much more on brands than on beer type, although it is likely that there is a strong relationship between beer brands and beer types (e.g. Guinness stout, Beck Pils, etc.) Some beer-drinking countries have creolized beer though the development of strong local brands. Striking examples of this process are China, Japan, Turkey, and Thailand. The four famous Thai beers share brand names of powerful, quick, male, and wild animals such as a dragon (*Singha*), an elephant (*Chan*), a leopard (*Leo*), and a stallion (*Archa*), which are symbolically meaningful.

4.11 Packaging and Serving Sizes

Different local traditions exist regarding the packaging of beer, whether in terms of size or material (i.e. glass bottle, aluminum can, or draught beer from tap). There is a wide variety in this respect, glass and draught beer being more popular than aluminum cans in most countries. While Germans generally drink 50 cl beer bottles, in Turkey, beer can be drunk in 75 cl bottles called "*sise*". In Mexico, beer can be bought in 325 ml bottles called "medias" but certain brands, such as Corona and Victoria sell beer in bottles of 925 ml. French beer can also be found in small cans or bottles called "*canettes*", which include 25 cl. For serving sizes, the rule is to adjust to local customs.

5 Conclusions

5.1 Theoretical Implications

A classic distinction, *emic* versus *etic* cross-cultural research, was originated by Sapir and further developed by Pike. The *emic* approach holds that attitudinal or behavioural phenomena are expressed in a unique way in each culture. Taken to its extreme, this approach states that no comparisons are possible. The *etic* approach, on the other hand, is primarily concerned with identifying universals. The difference arises from linguistics where phonetic is universal and depicts universal sounds which are common to several languages, and phonemic stresses unique sound patterns in languages. In general, research approaches and instruments adapted to each national culture (the *emic* approach of which TD is clearly part) provide data with greater internal validity than tests applicable to several cultures (the *etic* approach, or 'culture-free tests'). But it is at the expense of cross-national comparability and external validity: results are not transposable to other cultural contexts. This is why many researchers try to establish cross-national or cross-cultural equivalence in a way which is inspired by the *etic* rather than the *emic* perspective.

The *emic/etic* divide is, however, a simplified perspective. Most *etic*-oriented researchers still look for differences, but these differences are in degree, while *emic* researchers look for differences in nature. Typical questions for *etic*-oriented researchers are: Is it scalable? Can the constructs be operationalised? Are the differences across countries/cultures measurable on common conceptual dimensions? Over time, there is a distinct call in favour of adopting "Hybrid" *emic-etic* approaches to cross-national/cultural comparisons (He & van de Vijver, 2015). However, the ordering of approaches is important. The precedence of *etic* makes it almost impossible to later develop an *emic* approach and tends to hide meaningful differences. The right ordering is to start with an *emic* followed by an *etic* approach when CTD is facilitated by CM. Exploratory qualitative findings can be validated by methods adapted to the validation of qualitative research findings in a cross-national/cultural setting (Polsa, 2007) and/or by more traditional methods including questionnaire and survey research. As emphasized above researchers should start with the search for differences if they want to later assess meaningful similarities.

This chapter, in line with Usunier and Sbizzera (2013), shows that there are a lot of commonalities across language/country contexts as well as many significant differences. This approach is in no way in contradiction with either a global marketing strategy or a quantitative research approach.

5.2 Managerial Applications

Going back to Jain (1989), international marketing experts have predominantly suggested that local marketing decisions should take into account necessary local adaptation. However, international marketing managerial actions can be just the opposite and are too often made on a dichotomous basis: they are either standardized or fully adapted. A frequent managerial choice is *ex ante* standardization and *ex post* adaptation when faced with marketing policy failures in local environments. A great managerial advantage of the CTD is that it circumvents the risk of *ex post* blunders and enables companies to design *ex ante* pragmatic trade-offs between standardization and adaptation. The major strength of this framework is its capacity to provide simple and concise insights by using language to analyze cross-national/cultural differences and associate experiences with people, objects, senses, feelings and local products/brands.

Cognitive maps allow the identification of meaningful similarities but also meaningful differences associated with particular consumption experiences and product categories. Although qualitative differences and associations may be the combination of different factors such as psychographics, demographics, beliefs and attitudes, they have a clear influence on customer behavior and more specifically on purchase decisions. Hence, cognitive maps can be used as an input for local marketing actions to unveil consumption motivations and hindrances. *CTD* insights can be used to determine the do's and don'ts in local marketing implementation.

Elaborating such instruments and the accompanying text is not a huge investment in terms of market research. It is in the best interest of companies marketing globally to gain a sense of how particular consumption experiences are understood in a variety of contexts. Local experiences in several different languages and countries in different areas of the world can be surveyed, compared, and organized into cognitive maps. These maps can serve as a basis for evaluating cross-national/linguistic differences in other local markets not yet covered, and which are similar in some way to some of the language/country areas already covered. This allows quicker insights into new local marketplaces as well as a progressive enrichment of cognitive maps.

As cognitive maps can be regularly updated, the CTD approach allows the identification of possible trends and patterns across and within countries, since local preferences, experiences, cultural tastes and perceptions are not static and since they significantly evolve over time in a globalizing world.

The CTD framework allows a fair degree of flexibility in terms of market research studies as many differences can be simultaneously studied across countries and market knowledge can be transferred horizontally rather than vertically within the global marketing organization. CTD can also exclusively emphasize differences. For example, when studying local cues, stories and culture-bound local etiquettes related to a shared consumption experience, which can serve as a basis for advertising and branding.

5.3 Limitations

For CTD to be a valid methodology there should be sufficient built-in validity checks so that analysts' interpretations do not vary considerably in the face of data/information gathered. Requiring feedback from informants is a first validity check. In this study, there are only two informants per country/culture, which is certainly not enough, even if it is comparable with other studies using CM for consumer behaviour (e.g. 15 informants for Christensen & Olson, 2002). Five to ten informants per country would seem to be a more satisfactory number. However, due do the objective of the study (i.e. to explain and illustrate the process by which TD can be combined with CM) and its exploratory nature, interpretive activity is acceptable, especially if it is followed by more traditional data collection methods (e.g. questionnaire survey) that serve as confirmation and a validity check.

We have three arguments in favor of engaging in CTD interpretation. First, it is based on translation/semantic activities and on expert feedback information by, and later checked with, native informants. Second, cognitive maps and their surrounding textual material are not static. They can be constantly improved when new languages and countries are introduced, discussed and updated. Third, significant insights derived from this method can be tested in a more traditional and applied manner, by testing ad copy or brand names, etc., before deciding to launch a costly marketing action. The CTD framework is designed to provide insights into local consumer experience and thinking strategically across local markets rather than as a direct input into marketing decisions.

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Face Concerns and Purchase Intentions: A Cross-Cultural Perspective

Sha Zhang, Jenny van Doorn and Peter S.H. Leeflang

Abstract Many multinational companies employ a premium price strategy, especially in Asian markets. Literature indicates that this is possibly due to Asian consumers' higher face concerns (concern for self-image and/or status earned in a social network) than Western consumers. That is, Asian consumers perceive that a high price signals face. This study investigates the impact of product tangibility (watch vs. musical) and social presence (stranger vs. acquaintance vs. close friend) on the relationship between face concerns and purchase intentions for high-priced options. We classify high versus low face concern using nationality (Chinese vs. Dutch) as a proxy as literature suggests. The results show that on average, Chinese consumers are more likely to buy a high-priced product than Dutch consumers, but they do not differ with regard to high (versus low) product tangibility and social presence. The findings of this research are highly relevant for international marketers.

1 Introduction

Pricing the product is a tricky problem in a domestic market. In international marketing it can be a nightmare (Majaro, 1987). This is mainly because consumers from different cultures show different price sensitivities and these sensitivities are changing over time. Therefore, developing effective pricing strategies that take into

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account cultural differences across countries is of considerable importance in the global marketplace (Gürhan-Canli & Maheswaran, 2000). While earlier studies (e.g., Ackerman & Tellis, 2001) demonstrate that Chinese consumers are highly price sensitive, more recent studies find that Chinese consumers are less price conscious than their U.S. or Western European counterparts (e.g., Lupton, Rawlinson, & Braunstein, 2010; Zhang, van Doorn, & Leeflang, 2012, 2014). In this chapter we study how face concerns affect consumers' purchase intentions for high-priced options and more particularly we study the price–face interlink. We do this by comparing face concerns of Chinese consumers with Dutch consumers. China and the Netherlands represent two typical examples of distinct economies (emerging versus developed markets). From a cultural perspective, China represents a typical example of an Eastern, collectivistic culture, whereas the Netherlands offers a credible representation of a Western, individualistic culture (Hofstede, 1980). According to Triandis and Gelfand (1990), China is a vertical (emphasize on hierarchy), collectivist society, whereas the Netherlands is a horizontal (emphasize on equality), individualistic society. Empirical evidence (e.g., Hwang, Francesco, & Kessler, 2003) suggests that collectivists (e.g., Chinese consumers) have greater concerns for face than individualists (e.g., Dutch consumers), and some researchers (e.g., Bao, Zhou, & Su, 2003; Li & Su, 2007; Song, 2012) suggest that high face concerned consumers purchase more high-priced option. This study therefore proposes face as a key variable that can explain much of the complexity of consumers' price perceptions across cultures.

Face, defined as self-image and/or status earned in a social network (Bolton, Keh, & Alba, 2010), is a cornerstone of collectivist cultures (Ho, 1976; Hwang et al., 2003), with central importance for sociology research (Ho, 1976; Qi, 2011). Most studies (e.g., Bao et al., 2003; Li & Su, 2007; Wong & Ahuvia, 1998) suggest that consumers with more face concern, regardless of their income levels, are motivated to consume high-priced items to display their economic advantage and social status to others, which ultimately enhances their face (i.e., price–face link). The economic theory behind this link is the so-called Veblen effect (Veblen, 1899), according to which consumers prefer a product more when its price increases (Amaldoss & Jain, 2005).[1] A prevailing view indicates that this relation reflects the existence of a price–quality link, such that high price signals high quality (e.g., Ackerman & Tellis, 2001; Shiv, Carmon, & Ariely, 2005). Yet this argument cannot explain another relevant phenomenon that most original equipment manufacturers in China that offer significantly lower-priced products with the *same quality* as name brand products sell far more of the name brand, higher-priced items (Song, 2012). That is, some consumers appear more concerned with whether the product can enhance their self-image or what a price signals to others about the purchaser than with the quality of the product itself (Meng & Nasco, 2009; Song, 2012). In response, many companies employ a premium price strategy, especially in

[1] In a meta-analysis, Bijmolt, van Heerde, and Pieters (2005) find that studies from many countries consider this positive relation between price and sales only in about 2% of all cases investigated.

Asian markets. Kweichow Maotai Group, a top Chinese liquor brand, raised its prices several times within one year, and Western brands in China, from the Versace to Starbucks, are priced 30% or 75% higher than the same product in the United States (Li, 2011). Taxes can explain around two-thirds of these price differences; the remaining one-third of the difference in price between China and foreign nations is probably due to psychological factors (Xinhua News, 2012), including face concerns.

Despite the frequency of this trend in practice, it is theoretically unclear when consumers with more face concern choose high-priced options. For example, consumers might make completely different judgments of the same product according to their perceptions of its contribution to their face, in which case a consumer might choose a cheap restaurant when eating with close family members but an expensive one with colleagues (Wang & Zhang, 2011). Furthermore, though face often appears as an explanation for conspicuous consumption (e.g., Li & Su, 2007; Liao & Wang, 2009; Wong & Ahuvia, 1998), decision-making styles (e.g., Bao et al., 2003), reactions to service failure (e.g., Chan, Wan, & Sin, 2009), and price fairness perceptions (e.g., Bolton et al., 2010), prior research dedicated specifically to face is scarce. Its conceptualization requires further clarification, as does the route by which face influences consumer purchase intentions (Li & Su, 2007). In addition, though current face theory serves to explain Asian consumers' strong demands for luxury products, despite their relatively low income level (Ram, 1989), it is unclear whether ordinary products with relatively higher prices, instead of absolutely high prices, might elicit face concerns too.

This study uses the widely assumed price–face link as a starting point to explicate a topic that has received little empirical attention but is rapidly growing in importance as consumers in nations marked by massive economic development increasingly seek to achieve face through consumption (Li & Su, 2007). In this chapter we discuss the outcome of two experiments that shed light on the (possible) price–face link. To this end we compare "price behavior" of Chinese and Dutch consumers. Although the samples are relatively small and consist of students, the outcomes demonstrate differences and similarities. We thus answer the calls for research that "the predictive power of face concerns could be investigated within a model which links face consideration to price perceptions, and price perceptions to shopping behaviors in an international context" (Zhou & Nakamoto, 2001; p. 166), as well as respond to calls that acknowledge that "face concerns underlie the cultural differences in responses to price comparisons and suggest that the role of face deserves greater attention in future research" (Bolton et al., 2010, p. 574).

In the remainder of this chapter, we present our theoretical development by discussing how face has been defined and classified, as well as the relationships between face and culture and face and price. We present the experiments we designed to test our hypotheses and report the results. We provide theoretical arguments in the discussion section, before concluding with limitations and directions for further research.

2 Theoretical Development

2.1 *The Concept of Face*

The anthropologist Hu (1944) was the first author to study face, defined as the social reputation in a group that a person could achieve by getting on in life, success, and ostentation. Inspired by this work, the American sociologist Goffman (1955, p. 213) defined face according to an interpersonal interaction perspective. In Goffman's (1955, p. 213) definition, face is "the public image created, which enables a person to receive praise from others, and in any social interaction, one of the participants may claim to possess some values praised by society, such as wealth, achievement, or ability." When others recognize this claim, the person gains face. If the claim is rejected, the person loses face. Goffman's definition of face has strong conceptual links with the notion of "looking-glass" self (i.e., anchoring of self in the gaze of others). Other researchers provide similar definitions (e.g., Brown & Levinson, 1987; Ho, 1976; Hwang, 1987; Stover, 1962; Ting-Toomey, 1988), but among these, Goffman's (1955) definition is perhaps the most widely cited. Still, no general consensus exists regarding the concept of face, because a precise definition has remained elusive (Ho, 1976).

The challenges of defining face stem from its nature, as a situational concept, influenced by the variation among people and across contexts (Spencer-Oatey, 2007). A person can be involved in several groups and play different roles in each group, leading to many different "faces" for the same person, depending on the situation and position (Cheng, 1986). Face also is a multifaceted concept (Hwang, 1987), which is associated with respect, social status, honor, reputation, competence, creditability etc. (Oetzel, Garcia, & Ting-Toomey, 2008).

In turn, we define face according to two streams (Spencer-Oatey, 2007). The first stream (e.g., Goffman, 1955; Ho, 1976; Stover, 1962) emphasizes face as the social interaction, such that face cannot be claimed unilaterally but can only be reinforced or diminished through interaction. The second stream (e.g., Hwang, 1987; Lim, 1994; Ting-Toomey & Kurogi, 1998) perceives face similar to identity, such that it is designed to build a positive, public, social, and fluid self-image, related not to what the person thinks of him- or herself but rather what this person believes others think of his or her worth (Lim, 1994). Therefore, in a consumption context, face implies that consumers buy products to construct and display self-images and thus induce positive comments or recognition from others (Wang & Zhang, 2011).

2.2 *Face and Culture*

Previous studies suggest that the concept of "face" exists across cultures (Goffman, 1955; Liao & Bond, 2010; Oetzel et al., 2001; Qi, 2011), with different names assigned, depending on the culture (Gao, 1998; Morisaki, Gudykunst, & Ting-Toomey, 1994; Ting-Toomey, 1988). It is called *mianzi*, *mentsu*, *gesicht*, *gezicht*, and *face* in Chinese, Japanese, German, Dutch, and English, respectively. Some specific, distinct cultural elements might determine different aspects of face, yet even if the rules according to which face operates vary, the imperative awareness of social evaluation is universal (Qi, 2011). Still, collectivists have greater sensitivity or concerns for face than individualists (see also Redding & Ng, 1983). As shown in Fig. 1a, b, we elaborate on this notion by drawing from three theories: (1) collectivism–individualism (Hofstede, 1991), (2) horizontal–vertical collectivism–individualism (Triandis & Gelfand, 1998), and (3) self-construal (Markus & Kitayama, 1991).

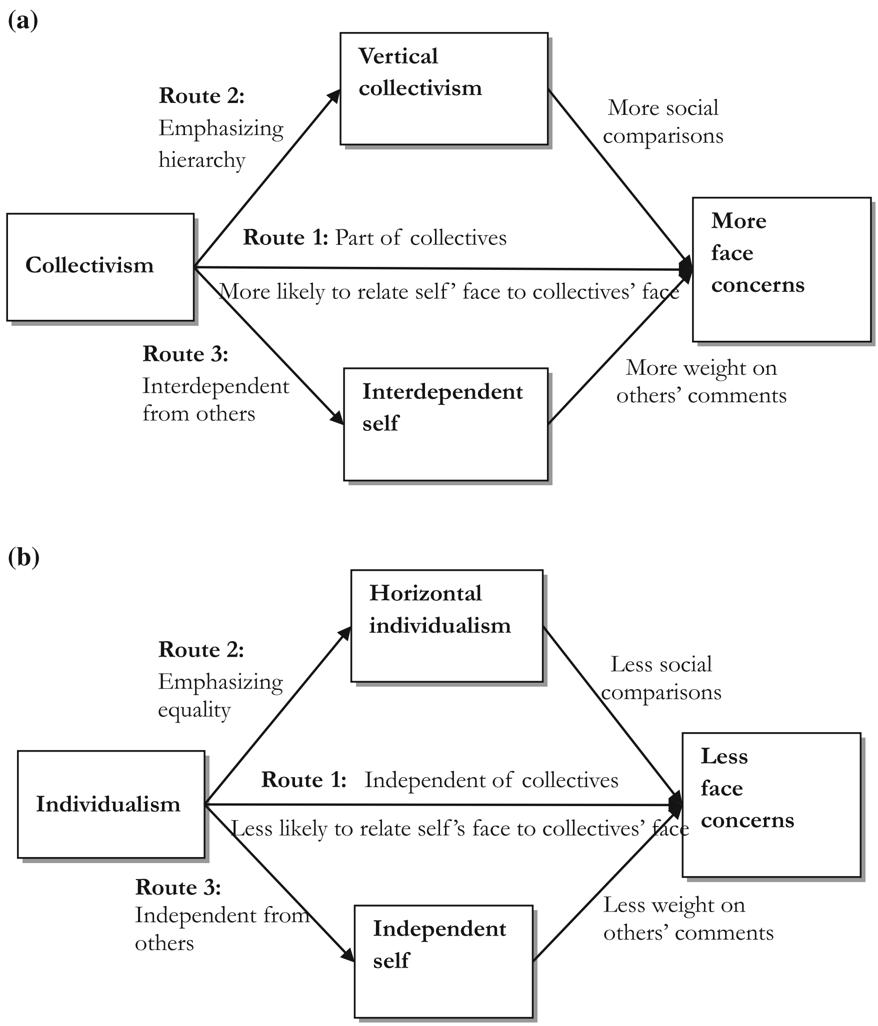

Fig. 1 **a** Visual representation of the relationship between collectivism and more face concerns in a collectivistic society: the case of China. **b** Visual representation of the relationship between individualism and less face concerns in a more individualistic society: the case of the Netherlands

2.2.1 Collectivistic Culture: More Face Concerns

Route 1: China is a collectivistic society. Hofstede (1980) defines collectivity as "a social pattern consisting of closely linked individuals who see themselves as part of one or more collectives (family, coworkers, tribe, nation) and are willing to give priority to the goals of these collectives over their own personal goals" (Oetzel et al., 2001, p. 602). A Chinese man would view himself as a son, brother, husband, and father but not as himself (Gao, 1998). Accordingly, Chinese people tend to relate their own face to the face of their family, relatives, friends, and colleagues. Another example, Chinese parents often encourage children to study hard by warning, "Don't make our family lose face" (King & Bond, 1985). Thus, people from collectivistic cultures treat face more seriously and react more strongly than people from individualistic cultures. In turn, people from collectivistic (vs. individualistic) cultures should have more concerns for face.

Route 2: According to vertical–horizontal theory (Triandis & Gelfand, 1998), China represents a vertical (emphasis on hierarchy) form of collectivism, rather than a horizontal (emphasis on equality) form. In a vertical collectivist culture, people focus on complying with authorities and enhancing the status of their collectives (Shavitt et al., 2006). In these hierarchical cultures, people with higher status usually claim and are accorded more face than those with low status (Liao & Bond, 2010), which encourages more attention to social comparison information and consequently increases face concerns. Such a society advocates values that enable people to gain more face as they move upward in the local social hierarchy. Therefore, in a vertical (vs. horizontal) collectivistic society, the concern for face is even greater.

Route 3: On average, relatively more members of collectivistic (vs. individualistic) cultures hold an interdependent self-view (Matsumoto, 1999; Ting-Toomey & Kurogi, 1998), such that they are more connected, motivated to join various interpersonal relationships, and ready to fit in with relevant others (Markus & Kitayama, 1991). In other words, people with interdependent (vs. independent) self-construals tend to assign more weight to others and care about others' comments which by definition implies a greater likelihood of triggering face concerns.

2.2.2 Individualistic Culture: Less Face Concerns

Route 1: Conversely, the Netherlands is perceived as an individualistic society. Hofstede (1980) defines individualism as "a social pattern that consists of loosely linked individuals who view themselves as independent of collectives and who give priority to their personal goals over the goals of others" (Oetzel et al., 2001, p. 602). In individualistic cultures, face is less related to their collectives, so people only have their own face to consider, and consequently, they have less face concerns as compared with people from collectivistic cultures.

Route 2: The Netherlands also features horizontal individualism, such that its people tend to view themselves as equal to others in status. Compared with vertical individualism, which emphasizes social comparisons, people from a horizontal individualist culture tend to have even weaker face concerns, because they are less likely to engage in social comparisons.

Route 3: In individualistic cultures, relatively more people hold an independent self-view (Ting-Toomey & Kurogi, 1998). They consider themselves unique and independent from others (Markus & Kitayama, 1991), so they worry less about others' opinions, which by definition results in less face concerns.

Indeed, substantial studies largely support that though concern for face is universal (Goffman, 1955), it has a much stronger impact on collectivists. For instance, Hwang et al. (2003) propose that face concerns are more salient in China. Kam and Bond (2008) further argue that loss of face has a stronger negative impact on relationships among Chinese collectivists than U.S. individualists. Li and Su (2007) and Bao et al. (2003) empirically find that Chinese respondents are more concerned with face in their everyday life, whereas Americans are less likely to relate products to face. These findings are in line with Ting-Toomey's (1988) arguments, namely, that persons from collectivistic cultures are more concerned with maintaining a positive identity or positive face than persons from individualistic cultures.

In summary, face is more prominent in collectivistic than in individualistic cultures. Previous cross-cultural studies tend to compare the United States with Japan or China, such that they contrast vertical individualism (U.S.) with vertical collectivism (China and Japan, see Ting-Toomey & Kurogi, 1998). However, across the combinations of vertical/horizontal, individualism/collectivism (Triandis & Gelfand, 1998), the two exemplars of opposite poles (China, vertical collectivism, vs. the Netherlands, horizontal individualism) have the greatest potential to yield substantial differences on the measure of concern for face. Therefore, we consider the Netherlands a better option than the United States for this study.

2.3 The Price–Face Link

Many researchers (e.g., Bao et al., 2003; Li & Su, 2007; Song, 2012; Wong & Ahuvia, 1998) suggest that consumers with high face concerns are more likely to purchase a high-priced option, because the purchase, use, display, and consumption of goods and services that bear high prices offer means to gain face by signaling a wealthy image, which is related to one's desirability (Kenrick et al., 2001). Consumers buying high-priced products also may receive more positive comments. Thus for example a consumer might purchase an expensive wine not because of her or his quality perceptions per se but rather due to the perception that others will consider the high price a reflection of the internal traits of the purchaser (e.g., being a big spender). Generosity makes a person appear more trustworthy (Barclay, 2004), and those who buy high-priced products are more desirable as friends, allies, and romantic partners (e.g., Cottrell, Neuberg, & Li, 2007).

For more face concerned consumers, buying a low-priced option also is undesirable. Kashani and Quelch (1990) report that Japanese consumers (high face concern) are embarrassed to redeem coupons, for fear that other people will make person-based inferences (e.g., that the shopper is poor or cheap) (Calder & Burnkrant, 1977). "Buy nothing, or buy something expensive" effectively reflects the attitudes of consumers with high face concerns (Zhou & Nakamoto, 2001). To create a favorable public image for others or conform with their expectations (Völckner, 2008), consumers with high face concerns try to avoid buying low-priced brands, regardless of their objective income or class levels (Belk, 1988). Bao et al. (2003) show empirically that face positively affects consumers' "brand-conscious and price-equals-quality" orientations but negatively influences the "price-conscious and value-for-money" orientations.

This price link also appears in prestige sensitivity literature; prestige is closely related to face (Li & Su, 2003). These studies suggest a positive relationship between price and perceived prestige. For example, Belk (1988) proposes that people tend to purchase high-priced, visible products as forms of their extended selves, to increase their social status. Lichtenstein, Ridgway, and Netemeyer (1993) find that price has a positive impact on prestige. Brucks, Zeithaml, and Naylor (2000) suggest that most respondents consider price and brand names when assessing prestige. Völckner (2008) proposes that price is an indicator of prestige, which leads to a positive link between price and purchase intentions. This reasoning confirms that consumers with high (versus low) face concerns are more likely to choose high-priced products. Table 1 provides an overview of studies that support the price–face link.

Table 1 Literature overview of high price-face link

Study	Context	Conclusions
Belk (1988)	Qualitative study	The purchase or use of a high-priced product becomes a symbol for people to show their prestige
Wong and Ahuvia (1998)	Southeast Asia versus Western cultures	Face consciousness makes Asian consumers more likely to consume expensive products as a symbolic social gesture
Lichtenstein et al. (1993)	U.S.	Price has a positive impact on prestige
Brucks et al. (2000)	U.S.	Consumers use price and brand name much more frequently when evaluating prestige
Zhou and Nakamoto (2001)	U.S. versus China	Chinese young consumers are more prestige sensitive and less price conscious than U.S. counterparts
Bao et al. (2003)	U.S. versus China	Face consciousness negatively affects "price-conscious and value for money" orientations
Li and Su (2007)	U.S. versus China	Persons with high face concerns tend to relate price and brand names to their face
Völckner (2008)	Western Europe	Price is an indicator of prestige, which leads to a positive relation between price and purchase intentions
Liao and Wang (2009)	China	Giving expensive gifts brings honor to the gift giver by displaying his or her ability to afford to give the gift

We expect that the belief that a high price can signal face is universal across cultures, though in Western cultures this is typically not described or interpreted in such terms (Ho, 1976). This is because higher-priced products are usually superior to lower-priced products, thus high-priced products are more able to enhance self-image and convey social status. This view should be accepted across different cultures. "We are what we have" is perhaps the most basic and powerful fact of consumer behavior (Belk, 1988), and high-priced products act as signs of the self (Rochberg-Halton 1984, p. 335). Consuming high-priced goods, either in Eastern or Western cultures, serves as one of the primary means for demonstrating success (Wong & Ahuvia, 1998), which is a source of face by definition.

2.4 Wrap Up

To sum up, this research project is based on two key assumptions: (1) consumers from collectivist cultures exhibit higher face concerns than consumers from individualistic cultures, and (2) high price signals face. The definition of face we use for this research has two dimensions ("has two faces"): (a) constructing and displaying a self-image by buying certain products and (b) seeking positive comments or recognition of social status through that consumption. To explicate the first meaning, we examine the influence of a product-related moderators—product tangibility (material vs. experiential; Study 1)—on the relationship between face concerns and purchase intentions for a high-priced option (i.e., the price–face link). Because we also posit that others' predicted perceptions influence face concerns, in Study 2 we include situational moderators, in the form of social presence. In Fig. 2, our conceptual framework delineates the key constructs and interrelationships for this research.

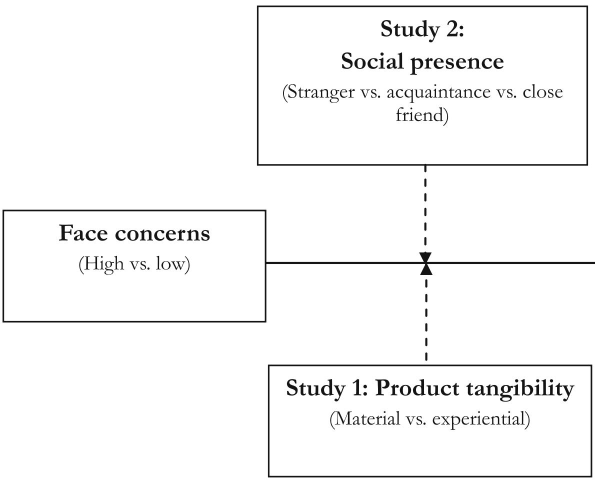

Fig. 2 Conceptual framework

3 Study 1: Product Tangibility as a Moderator

3.1 Introduction

Study 1 explores the influences of product tangibility (material vs. experiential) on face concerned consumers' purchase intentions for a high-priced option. Van Boven and Gilevich (2003) propose an intention-based distinction between material and experiential purchases. Material purchases are those made with the primary intention of acquiring a material good or tangible object that remains in one's possession (e.g., new Patek-Phillipe watch). Experiential purchases instead are made with the primary intention of acquiring a life experience in a series of events (e.g., hiking the Himalayas).

Whereas experiential products tend to gratify the internal, private self, material products are more associated with the public and social self (Wertenbroch & Dhar, 2000). People with more face concern focus on social roles and public perceptions as central to their identity (Ho, 1976). Therefore, they should emphasize not only the importance of the external social self but also the significance of material products as motives for consumption. Those with more face concern also tend to display their wealth publicly to others through consumption, symbolically demonstrate their social status, and seek to build their social reputation (Wong & Ahuvia, 1998). Material products can carry information about those symbols. Compared with experiential products, which leave nothing tangible to show others after the experience (Fitzmaurice, 2008), consumers can display tangible material products many times in various occasions to gain and enhance their face. Finally, face results from social comparison (Goffman, 1955). Yet experiential products tend to be less directly comparable than material products, because experiences simply are harder to align for the purposes of comparison (Carter & Gilovich, 2010). Therefore, material products serve as better vehicles for more face concerned consumers to establish face, due to their ability to confer status and transmit a desired self-image to others (Campbell, 1987). Wong and Ahuvia (1998) suggest that Asian group norms and goals frequently emphasize material possessions. Liao and Wang (2009) also find a strong correlation between face and materialism, suggesting that more face concerned consumers attach higher importance to possessions, and therefore, they are more likely to choose a high-priced option for material possessions. We test the following hypothesis:

H1 Compared with consumers with less face concern, the purchase intentions of consumers with more face concern toward higher-priced options are higher for material products. For experiential products, there is no difference between consumers with high face concerns and consumers with low face concerns.

3.2 Method

3.2.1 Participants and Design

Ninety (45 Dutch and 45 Chinese) university students from large universities in China and the Netherlands (screened to omit nonnative participants and Asian Europeans) participated in Study 1 and received compensation of 4 Euro or 30 RMB. Study 1 used a 2 (face concerns: Chinese vs. Dutch) × 2 (product tangibility: experiential vs. material) between-subject design. Because there is no mature manipulation measure in existent literature (Bao et al., 2003; Li & Su, 2007), therefore, for our exploratory purpose, we did not manipulate face concerns but rather classified high vs. low face concerns based on culture differences (Chinese vs. Dutch). Product tangibility was manipulated as either to buy a material or an experiential product in the scenarios.

3.2.2 Procedure

We used the QUALTRICS online survey tool to conduct this experiment. Participants were introduced to the study, with instructions that its purpose was to understand reaction to shopping behaviors in different situations. Participants' CFF scores were measured before presenting the scenarios in the main studies. We adapted eight CFF items (see Appendix 1) on seven-point Likert scales (1 = strongly disagree, 7 = strongly agree) from Cocroft and Ting-Toomey (1994) and White, Tynan, Galinsky, and Thompson (2004). Participants then were randomly assigned to the material or experiential product conditions. Following Van Boven and Gilovich (2003), we used a watch as the material and a musical production as the experiential product. Because these items have appeared in previous research, we did not pretest them. The scenarios read as follows:

> Imagine that you are looking for a new watch [planning to watch a musical]. After seeking advice from your friends and searching for information online, you narrow down your preference to two watches [musicals]. You also check out the real products in a store: the appearance, weight, and feeling on your wrist. [You also check out the preview in a ticket office: the stories, actors/actresses, and the atmosphere.] After all the examination, you believe that both of them can satisfy your needs very well. Watch [Musical] A costs 89 [49] Euro; Watch [Musical] B costs 139 [79] Euro.

The prices were determined in a pretest.[2] In the Chinese sample, the prices for the watch [musical] were set at 719 [399] and 1119 [639] RMB (exchange rate of 8 and equivalent relative price difference of about 50%).

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[2]The low price points of all of our studies reflected actual market prices from a large shopping website. To select effective comparison prices that could signal face, we conducted a pretest with an independent sample of 20 Chinese university students from the same subject pool. Only Chinese students participated, because face is more characteristic of Chinese culture. They read

3.2.3 Dependent Variables

After reading the scenario, participants responded to five items that provided the input for three dependent measures. First, they indicated the likelihood of purchasing the high- and low-priced options on a seven-point Likert scale (1 = very low; 7 = very high). Second, purchase proportions were obtained by asking respondents to assign 100 points between the high- and low-priced options. Finally, purchase choice measures were obtained by asking the participants to choose between either the high- or the low-priced alternative (1 = high-priced option; 0 = low-priced option).

3.2.4 Manipulation Check

Similar to the procedure used by Carter and Gilovich (2010), participants rated the degree to which their purchase was material or experiential (1 = definitely material, 4 = does not fit either category, 7 = definitely experiential, see Appendix 2).

3.2.5 Control Variable

We measured participants' familiarity with watches (musicals) with a single question: "How familiar are you with the product category? (1 = not familiar at all; 7 = very familiar)" (Jung & Kellaris, 2004). Appendix 2 contains all the measures in Study 1.

3.3 Results

3.3.1 Manipulation Check

We performed a 2 (face concerns: Chinese vs. Dutch) × 2 (product tangibility: watch vs. musical) ANOVA on the mean score of product tangibility. The results, showing a significant main effect of product tangibility ($F(1, 86) = 82.71$,

(Footnote 2 continued)

that "Some research shows that people tend to relate price to their 'face' (mianzi). Consuming a high- priced item can signal greater socio-economic status and prestige, which will gain the purchaser face." Then, they had to choose, for example, "If the cheapest watch is 89 Euro in a store, which one of the following prices will gain you face?" The options ranged from 99 Euro to 149 Euro, with 10 Euro increases for each alternative. Similar indications that high prices can signal face appeared in each study, for watches (Study 1), musical performances (Study 1), and dishes (Study 2). The mean scores for the high prices were 131 Euro for a watch, 80.5 Euro for the musicals, and 10.1 Euro for dishes. On the basis of the mean prices indicated in the pretest, we determined high prices of 139 Euro for the watch (Study 1), 79 Euro for musicals (Study 1), and 10.9 Euro for dishes (Study 2). Voss, Parasuraman, and Grewal (1998) similarly used \$79/\$129 as low and high price points, such that they differed by about 50%.

$p < 0.001$), suggested that participants perceived the watch (M = 3.15, SD = 1.69) as more material than the musical (M = 6.00, SD = 1.29) (1 = definitely material, 4 = does not fit either category, 7 = definitely experiential). Although the main effect of face concerns was not significant ($p > 0.81$), the interaction effect was (F (1, 86) = 5.37, $p < 0.05$). According to the simple effect analysis, the interaction resulted primarily from Chinese participants, who perceived watches as less material products (M = 3.54, SD = 1.72) than their Dutch counterparts (M = 2.74, SD = 1.60; F(1, 86) = 3.43, $p = 0.07$), although the difference is only significant at the 0.07 level. Perhaps this counterintuitive finding arose because the Chinese consumers, compared with the Dutch participants, engaged in more holistic rather than analytic thinking (Monga & John, 2008), leading them to believe that as long as a material product has some function, it also includes experiential features. In the musical condition, Dutch participants (M = 6.32, SD = 1.21) classified the musical as an experiential product to a similar extent as their Chinese counterparts (M = 5.67, SD = 1.32; F(1, 86) = 2.07, $p > 0.15$). Thus the manipulation of product tangibility was not perfect. However, since one of the independent variables, i.e., face concerns, is not manipulated, a moderate interaction is allowed, as long as compared with the musical, both Chinese and Dutch participants agreed that a watch represented a more material product (Kenny, 2013).

3.3.2 CFF Score

Though Chinese consumers expressed higher face concerns than Dutch participants, the difference was not significant ($M_{Chinese} = 5.40$, $M_{Dutch} = 5.11$, F(1, 88) = 2.53, $p = 0.12$).

3.3.3 Control Variable

A 2 (face concerns: Chinese vs. Dutch) × 2 (product tangibility) ANOVA of the familiarity scale indicated that only the main effect of face concerns was significant (F(1, 81) = 6.17, $p < 0.05$), with no other significant main or interaction effects ($p > 0.05$). Although Dutch participants (M = 3.91, SD = 1.81) were somewhat more familiar with both products compared with their Chinese counterparts (M = 3.12, SD = 1.37), Chinese and Dutch participants' familiarity with watches and musicals did not differ.

3.3.4 Hypotheses Test Results

DV1: Purchase likelihood. The 2 (face concerns: Chinese vs. Dutch) × 2 (product tangibility) ANOVA for purchase likelihood showed significant main effects of face concern (F(1, 86) = 16.94, $p < 0.001$) and product tangibility (F(1, 86) = 8.54, $p < 0.005$; left column, Table 2, Panel a). Thus, Chinese consumers (M = 4.40,

Table 2 Study 1 findings

(a) Results: effects of product tangibility and face concerns on purchase intentions for a high-priced option

	ANOVA (DV1)		Linear regression (DV2)				Logistic regression (DV3)			
	F	Sig.	Parameter	Std. error	t-value	Sig.	Parameter	Wald	Exp. (β)	Sig.
Intercept	574.42	0.001	28.41	4.08	6.97	0.001	-2.30	9.64	0.10	0.001
Product tangibility (watch = 1, musical = 0)	8.54	0.004	8.29	5.70	1.45	0.15	1.48	2.88	4.38	0.09
Face concerns (Chinese = 1, Dutch = 0)	16.94	0.001	12.54	5.83	2.15	0.03	0.051	0.002	1.05	0.96
Product tangibility × face concerns	0.87	0.36	4.51	8.07	0.56	0.58	1.29	1.11	3.62	0.29
R-squared/Nagelkerke R-squared	0.21		0.20				0.31			

(b) Average purchase likelihood, purchase proportions, and purchase choice for a high-priced option

Condition	Watch			Musical			Average		
	Mean	Std. deviation	Sample size	Mean	Std. deviation	Sample size	Mean	Std. deviation	Sample size
DV1: purchase likelihood (7-point scale)									
Chinese	4.96	1.37	24	3.76	0.77	21	4.40	1.27	45
Dutch	3.39	1.92	23	2.77	1.54	22	3.09	1.76	45
Average	4.18	1.83	47	3.27	1.31	43			
DV2: purchase proportions (100 points)									
Chinese	53.75	21.63	24	40.95	13.84	21	47.78	19.32	45
Dutch	36.70	22.50	23	28.41	16.50	22	32.64	20.01	45
Average	45.40	23.46	47	34.53	16.36	43			
DV3: purchase choice (% in choosing high-priced option)									
Chinese	0.63	0.50	24	0.10	0.3	21	0.38	0.49	45
Dutch	0.30	0.47	23	0.09	0.29	22	0.20	0.41	45
Average	0.47	0.50	47	0.09	0.29	47			

SD = 1.27) were more likely to choose a high-priced option than Dutch participants (M = 3.09, SD = 1.76), and all participants were more likely to select a high-priced watch (M = 4.18, SD = 1.83) than a high-priced musical (M = 3.27, SD = 1.31). We summarize these averaged purchase intentions in the upper part of Table 2, Panel b. However, because the interaction effect was not significant (p = 0.36), *H1 is not supported.*

DV2: Purchase proportions. From the linear regression on the second dependent measure, for which respondents divided 100 points between the high- and low-priced options, we determined that the model was significant (F value = 7.07, $p < 0.001$), and the model R-square was 20% (middle column, Table 2, Panel a). Only the main effect of face concerns emerged as significant (β = 12.54, t = 2.15, $p < 0.05$), such that Chinese consumers (coded 1; M = 47.78, SD = 19.32) appeared more likely to choose the high-priced option than Dutch consumers (coded 0; M = 32.64, SD = 20.01). The averaged purchase proportions appear in the middle part of Table 2, Panel b. With no other significant main or interaction effects, we found *no support for H1* in the linear regression.

DV3: Purchase choice. Finally, we conducted a logistic regression analysis with consumer choice as the dependent variable and product tangibility, face concerns (Chinese vs. Dutch), and their interaction as independent variables. In the right column of Table 2, Panel a, we specify the marginally significant main effect of product tangibility (β = 1.48, Wald = 2.88, $p < 0.09$). As shown in Fig. 3, the average choice of a high-priced option appears higher in the watch (M = (62.50% + 30.40%)/2 = 47%) than in the musical (M = (9.5% + 9.1%)/

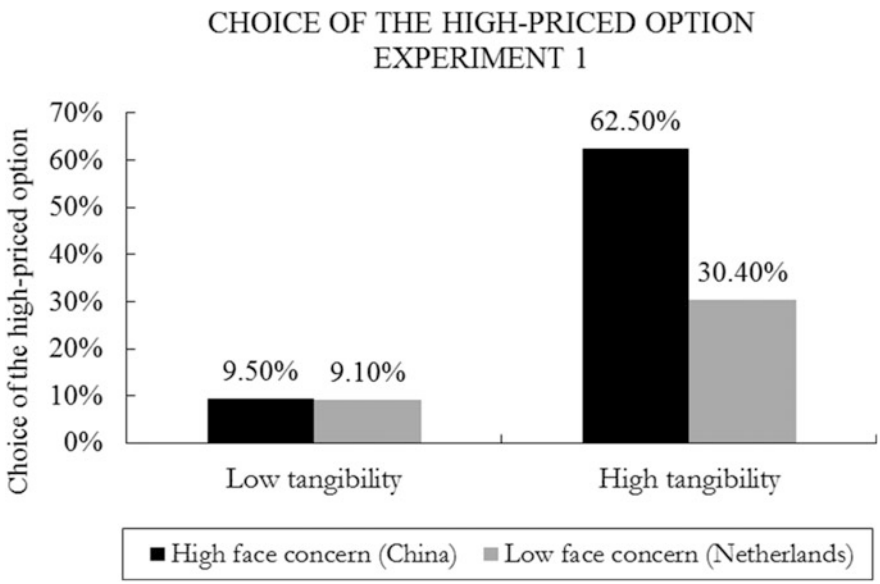


Fig. 3 Choice of the high-priced option for study 1

2 = 9%) condition (see also the bottom part of Table 2, Panel b). Because the main effect of face concerns and the interaction effect were not-significant ($p > 0.20$), our findings revealed that the differences between Dutch and Chinese consumers, in terms of choosing a high-priced option for high- or low-tangibility products, were not significant. We again found *no support for H1*.

3.4 Conclusions and Discussion

Compared with Dutch consumers', Chinese consumers' purchase intentions for a higher-priced option are higher in general, regardless of the tangibility of the product, thus H1 is not supported. We predicted the correct direction of consumers' purchase intentions for a high-priced material product (watch). However, we were not able to give a correct prediction for the experiential product (musical). We now focus our discussion on the experiential product.

According to an independent samples t-test, Chinese (vs. Dutch) consumers are relatively more likely to purchase a higher-priced musical, across both dependent variables we adopted (seven-point Likert scale $M_{Chinese} = 3.76$, $SD = 0.77$; $M_{Dutch} = 2.77$, $SD = 1.54$; $t(1,41) = 2.64$, $p < 0.01$; dividing 100 points $M_{Chinese} = 40.95$, $SD = 13.84$; $M_{Dutch} = 28.41$, $SD = 16.50$; $t(1,41) = 2.69$, $p < 0.01$).[3] This might be because musicals usually are watched with others, rather than alone. According to face theory, Chinese consumers pay attention to their own face but also are sensitive to granting face to others. Thus, when consuming with others, Chinese people must carefully judge the value of the products or services, to enable those others to feel full of face (Li & Su, 2007). The Chinese participants then may have been relatively more likely to choose a high-priced musical, to indicate the importance of their relationship to the other and show respect to their companion's face.

Thus far, we have focused on price–face link and product-specific moderators (i.e., product tangibility).[4] Yet we have found no significant moderating effects on the price–face relation. Consumers' face concerns also might depend on situational factors though (e.g., social presence of a stranger vs. acquaintance vs. close friend). This issue motivates Study 2.

[3]Although the direction of the results for the third dependent variable, purchase choice, was consistent ($M_{Chinese} = 0.10$, $SD = 0.3$; $M_{Dutch} = 0.09$, $SD = 0.29$; $t(1,41) = 0.05$, $p > 0.40$), it was not significant. Therefore we do not discuss it here.

[4]We also used product visibility (publicly consumed vs. privately consumed products) as a moderator and we find that it did not affect the price-face link which confirms our findings reported in this chapter. For further information, please refer to Zhang (2015), Customer Loyalty & Face Concerns: Differences between Eastern (Chinese) and Western (Dutch) consumers, Unpublished Ph.D. Thesis in Economics and Business, University of Groningen.

4 Study 2: Social Presence as a Moderator

4.1 Introduction

The presence of other persons in a purchase situation influences purchase decisions (Luo, 2005). Even a non-interactive social presence, such as the mere physical presence of another shopper in a store, may be sufficient to elicit emotional and behavioral responses (Argo, Dahl, & Manchanda, 2005). Most research considers the impact of social presence in public (with another person) versus private (alone) conditions (Kurt, Inman, & Argo, 2011). However, the exact nature of these influences is not clear (Brown & Garland, 1971; Zhang & Shrum, 2009). Some research suggests that certain types of peers (e.g., close vs. distant friends, friends vs. other companions) increase attitudes and behaviors associated with consumption more than do other types of peers (de Castro, 1994; Luo, 2005). To examine the effects of different types of social presence on purchase intention, this research examines three forms of social presence: stranger, acquaintance, and close friend.

More face concerned consumers likely care about others' comments and seek to maintain good relationships with others, so a social presence should have a greater impact on more face concerned consumers than on less face concerned consumers. A stranger's presence might not significantly prompt face concerns, because it is unlikely that the focal actor will meet this stranger again, and what strangers think may have less effect than the opinion of friends. With an acquaintance, though they know each other, the pair is not closely connected and still in the process of getting to know each other. Therefore, building a desirable self-image through face-building or face-saving behaviors may determine acquaintances' assessments. Wakefield and Inman (2003) propose that consumers are less likely to select a lower priced alternative in the presence of colleagues, out of fear of negative connotations, such as being perceived as cheap or unable to afford higher priced alternatives. However, with a close friend, shared experiences should produce feelings of comfort and acceptance; because image and status perceptions already should have formed, there is less need to engage in face-saving behavior (Brown & Garland, 1971). Brown and Garland (1971) thus propose an inverted U-shaped relationship between the degree of relationship closeness and face-saving behavior. Because the relationship closeness of an acquaintance lies between a stranger and a close friend, an acquaintance might make face concerns most salient. In contrast, consumers with less face concerns should be relatively less affected by the status of the social presence—that is, stranger, acquaintance, or close friend—because they already regard themselves as more independent and pay less attention to others' opinions (Markus & Kitayama, 1991). Therefore,

H2 Compared with consumers with less face concern, the purchase intentions of consumers with more face concern are higher toward a higher-priced product if an acquaintance is present. When a stranger or a close friend is present, there is no difference between consumers with high face concerns and consumers with low face concerns.

4.2 Method

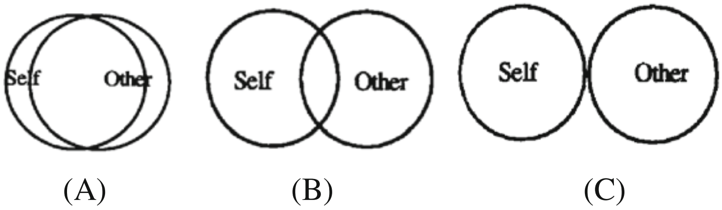
4.2.1 Participants and Design

A total of 144 (72 Chinese and 72 Dutch) students from large universities in China and the Netherlands participated in this study, in return for a payment of 30 RMB or 4 Euro. The study used a 2 (face concerns: Chinese vs. Dutch) × 3 (social presence: stranger vs. acquaintance vs. close friend) mixed design. The first two factors were between-subject, and the third factor was a within-subject factor. The within-subject design enabled us to achieve greater sample efficiency in the use of participants, to help recover the higher costs of cross-cultural studies. Similar to Study 1, nationality provided a proxy for face concerns.

4.2.2 Procedure

Again, we used the QUALTRICS online survey tools to conduct the experiments. After the instructions, participants' CFF scores were measured in a similar way as in Study 1. Then, they were randomly exposed to one of three manipulated situations (stranger vs. acquaintance vs. close friend). Psychology theory posits that social audiences need not be physically present; they can also be imagined (Edelmann, 1981; Miller, 1996). Argo et al. (2005) also note that the presence of another person (real or imaged) is sufficient to elicit perceptions of being evaluated. To manipulate the three types of social presence, we adapted the "Other in the Self" scale, which has been used successfully to measure interpersonal closeness (Aron, Aron, & Smollan, 1992). For this measure, the questionnaire displayed seven pairs of two circles, one representing the self and the other representing another person. The seven pictures differed with respect to the overlap between the two circles, ranging from no overlap (least close) to full overlap (most close). For this experiment, we selected the first, second, and seventh circle pairs to represent a stranger, an acquaintance, and a close friend. To eliminate variance in the understanding of these relationships, we showed participants all three pictures, to help them understand the relative differences, though we only asked them to *focus* on *one picture*. Their task was to image a person with whom they had a relationship that corresponded with the assigned degree of closeness; they were to write down his or her name, in the close friend or acquaintance situations (participants in the stranger situation did not write down any name). For example, the acquaintance scenario read:

> Below you can see three pairs of relationship closeness circles. The 'Self' circle represents you, whereas the 'Other' circle represents the other person. The three pairs of circles vary from close to distant.
>
> Please focus on **the second pair of circles (B).** Picture a relationship with an acquaintance, whom you do not know very well, as depicted by picture B. Write down the given name of your acquaintance. All the following scenarios are about you and your acquaintance.



In the other two experimental situations with similar scenarios, participants were asked to image a person with whom their relationship was reflected by picture A or C. To check whether participants understood the prompt correctly, we asked two manipulation check questions ("Who is the person you named above?" and "How close is the relationship between you and the person you just imagined?" 1 = very distant, 7 = very close).

4.2.3 Price Scenario

In the acquaintance [stranger/close friend] condition, the price scenario was as follows:

> You go to a restaurant for lunch. You enter the restaurant and now you are standing in front of the cashier, thinking about what dish to order. At that moment, the acquaintance [stranger/close friend] (the person you named above) comes into this restaurant and stands right next to you. You are considering dish A and dish B, both of which you like. Dish A costs 6.90 Euro; Dish B costs 10.90 Euro. The average price of the dishes in this restaurant is around 9.00 Euro.

The prices in the scenarios were determined by the pretest (see footnote 2). In the Chinese sample, the prices for the dish were 59 and 89 RMB (exchange rate of 8 and equivalent relative price difference of about 50%). After reading the scenario, participants indicated their purchase intentions for the high- and low-priced options, divided 100 points between the high-and low-priced options, and chose between the two alternatives, as the dependent measures. Appendix 3 contains all the measures in Study 2.

4.3 Results

4.3.1 Manipulation Check

The manipulation of the imagined social presence of a stranger, acquaintance, or close friend was successful. A 2 (face concerns: Chinese vs. Dutch) $\times$ 3 (social presence: stranger vs. acquaintance vs. close friend) ANOVA showed that only the main effect of social presence was significant ($F(2, 138) = 403.48$, $p < 0.001$); the other main and interaction effects were not significant ($p > 0.20$). That is, participants in the stranger, acquaintance, and close friend scenarios were more likely to report that they were in the presence of a stranger, acquaintance, or close friend, respectively. The same method, applied to check relationship closeness, confirmed that only the main effect of relationship closeness was significant ($F(2, 138) = 265.47$, $p < 0.001$). Participants in the close friend condition ($M = 6.14$, $SD = 0.87$) felt closer to their counterpart than those in the acquaintance ($M = 3.31$, $SD = 1.07$) or stranger ($M = 1.61$, $SD = 0.99$) conditions. No other main or interaction effects were significant ($p > 0.05$).

4.3.2 CFF Scores

The CFF score were marginally higher for Chinese than for Dutch participants ($M_{Chinese} = 5.33$, $M_{Dutch} = 5.11$, $F(1, 144) = 2.74$, $p = 0.10$).

4.3.3 Hypotheses Test: H2: The Moderating Effect of Social Presence on the Price–Face Link

DV1: Purchase likelihood. We ran a 2 (face concerns: Chinese vs. Dutch) $\times$ 3 (social presence) ANOVA for purchase intentions for the high-priced dish. The results (left column, Table 3, Panel a) show that only the main effect of face concerns was significant ($F(2, 138) = 21.83$, $p < 0.001$): Chinese participants ($M = 4.38$, $SD = 1.32$) were more likely to buy the high-priced dish than their Dutch counterparts ($M = 3.32$, $SD = 1.37$). We summarize the average purchase likelihood for the high-priced dish in Table 3, Panel b. Because *the main effect of social presence and the interaction effects were not significant* ($p > 0.50$), *H2 did not receive support*.

DV2: Purchase proportions. Similarly, the linear regression model (middle column, Table 3, Panel a) showed only a significant main effect of face concerns ($\beta = 11.04$, $t = 2.02$, $p < 0.05$). The positive coefficient indicated that Chinese consumers (coded 1) were more likely to purchase the high-priced option than Dutch consumers (coded 0). In the middle part of Table 3, Panel b, Chinese participants ($M = 35.64$, $SD = 20.58$) revealed a higher average likelihood of choosing the high-priced dish than Dutch participants ($M = 27.03$, $SD = 16.71$). No other effects were significant ($p > 0.20$), so the *linear regression offered no support for H2*.

DV3: Purchase choices. Finally, we conducted a logistic regression on consumer choice with (1) face concerns (Chinese vs. Dutch), (2) two dummy variables indicating whether the social presence was a stranger or acquaintance, and (3) their interactions. The results (right column, Table 3, Panel a) revealed a main effect of face concerns ($\beta = 2.52$, Wald $= 5.19$, $p < 0.05$), which was plotted in Fig. 4 (see also Table 3, Panel b). As can be seen, Chinese participants ($M = (23.81\% + 13.04\% + 36\%)/3 = 24\%$) were more likely to choose the high-priced dish than

Table 3 Study 2 findings

(a) Results: effects of social presence and face concerns on purchase intentions for a high-priced option

	ANOVA (DV1)		Linear regression (DV2)				Logistic regression (DV3)			
	F	Sig.	Parameter	Std. error	t-value	Sig.	Parameter	Wald	Exp (β)	Sig.
Intercept	1155.47	0.001	26.00	3.95	6.58	0.001	−3.09	9.14	0.05	0.003
Face concerns (Chinese = 1, Dutch = 0)	21.83	0.001	11.04	5.48	2.02	0.05	2.52	5.19	12.38	0.023
Social presence	0.53	0.59	–	–	–	–	–	–	–	–
Stranger (stranger = 1, otherwise = 0)	–	–	0.61	5.59	0.11	0.91	1.19	1.0	3.3	0.32
Acquaintance (acquaintance = 1, otherwise = 0)	–	–	2.31	5.43	0.43	0.67	1.05	0.78	2.87	0.38
Face concerns × social presence	0.10	0.90	–	–	–	–	–	–	–	–
Stranger × face concerns	–	–	−0.98	7.92	−0.12	0.90	−1.78	1.70	0.17	19
Acquaintance × face concerns	–	–	−5.89	7.60	−0.78	0.44	−2.52	3.21	0.08	0.07
R-squared/Nagelkerke R-squared	0.14		0.06				0.12			

(b) Average purchase likelihood, purchase proportions, and purchase choice for a high-priced option

Condition	Stranger			Acquaintance			Close friend			Average		
	Mean	Std. deviation	Sample size	Mean	Std. deviation	Sample size	Mean	Std. deviation	Sample size	Mean	Std. deviation	Sample size
DV1: purchase likelihood (7-point scale)												
Chinese	4.52	1.33	21	4.31	1.12	26	4.32	1.52	25	4.38	1.32	72
Dutch	3.48	1.41	23	3.12	1.39	25	3.38	1.35	24	3.32	1.37	72
Average	4	1.46	44	3.71	1.39	51	3.85	1.5	49			
DV2: purchase proportions (100 points)												
Chinese	35.64	20.58	21	33.46	15.99	26	37.04	25.68	25	35.64	20.58	72
Dutch	27.03	16.71	23	28.84	19.59	25	25.54	13.23	24	27.03	16.71	72

(continued)

Table 3 (continued)

(b) Average purchase likelihood, purchase proportions, and purchase choice for a high-priced option

Condition	Stranger			Acquaintance			Close friend			Average		
	Mean	Std. deviation	Sample size	Mean	Std. deviation	Sample size	Mean	Std. deviation	Sample size	Mean	Std. deviation	Sample size
Average	31.33	19.17	44	31.20	17.82	51	31.41	21.15	49			
DV3: purchase choice (% in choosing high-priced option)												
Chinese	0.24	0.44	21	0.13	0.33	26	0.36	0.49	25	0.24	0.43	72
Dutch	0.15	0.34	23	0.12	0.33	25	0.04	0.2	24	0.10	0.30	72
Average	0.19	0.39	44	0.13	0.33	51	0.20	0.41	49			

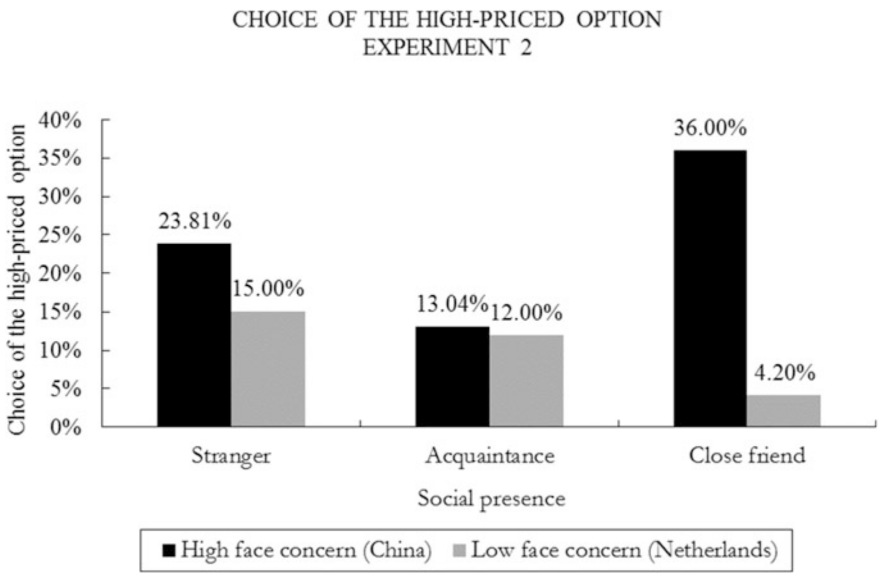


Fig. 4 Choice of the high-priced option for study 2

their Dutch counterparts (M = (15% + 12% + 4.2%)/3 = 10%). No other main ($p > 0.30$) or interaction ($p > 0.05$) effects were significant. Thus, *H2 is not supported*.

4.4 Conclusions and Discussion

First, Chinese consumers (vs. Dutch consumers) in general are more likely to choose high-priced products, regardless of the social presence context. That is, the main effects of face concerns in Study 2 (price) are consistently significant. Second, we found no differences for Chinese and Dutch consumers in terms of their purchases of high-priced options, regardless of whether an acquaintance is present, rather than a stranger or close friend. Hence, we found no support for the hypothesis H2. This is possible given, as we explained earlier, consumers in collectivistic cultures, on average, are more likely to perceive an interdependent self and “others” plays a more important role than consumers in more individualistic cultures, which creates more possibilities, on average, of social comparisons that induce a greater need for face. Thus, when there is a person around, no matter who he/she is, Chinese consumers’ face concerns would be elicited. Thus, our data show that Chinese participants’ purchase intentions do not differ, regardless of whether a stranger, acquaintance, or close friend is present. It would be advisable to measure subjects’ interdependent and independent selves in future studies, to validate this inference.

5 Additional Analyses

5.1 Using Individual Differences in CFF Scores

Thus far, we have uncovered no significant interaction effects in any of the studies,[5] which might be because we used nationality (Chinese vs. Dutch) as a proxy for high or low face concerns, according to face theory (Sect. 2.2). Yet across all studies, Chinese and Dutch respondents do not differ on the CFF measure ($M_{Chinese} = 5.40$, $M_{Dutch} = 5.11$, $F(1, 88) = 2.53$, $p = 0.12$ for Study 1; $M_{Chinese} = 5.33$, $M_{Dutch} = 5.11$, $F(1, 144) = 2.74$, $p = 0.10$ for Study 2). Furthermore, when using nationality as a proxy, possible omitted variables such as uncertainty avoidance and long-term orientation are likely to have a confound impact on the results. Thus, we pooled Chinese and Dutch CFF scores and repeated the analyses using individual CFF scores. We also applied median, tertile, and quartile splits and used the various outcome as the independent variable. However, *we did not obtain any significant results*. This might be because the eight-item CFF scale (see Appendix 1) measures face concerns only in a broad sense, rather than in a consumption context.

5.2 Moderated Mediation Analysis

We also included the price–face link[6] as a mediator between face concerns and purchase intentions for a high-priced option. Face theory suggests that consumers with higher face concerns have a greater tendency to relate price to face. The moderated mediation analysis, in which we examine whether, as we have predicted, the price–face link mediates high face concerned consumers' purchase intentions for a high-priced option only for high tangibility products, but not for low tangibility products (Study 1); and only when an acquaintance is present, but not when a stranger or close friend is present (Study 2).

Results and Discussion We conducted the moderated mediation analysis using the PROCESS macro for SPSS, as described and documented by Hayes (2014), to obtain both a bootstrapped confidence interval and the moderated mediation index.

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[5]We performed the same experiments with Chinese participants in the Netherlands who showed more similar purchase intentions to the Dutch participants than to the Chinese participants in Beijing.

[6]To check whether and to what extent price is an indicator of face, we collected data on the price–face link during the experiments by including two adapted CFF items from Cocroft and Ting-Toomey (1994), rated on seven-point Likert scales (1 = strongly disagree, 7 = strongly agree). For example, in Study 1, "Relative to 89 Euro [49 Euro], do you think that 139 Euro [79 Euro] for a watch [musical] can signal your social status?" and "Relative to 89 Euro [49 Euro], do you think that 139 Euro [79 Euro] for a watch [musical] can enhance your self-image?" ($\alpha = 0.89$). The price–face link score is derived from the average of the two-item price–face link measures. Price–face links can be found in Appendix 2–3.

The moderated mediation analysis conducted using the price–face link (i.e., tendency to relate price to face) as the mediator revealed only marginally significant support for H1 (coefficient = 0.845, 90% CI = 0.108 to 1.581, $p = 0.059$) in one of our studies, suggesting that differences in product tangibility drove differences in high face concerned consumers' purchase intentions toward a high-priced option. The price–face link mediated the relationship between face concerns and choosing a high-priced option, but only for products with high tangibility such as watches. For products with low product tangibility, such as the musical, no such pattern of mediation emerged. We also did not find support for H2, consistent with our previous findings from the moderation analysis. Therefore, face signaling may not be a primary need or salient goal that is constantly activated. Instead, products with high absolute prices (e.g., Liao & Wang, 2009), or material products with relatively great price differences have greater potential to trigger face concerns. In contrast, the price differences between the 10.9 and 6.9 Euro restaurant dishes were not enough to invoke face concerns. Because face was not activated in Study 2, we did not find any significant interaction effects.

6 Conclusion and General Discussion

This chapter started with a simple question: Why do many multinational companies employ a premium price strategy especially in Asian markets? We used face theory as an explanation, because it assumes that (1) consumers from collectivist cultures exhibit higher face concerns than consumers from individualistic cultures, and (2) high prices signal face (e.g., Liao & Wang, 2009). Across two Internet-based experiments and using two approaches for measuring face concerns (i.e., nationality and CFF score), we examined the moderating role of product tangibility, and social presence on the relationship between face concerns and purchase intentions.

Conclusion 1: Our results highlight that Chinese (vs. Dutch) consumers are more likely to buy a high-priced option in general, regardless of product tangibility or social presence.

6.1 Why Are Almost All Main Effects Significant?

6.1.1 Culture-Related Explanation

This might be because on average, relatively more Western (Dutch) consumers will hold an independent self-view, and relatively more Eastern (Chinese) consumers embrace an interdependent self, inherently related to the surrounding context (Ting-Toomey & Kurogi, 1998). An interdependent self also makes the other, or the self in relation to others, focal; others in turn are important for social comparisons and reflected appraisals (Markus & Kitayama, 1991). Thus in Study 1, we found that Chinese consumers were more likely to buy high-priced tickets to a musical than Dutch consumers. Musicals are usually watched with others, so Chinese consumers, who care about others' opinions, buy the high-priced tickets to help them enhance their face, showing others that they are generous and respectful of others' face as well. In a similar vein, Chinese consumers with their interdependent self-views care about others' comments. If another person is present, no matter who that person is, Chinese consumers care about how others view them. Thus, in our data, Chinese participants' purchase intentions for a high-priced option did not differ, regardless of whether a stranger, acquaintance, or close friend was present.

6.1.2 Alternative Explanations

In addition to face and self-construal theories, the market environment might help explain the results. China, as an emerging market, mainly features market heterogeneity and unbranded competition, leading to greater variance relative to the mean for virtually all available products and services. As much as 60% of consumption involves unbranded products and services (Sheth, 2011), for which quality information is difficult to access (Lichtenstein & Burton, 1989). Over time, this market environment may have encouraged Chinese consumers to form the general belief that a cheap price means poor products. In contrast, the developed market of the Netherlands encompasses intense competition and extensive regulation, which make abundant, comparable goods widely available (Zhou, Su, & Bao, 2002). The quality of private labels is also generally higher in the Netherlands than in China. Therefore, equally low prices indicate different risks in China versus the Netherlands. In China, market heterogeneity and unorganized competition increases the risk to consumers of buying a low priced product. Therefore, Chinese consumers, who also exhibit high risk aversion (Hofstede, 1980), tend to pay a higher price to feel secure or avoid the risk of receiving poor quality products. In the Netherlands, the relatively low variance across products allows Dutch consumers to feel assured that they can buy a product of a (relative) good quality at a low price. Therefore, Chinese consumers are more likely to choose a high-priced option, regardless of the situation.

Conclusion 2: In one of our studies, we find marginally significant support for the indirect effect of face concerns (CFF scores) on choosing a high-priced option, through the price–face link, which is an increasing function of product tangibility. The price–face link mediated the relationship between face concerns and choosing a high-priced option, but only for products with high tangibility. That is, when purchasing tangible products (e.g., watch), consumers with high (vs.) low face concerns are more likely to choose a high-priced option; for low tangibility products (e.g., musical), there is no significant difference in the choices of high and low face consumers for high-priced options. This finding provides some preliminary evidence that face products can extend beyond luxury products, in contrast with previous arguments that only luxury products with absolutely high prices can signal face (e.g., Liao & Wang, 2009). We show that material products with relatively high prices may also elicit face concerns, and accordingly, high face concerned consumers tend to spend more in those product categories.

6.2 *Why Are Almost No Moderating Effects Significant?*

Across the studies, we find almost no significant moderating effects to support our hypotheses. This may be due to two reasons (1) CFF scores do not differ significantly between Chinese and Dutch samples ($M_{Chinese} = 5.40$, $M_{Dutch} = 5.11$, $F(1, 88) = 2.53$, $p = 0.12$ for Studies 1; $M_{Chinese} = 5.33$, $M_{Dutch} = 5.11$, $F(1, 144) = 2.74$, $p = 0.10$ for Study 2). (2) price is not seen as signaling face.

6.2.1 Why CFF Scores Do not Differ Significantly Between the Two Samples?

Face is a social phenomenon, but we only collected data from one social group of students with very specific characteristics (e.g., young age, high education, limited income, certain generation). Their consumer behavior may be relatively immature, rather than completely representative of mainstream consumers. Literature indeed suggests that college students in China have converged to be more global in perspectives and shopping patterns with their Western counterparts (Bolton et al., 2010). The differences between Chinese and Dutch consumers' CFF scores likely would be more significant if we included data from various social groups, who are more representative of all consumers.

6.2.2 Why Is Price a Weak Indicator of Face?

Across two posttests[7] and various price–face link checks, we consistently find that the assumption that high price signals face is not true, despite frequent, nearly ubiquitous claims that it is. We thus consider some possible reasons for this weak relationship, to advance theory.

Price is a complex stimulus (Lichtenstein et al., 1993), and a high price is associated with many variables other than face. In pricing literature, high price can be a negative indicator of economic sacrifice (e.g., Erickson & Johansson, 1985) or a positive indicator of quality (Brucks et al., 2000), prestige (Lichtenstein et al.,

[7] The results are available based on requests.

1993), face (Li & Su, 2007), uniqueness (Nagle & Holden, 2002), or hedonism (Volckner 2008). Consumers thus generate both positive and negative interpretations of a high price, and some consumers may be more affected by the negative (positive) component. Our study participants are all university students, such that they might not have achieved economic independence, in which case a high price may be more likely to exert negative impacts on purchase intentions. Even if high price enhances face, this positive effect might be mitigated or overridden by other factors. That is, we posit that the ultimate result for our dependent variable, purchase intentions toward the higher priced option, might reflect not any single factor but rather the integral effect across all factors.

Another possible explanation pertains to the multifaceted nature of face, which is inherently related to the context and surrounding group. Consumption of high-priced products is not the sole source of face. According to Goffman's (1955) definition, consumption-unrelated dimensions, such as achievement (e.g., publishing many papers in top journals) or ability (e.g., going to a top university, earning high grades), also contribute to enhance face. Furthermore, not all consumers who score high on face concerns agree that a high-priced product enhances face; a high grade might be more effective for enhancing students' face in particular. This logic is consistent with the contradictory inferences of Bao et al. (2003), who find that though Chinese consumers have more face concerns than their U.S. counterparts, and face concerns relate positively to brand consciousness and price–quality orientations, Chinese consumers still express lower scores on these orientations.

Face is also not signaling a primary need or salient goal, activated at all times. Face is often considered dynamic in nature, mainly related to front-stage behaviors (Goffman, 1955). In our experiments, we did not prime face concerns explicitly, instead we only used high versus low price comparisons, with product category (e.g., watch) or social presence as implicit stimuli designed to trigger participants' desire to gain face by choosing a high-priced option. However, implicit stimuli might elicit participants' face concerns only below a certain level, such that face consciousness might not be activated, in which case face concerns would never have influenced our participants' purchase intentions. Also, many researchers (e.g., Ho, 1976; Zhang et al., 2011) propose that when people's face remains unthreatened, their need for face signaling is not salient; they become far more concerned with protecting than with gaining face (as is the case in our experiments). Thus, participants may express little interest in gaining face through extra efforts or showing off their wealth, whereas everyone needs to save face to maintain at least a minimum level of effective social functioning (Ho, 1976).

Finally, some confounding factors not considered in the current study could interfere with the relationship between high price and face. For example, in a highly competitive, fair market environment, price might be a good indicator of face. Using price to infer face does not impose much risk on consumers in this case (Tellis & Gaeth, 1990). But in less competitive, non-transparent markets, price may not offer a good indicator. In China's pricing system, a high price is not always a fair price. Historically, a lack of intensive competition and incomplete regulation led to a relatively unfair pricing system, compared with the markets in many developed countries (Zhou & Nakamoto, 2001). Some name brand products continue to be overpriced; some general products appear underpriced, due to poor marketing administration (Fan & Xiao, 1998). In addition, weak regulation allows for massive amounts of fake products in the market, which are priced higher than their actual value, and even could be unsafe or fatal to use (e.g., food, electronic products; Ho & Sin, 1988). Bolton et al. (2010) find that paying a higher price than another customer leads to particularly strong perceptions of unfairness, which may result in face-losing emotional responses, such as anger or shame. Therefore, based on this reasoning we may conclude that Chinese consumers may tend to doubt the credibility of price as an indicator of face.

7 Implications, Limitations, and Future Research on the Price-Face Link

Our findings that Chinese consumers tend to purchase high-priced option regardless of situations offer some implications for pricing strategies in international markets. In the past, many multinationals have made the mistake of going too cheap in China, assuming that Chinese consumers are too price-sensitive (Rein, 2002; p. 12). At present, according to our study, Western companies seeking business opportunities in China may consider maintaining a steady price or even raise it to attract the Chinese consumers (Zhou & Nakamoto, 2001). In Western markets in contrast, raising the price may not be effective, because Western consumers are less likely to buy a high-priced option. In a word, managers must adjust their pricing strategies for Eastern and Western cultural markets. As an example, Starbucks has tapped demand for premium experiences and tweaked its marketing, such that it represents an upscale brand in China, rather than relying on the mass market image it has developed in the United States. In 2011, its outlets thus were more profitable in China (operating margins = 34.6 percent) than in the United States (operating margins = 21.8 percent).

Our findings that the indirect effect of face concerns on choosing a high-priced option, through the price–face link, which is an increasing function of product tangibility provide some preliminary implications for marketers from different industries. For material (e.g., watch) products, it is advisable to set a price higher than competitors', to enhance consumers' face perceptions and thus their purchase intentions. For experiential (e.g., musicals) products though, it is wiser to set a comparable price, because a higher price will not increase consumers' perceived face.

Beyond the flawed assumption that high price signals face, we acknowledge several limitations of our experimental design. First, we gave participants a two-option choice: high or low priced, with the high-priced option running approximately 50% more expensive than the low-priced option (Bolton et al., 2011; Voss, Parasuraman, & Grewal 1998). In Study 1, in the watch scenario for example, in reality the latest version of an international branded watch such as Longines is worth more than 1000 Euro, so the experimental high-priced option of 139 Euro indicated a lower level brand, which might not be able to signal face. Therefore, Chinese participants, even if they had greater face concerns, might not be willing to choose the 139 Euro watch. Additional research should widen the price differences between the high and low priced options.

Similarity across cultures might have arisen because both groups of respondents are students. Although student samples are widely used in experimental studies, this factor might have interfered with our results. As we discussed, face is a group-related concept. For a student group, face accrues through academic success; Chinese parents often encourage children to study by warning, “Don’t make our family lose face” (King & Bond, 1985). Without much income, students cannot gain face by exhibiting social status or wealth through the consumption of high-priced products. College-educated consumers in China also are more Westernized than the general Chinese population (Bolton et al., 2010), which might reduce the impact of the traditional cultural value of face. Research that replicates this study with real consumers thus is merited.

Next, a good measurement instrument for face is still lacking (Bao et al., 2003; Li & Su, 2007). We did not manipulate face in our studies, instead nationality has been used as a proxy, which suffers from at least two problems: First, cross-cultural comparisons are inherently plagued by confounds (Bolton et al., 2010). Second, face concerns are not explicitly triggered. Activating face concerns, instead of using nationality as a proxy, is an interesting avenue for further research. Face concerns could be activated by threatening people’s sense of face, in which case face signaling would become a salient goal, resulting in an increased need to reconnect and restore adequate levels of face, perhaps by consuming an expensive product.

Finally, material and experiential products were used for the moderator of product tangibility, future research could consider using products versus services. Also, we used the stranger, acquaintance, and close friend typology for the moderator of social presence. Another interesting line for further studies would be whether the social presence concerns males or females, individuals or groups, and locals or foreigners.

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Appendix 1 Scales Used to Test the Two Assumptions

Scales used to test concern for face assumption

CONCERN FOR FACE SCALE (CFF scale) (Cocroft & Ting-Toomey, 1994; White, Tynan, Galinsky, & Thompson, 2004).

(1) I care about others' attitudes toward me.
(2) I am concerned with my social status.
(3) I hate being taken lightly.
(4) I will be very angry if others are impolite to me.
(5) I care about praise and criticism from others.
(6) I will be very happy if I am treated with respect.
(7) I am concerned with my self-image.
(8) I will be very upset if I am criticized in public.

(*1 = completely disagree, 7 = completely agree*)

Appendix 2 Measures for Study 1

Manipulation check—**product tangibility** (Carter & Gilovich, 2010).

Material products are those made with the primary intention of acquiring a material good, such as a new Gucci bag; experiential purchases are those made with the primary intention of acquiring a life experience, such as a hike in the Himalayas. Please rate the extent to which a watch/musical is a material possession or an experience.

A watch/musical is ______ (*1 = definitely material, 4 = does not fit either category, 7 = definitely experiential*).

Control variable-**product familiarity** (Jung & Kellaris, 2004).

How familiar are you with the product category (i.e., watch)? (*1 = very unfamiliar, 7 = very familiar*).

Price–face link

(1) Relative to 89 Euro/49 Euro, do you think that 139 Euro/79 Euro for a watch/musical can signal your status?
(2) Relative to 89 Euro/49 Euro, do you think that 139 Euro/79 Euro for a watch/musical can enhance your self-image?

Dependent measure—**purchase intentions**

(1) The likelihood that I would purchase[watch] watch/musical A (139 Euro/79 Euro) is (1 = very low, 7 = very high)
(2) The likelihood that I would purchase[watch] watch/musical B (89 Euro/49 Euro) is (*1 = very low, 7 = very high*)

(3) Please divide 100 points between the two choices. The more points you give to one choice, the more likely you will purchase that option. Please note that the sum of the points of the two choices should be 100 in total (e.g., A: 80, B: 20)! Watch/musical A (139 Euro/79 Euro) ___ points.
(4) Watch/musical B (89 Euro/49 Euro) ___ points.
(5) If I must choose one, the watch/musical I will choose is: (*A/B*).

Appendix 3 Measures For Study 2

Manipulation check—**social presence**

(1) Who is the person you named? (*1 = close friend, 2 = acquaintance, 3 = stranger, 4 = no one*)
(2) How close is the relationship between you and the person you imagined? (*1 = very unclose, 7 = very close*)

Price–face link

(1) Relative to 6.9 Euro, do you think that 10.9 Euro for a dish can signal your status? (*1 = not at all, 7 = to a large extent*)
(2) Relative to 6.9 Euro, do you think that 10.9 Euro for a dish can enhance your self-image? (*1 = not at all, 7 = to a large extent*)

Distribution–face link

(1) Relative to the street vendor with an ice cream cart, do you think that ice cream specialty store can signal your status?
(2) Relative to the street vendor with an ice cream cart, do you think that ice cream specialty store can signal your self-image? (*1 = not at all, 7 = to a large extent*)

Product–face link

(1) Relative to the AH [Carrefour] toothpaste, do you think that the name branded toothpaste can signal your social-status?
(2) Relative to the AH [Carrefour] toothpaste, do you think that the name branded toothpaste can enhance your self-image? (*1 = not at all, 7 = to a large extent*)

Promotion–face link

(1) Relative to the dish that is on sale, do you think that the dish at a regular price can signal your social-status?
(2) Relative to the dish that is on sale, do you think that the dish at a regular price can enhance your self-image? (*1 = not at all, 7 = to a large extent*)

Dependent measure—**purchase intentions**

(1) The likelihood that I would purchase dish A (10.9 Euro)/at specialty store/name-branded tooth paste/dish at a regular price is

(2) The likelihood that I would purchase dish B (6.9 Euro)/at street vendor with an ice-cream cart/private label tooth paste/dish on sale is (*1 = very low, 7 = very high*)
(3) Please divide 100 points between the two choices. Dish A (10.9 Euro)/shop at specialty store/name-branded tooth paste/dish at a regular price ___ points.
(4) Dish B (6.9 Euro)/at street vendor with an ice-cream cart/private label tooth paste/dish on sale ___ points.
(5) If I must choose one, the dish I will choose is: (*A/B*)

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Part VI
Targeting and Withdrawing From Foreign Markets

The VCW-Value Creation Wheel: A Framework for Market Selection and Global Growth

Luís Filipe Lages, Vânia Fonseca and Miguel Paulino

Abstract Executives spend considerable time looking for solutions to deal with paradox challenges. However, there is a lack of practical frameworks to deal with their specific needs, namely: How to select the most attractive international market in the presence of so many choices? How to benefit from economies of scale while satisfying local needs? How to explore the true potential of products/services in the target markets? How to explore a company's growth potential in the presence of limited resources? How to provide international customers the same level of service given to the domestic ones? Over the last two decades, the VCW-Value Creation Wheel helped firms to deal with the paradox of choice and helped executives find solutions for these and many other challenges. This chapter demonstrates how the VCW meta-framework has been successfully implemented by firms to deal with international challenges while incorporating the insights of key decision makers and inputs from key internal and external stakeholders. VCW's implications for research and practice are discussed.

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1 Introduction

Consider the real case of the CEO of a hotel chain targeting people appreciating the French Bobo style. After being established in different French cities, the board decided to start its expansion outside France. At the beginning of a discussion with the board about which criteria should be used for International Market Selection (IMS), the CEO mentioned that his main concern was to choose a foreign market with a maximum of a two-hour flight from Paris (the CEO's base) and where people could appreciate the French Bobo style. After this initial discussion, it became clear that other critical aspects (e.g. GDP per capita, number of tourists per capita, occupancy rate of hotels, existing competition) were being overlooked by the key decision makers. If nothing was done, the final choice for such a large investment would be made taking into consideration exclusively geographical proximity and the existing network of the CEO while ignoring other firm's resources and capabilities as well as the context.

International decisions that lack the support of reliable and appropriate information are also common among public policy makers, entrepreneurs, and society in general. For example, our personal decisions are rarely sustained by a structured and rational approach. The typical decision about the city/country to visit on holidays is often made by impulse, and important solutions and selection criteria to make the final decision are ignored. In order to remedy this, a dynamic and stimulating VCW-Value Creation Wheel framework that can be used to solve daily (international) challenges was developed over the last two decades. The VCW is a real-life problem solving framework that helps to solve the top priority problems, challenges, and paradoxes of organizations, governments, societies, and individuals (Lages, 2016). It can be used to solve complex organizational problems (e.g., how to grow while benefiting from economies of scale and satisfying local needs) to individual challenges (e.g., where to go when looking for a job abroad). One of the key advantages of this tool is that once the answer to the international challenge is found, the VCW can be continuously used to solve new local challenges (see Lages, 2016).

Now the question is: Why use the VCW for international business decisions? To our knowledge there is no established effective international marketing meta-framework that can help managers, public policy makers, and society to conduct a structured analysis in order to reduce risk and develop a sustained growth strategy in international markets. In this chapter we show why the VCW-Value Creation Wheel (Lages, 2016), being a meta-framework that respects and integrates existing tools across different fields, might be a solution.

The VCW differs from other international business tools in some critical features. First, for several decades international business academics have been researching how managers select the most attractive market (Armstrong, 1970; Johanson & Vahlne, 1977; Moyer, 1968). Very often, existing theories and IMS methods impose several constraints on the type of managerial challenge to be solved. The frequent use of inflexible and objective criteria, which cannot be customized to the reality of specific cases (such as the examples presented below), explains why managers often say that tool X cannot be used to solve their IMS challenge. For example, subjective criteria often need to be used because the concept of value and managerial decisions vary according to the "context" (Vargo & Lusch, 2016), "experience" (Mathwick, Malhotra, & Rigdon, 2001) and past results (Lages, Lages, & Lages, 2006). A proper targeting in the international market combining both objective and subjective dimensions, allows creating value, i.e. the practical and hedonic outcomes, and the purpose served through product/service usage (Woodruff, 1997). A major reason why firms operating in international markets cannot use standardized IMS models is because different target segments have different goals at different points in the customer journey (Lemke, Clark, & Wilson, 2011). For example, while in some situations these goals might be to avoid high prices (Chitturi, Raghunathan, & Mahajan, 2008), in other cases they might be to minimize their efforts (Mathwick et al., 2001).

Second, the VCW addresses the paradox of choice in different areas, namely concerning international market selection. Several empirical studies have demonstrated that the diversity of choice can be discouraging and can create tensions in the team (Iyengar & Lepper, 2000; Schwartz, 2004). The VCW can be used by companies to reduce risk and grow in international markets. When trying to survive or unlock growth, companies operating across borders need to consider a wide range of factors (e.g., cultural and politico-legal issues) and solve a wide range of innovation challenges (e.g., market and product development). However, there is a major challenge. In the presence of so many options, constraints, and established practices, it is important to have a framework that provides solution(s) aligned with the vision of the critical stakeholders and key decision makers. There is an absence of pragmatic frameworks today that can be effectively used by managers to create value and grow while dealing with the paradox of choice. In a time of dynamic markets and so many choices, international managers need to combine different perspectives, while being agile and flexible when selecting the most appropriate international market to enter (Lages, 2016).

Finally, the VCW is fed by the input not only of different stakeholders but also of academics and practitioners. It uses internal and external stakeholders in solving complex international challenges and paradoxes. It assumes that there are no good or bad ideas and that every single person can generate ideas and filters, including the most resistant and skeptical people (Jahanmir & Lages, 2015, 2016). By incorporating stakeholders' input in the decision-making process, there will be more commitment toward and involvement in the implementation of the final decisions. As demonstrated by previous research on stakeholder management, there is a connection between stakeholder orientation (e.g. employees and customers) and firm financial performance (e.g., Berman, Wicks, Kotha, & Jones, 1999; Huselid, 1995; Waddock & Graves, 1997). Several empirical studies conducted by Lages and colleagues in an international business context demonstrate that relationship capabilities (Lages, Silva, & Styles, 2009), flow of communication (Crespo, Griffith, & Lages, 2014), information sharing and communication quality (Lages, Lages, & Lages, 2005b), and interaction within the network (Lages et al., 2009) all contribute to improve international performance. As such, a value proposition needs to be jointly designed by the company and the different stakeholders.

The final result depends on the individual resources and processes as well as on the joint integration process (Macdonald, Kleinaltenkamp, & Wilson, 2016). Very often, the market selection criteria are prematurely implemented without a proper generation of ideas for each specific case. The VCW frees the generation of ideas from factors that traditionally inhibit the brainstorming process, such as established practices, fear of judgment, dominant talkative participants (McCaffrey & Pearson, 2015), bureaucracy, and the presence of management hierarchy, which kill individual creativity (Hirst, van Knippenberg, Chen, & Sacramento, 2011). It helps to systematize the brainstorming process, and by doing so, gives it a direction and dynamism in the search for new markets and criteria.

2 How to Successfully Apply the Value Creation Wheel to IMS and Global Growth

Ozturk, Joiner, and Cavusgil (2015) present a vast literature review on the International Market Selection (IMS) topic and conclude that despite extensive IMS research, there is a need for frameworks to select which international markets to enter and help firms to grow. Despite several notable attempts to integrate the IMS literature and make the bridge with managerial insights (e.g. Cavusgil, Kiyak, & Yeniyurt, 2004), the need to develop a practical IMS tool is still a current priority (Ozturk et al., 2015). A possible explanation for the lack of practical IMS tools is that academics have not been considering in their models the real intangible criteria presented by managers (e.g., company vision, financial and time resources, team capabilities, specific desires of the owner/CEO, needs of the management team). Very often international business research is not aligned with managerial and public policy needs (Lages & Lages, 2004; Lages, Lages, & Lages, 2005b; Madsen, 1998) and IMS studies are developed without even considering the input of key decision makers regarding which criteria/filters to select and how to rank them.

The VCW-Value Creation Wheel (Lages, 2016) is an innovative process of collaborative value creation in which filters are applied in order to select the ideas with greater potential. This decision-making framework was developed to solve problems, challenges, and paradoxes for companies, governments, society, and individuals. Results from over two decades of cooperation with executives, public policy makers, universities, scientists, and students from all around the world led to the resolution of several challenges across different management areas, such as marketing, strategy, human resources management, and finance (see Lages, 2016). The VCW is dynamic and circular, consisting of five phases, from the formulation of the problem to the final solution: (1) Tap, (2) Induce, (3) Analyze, (4) Ground, and (5) Operate (TIAGO—see Fig. 1). Although for simplicity purposes the five phases are presented sequentially, they are not necessarily consecutive. One of the most common settings in which the VCW has been used is how to help companies to grow in terms of market penetration, market development, product/service development, and diversification. We now explain the five phases of the VCW, using as a brief example the real case of the pet supply store Tom & Co, which decided to internationalize one decade ago using the support of VCW tools.

In the first phase (Tap) it is necessary to define the challenge, such as the space that the firm/product wishes to enter: world, continent, region, city, village, or even

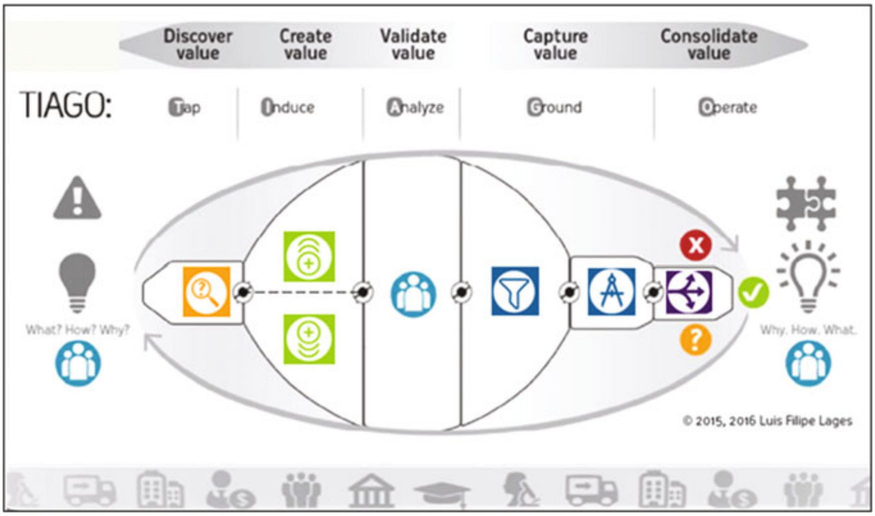

Fig. 1 VCW-TIAGO: a tool for solving international market challenges. *Source* Adapted from Lages (2016)

more local. It is essential to gain market, technical, and/or practical knowledge about the value chain and the topic at hand. One also needs a clear vision and goals, to understand the market trends, and to have a precisely defined research question. When the team is acquainted with the theme and has a very clear problem, this process might take just some weeks. In other cases, it might take several years, as in the case when there is a breakthrough technology for which the market application in the foreign market is not yet clear. One decade ago the CEO of a Belgian pet supply store had a very clear challenge: “which foreign city to enter, while taking advantage of our capabilities and resources?” A VCW team addressed this problem and came out with a concrete proposal.

In the second phase (Induce) idea generation will be supported by multiple methodological approaches and people cannot kill ideas. It is important here to involve all of the critical internal and external stakeholders. This phase branches into two areas that must remain separate: (a) list of potential international markets (phase 2a) and (b) list of potential criteria/filters (phase 2b). First, the aim is to discuss the different possibilities for international market entry. Possible markets can emerge from different sources of primary and secondary research. Since the CEO of the pet supply store was amenable to the possibility of opening the new store anywhere in world, the VCW team gathered data for this project considering every possible market. Second, there was a brainstorming of possible filters (i.e. acceptance/rejection criteria), the reasons why a foreign market might or might not be suitable for future IMS. This initial brainstorming involved different stakeholders and led to many filters at the global and local levels associated with different aspects (e.g., market, service/product, team/company). Some filters at the global level were quite easy to obtain, particularly the ones that have been extensively debated in the literature (e.g., GNI per capita). However, data collection became harder for the filters that were more strategic and which the literature tends to ignore. For example, which filters could be used by the VCW team to identify how to offer high value in the local market? To answer this question, the team decided to determine where there was lower competition from pet supplier stores but at the same time where people spend more money on other types of pet stores (e.g. pet hairdressers, pet hotels). These data could reveal how much people would care, were willing to invest in pets, and could help to identify the potential for a new pet supplier store.

In the third phase (Analyze) the key decision makers discuss the potential of each market (phase 3a) and all the filters (phase 3b) coming from the previous phase. The key decision makers then purify the solutions and filters. To make this phase extremely effective, we recommend using the POKER method developed by Lages and Hartman (Lages, 2015), which allows to purify abstract concepts using five circular steps: informing, validating, refining, multiplying, and/or eliminating existing solutions and filters (Fig. 2). The POKER might be used in all the 5 phases of the VCW. After analyzing all the possible markets (phase 3a) and filters (phase 3b), the team needs to establish a ranking for the final filters (phase 3c).

In the fourth phase (Ground), the VCW team starts building the Value Creation Funnel (VCF) (phase 4a). The VCF results from applying the ranked filters to the solutions coming from the previous phase. This allows identifying the market(s) with the greatest potential in a particular context. After applying the first filter to all the countries in the world (GNI > 300,000 million US$ and GNI/CAPITA > 30,000 US$), we were left with 12 countries. In order to benefit from economies of scale, the second filter was the language for product labeling (French or Dutch). The VCF led to four countries: Canada, France, Netherlands,

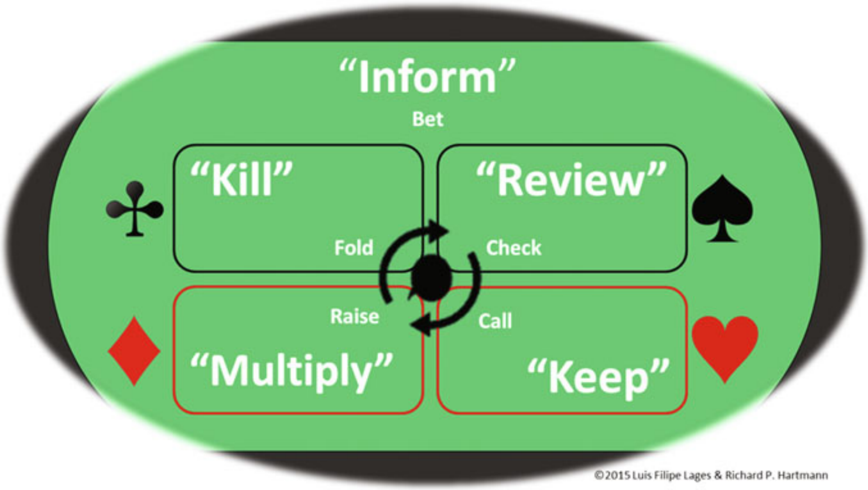

Fig. 2 The POKER method. *Source* Lages (2015)

and Switzerland. In order to save on distribution costs, distance from the warehouse was the fourth filter to be considered. Canada was excluded at this stage. The following filter was number of pets per capita (>25%). Switzerland was excluded. Finally, since the pet shop wished to grow after market entry, France was selected as the target country because it had four times more pets than the Netherlands. In order to address the value creation paradox in France, the team gathered data for the top 20 French cities regarding the ratio of inhabitants per pet store,[1] measured by entries in the Yellow Pages and Google (note: one decade ago Google Maps did not exist for the French market). There was a group of four cities that was clearly more attractive than others: Lens, Lille, Paris, and Toulon because they had a ratio of more than 100,000 inhabitants per shop. While Toulon was over 1000 km from the headquarters, Lille and Lens were very attractive markets because both of them were very close the existing warehouse (112 and 124 km respectively), which would reduce the distribution costs significantly. Lille also seemed to have higher potential than Lens or Paris (294 km from warehouse) because people used more pet services in Lille. The values of the ratios of inhabitant per pet service in Lille were half those of Lens and Paris. After concluding the VCF, the fourth VCW phase consisted of developing the shop concept for the final target market (phase 4b). To do so, the board needed to visit and have more subjective data from the potential target markets. This step was critical to gather local knowledge, design, and find the precise location to open the first Tom & Co shop in the French market.

The fifth phase (Operate) is the development of a business model and implementation. The board needs to decide on Go, NoGo, or Check (i.e., go back to any of the previous stages of TIAGO). Similarly to all the other phases, this phase needs to benefit from the input from the board as well as from a wide range of internal and external stakeholders. Board members can do this internally or outsource the implementation of the final outcome. In the case of Tom & Co, the board decided to visit in loco the potential targets and then go ahead with the creation of a new pet supplier shop in Petite-Forêt (19 km from Lens and 36 km from Lille). There is clear evidence that the VCW framework helped to improve firm's performance in both the short and long term. After succeeding in Petite-Forêt and while building on existing findings, Tom & Co has continued its expansion in France and today also has several shops in the Paris metropolitan area.

Now that the five phases of the VCW have been explained, in the following sections we use two additional cases (Deimos and Whymob) to illustrate in more detail the application of each VCW phase in the context of market development strategies.

[1]Direct competition from regional pet stores (e.g. Amiland, Animal Center, Animalis, Maxi Zoo) minor players (e.g. Les cadors, Miau Waou, City-zoo, Amazonie Animalerie, Exodus), and indirect competition from garden/brico centers (Mr. Bricolage, Zoomarket, Les Compagnons des Saisons Jardiland, Truffaut).

3 The Deimos Case: VCW Applied to IMS and Global Growth

Deimos Engenharia, established in 2002, is a private Portuguese space engineering company specialized in delivering advanced design solutions and space software systems. The company is part of Deimos Group, a set of international companies operating in the areas of aerospace, automation and remote control, information systems, telecommunication network, security, and technological infrastructure development, which constitutes the technological arm of the global player Elecnor. MyFARM, one of Deimos' services, will be used to illustrate the application of VCW applied to IMS. During a six-month journey the VCW steps were pursued: (1) Tap, (2) Induce, (3) Analyze, (4) Ground, and (5) Operate (Lages, 2016).

3.1 Tap-Discover Value

In the first phase, the problem/challenge was identified and addressed. After evaluating Deimos' portfolio, the board of directors decided to find the most attractive international market for MyFARM, the service with the highest technology readiness level.

Since its establishment, Deimos Engenharia had been sustaining its business on contracts from the European Space Agency (ESA) and other European institutions. Soon Deimos obtained recognition in the European space market for designing space systems, and developing and validating operational software systems. In 2010, Deimos started to invest in new product development projects co-funded by the European Commission and national institutions. However, the projects were not designed to address a specific market need, as its previous identification was disregarded. This revealed that Deimos had a strong technological orientation but overlooked the importance of sustaining a market-oriented strategy. Much of this was due to the company's composition: a multidisciplinary team of top-level engineers with no background in Management, except for the General Director.

It was clear in 2015 that the space market was heading for a structural change as the guiding lines of the European institutions were targeting technological projects satisfying European and global market needs. Facing this scenario, the company's board of directors agreed to test the viability of investing in a market-oriented strategy, which would allow Deimos to provide an active response to the new European Commission's requirements and to develop a new source of revenues. With this in mind, the Value Creation Wheel was implemented in order to build the company's capacity to commercialize one of its products.

In 2010 Deimos partnered with Marine, Environment and Technology Center (MARETEC) to bid for an ESA's Open Invitation to Tender targeting the development of irrigation decision system using Earth Observation (EO) images. The result was MyFARM, an irrigation support system for maize growers that provided weekly information about how much water to apply per pivot and sprinkler. In order to achieve its operational stage, MyFARM was provided free of charge to the Irrigation Association of Vale do Sorraia, Portugal, and respective farmers until December 2015. However, Portuguese farmers are traditionally late-adopters of new technologies. The service had only 15 users and even those rarely relied on the service's information to manage their crops. Consequently, insufficient data were obtained to validate MyFARM's results and its economic viability. Due to its potential and high technological readiness level (TRL), the board of directors decided to find the most attractive international target market for MyFARM.

3.2 Induce-Create Value

In the second phase, the goal was to generate as many target markets as possible and the filters to select possible solutions. This phase considers that there are no good or bad ideas or filters, and consequently aims to involve as many different stakeholders as possible. The second phase had two distinctive stages. In the first stage (phase 2a), there was a brainstorming of ideas for possible international target markets for MyFARM. During the session, Deimos' board of directors decided that they would maintain an open mind during the whole project. As such, the 193 countries recognized by the United Nations were taken into consideration as a starting point.

In the second stage (phase 2b), an extensive list of filters to select the market with the highest potential was developed. For that purpose, 33 interviews with EO specialists, industry-related experts, researchers in various fields, and Deimos' stakeholders, and a group exercise with 40 Nova SBE Doctoral candidates were conducted. There were additional filters that emerged from around two decades of research in this field. This process unveiled 53 global and 24 local filters in different areas, such as those related to: Industry Rivalry and Competition, Government and Legal Aspects, Socio-Economic Factors, Finance and Public Funding, Company and Technology, Culture, and Climate.

Eleven Deimos' stakeholders with different expertise applied the Poker Method to validate the global filters. This process enabled purify the list to 20 potential global filters. Afterwards, five additional Deimos' stakeholders applied the same methodology to the Local Filters' list, ending with 17 filters.

3.3 Analyze-Validate Value

In the third phase, the key decision makers analyzed the previous brainstorming of possible solutions for market entry (phase 3a), possible filters (phase 3b), and ranked them (phase 3c). In order to do so, a meeting with the board of directors was scheduled. The board had to refine and validate the analysis. As the project was being presented, the audience was becoming convinced that Portugal was not the most attractive market for MyFARM after all. Accordingly, they agreed that focusing on other international markets was a good idea. Second, the board had to validate the filters. In some cases, it was impossible or extremely hard and costly to obtain data for some filters. It was therefore decided to group them into: global filters and local filters. The board validated and ranked all the filters, from the most to the least important one. The board spotted an opportunity for decreasing the costs of providing MyFARM. A new European Space Agency mission, Sentinel-2, would provide free satellite images with worldwide coverage and high resolution. Consequently, the service would be introduced officially in 2017.

3.4 Ground-Capture Value

In the fourth phase, the team builds the Value Creation Funnel (VCF) (phase 4a), which results from applying the ranked filters to the existing solutions to identify the one with the highest potential and then start its conceptualization (phase 4b). After the board meeting a sequence of VCFs was built. For the first VCF, the complete list of 193 countries was reduced to one target market (Brazil) using the six filters initially ranked by the board: (1) countries with maize production over 10,000,000 metric tons; (2) countries with water shortage (Water Stress Level higher than 0.2); (3) countries with more governmental spending in agriculture and Research and Development (R&D); (4) countries with political stability; (5) percentage of agriculture in GDP; and (6) country with a higher number of farms with more than 50 ha. The board did not consider other traditional IMS filters (e.g., distance and language) as being critical. Distance was not used as a key filter because MyFarm is a software service. This service can also be easily provided in Portuguese or English.

The VCW and VCF are expected to be dynamic and flexible processes, which need to be customized to a company and its product/service. As Brazilian market research was being conducted, it was verified that important data and critical criteria had not been considered in the first VCF analysis. From the 75,000,000 metric tons of maize produced in Brazil only 9% is irrigated. The country's climate is more favorable for rainfed crops, two thirds of the farms in Brazil are under 247 acres (*minifundia*), and Government finances only 16% of rural commercial activities. Consequently, a second meeting was scheduled to discuss the new data and re-ranking of the filters. After the meeting, a new list of filters was developed and applied to the 193 countries in a second attempt to identify the market with the highest potential for MyFARM. The filters used in the new VCF were: (1) countries with maize production over 10,000,000 metric tons; (2) countries with irrigated maize; (3) countries with a better network readiness level ranking (higher than 4.0

according to FAOSTAT[2]); (4) countries with water shortage (Water Stress Level higher than 0.2); (5) countries with a higher cost of electricity (higher than 7.5 US cents/kWh); and (6) country with largest average farm size.

The new VCF led to the United States, a market which proved to be much more attractive to MyFARM than Brazil. It was determined that agriculture accounts for approximately 80% of the USA's consumptive water use. Approximately $2.15 billion was invested in irrigation systems in 2008, and despite technological innovations, at least half of U.S. irrigated cropland acreage is still irrigated with less efficient, traditional irrigation application systems. Furthermore, the North American market for precision farming was expected to be sized at around €1.6 billion in 2018. Due to the country's dimension, two new VCF had to be done at the local level. The first local VCF was used to determine the State and the second VCF was used to identify the County most attractive to MyFARM. As before, the filters chosen by the board of directors were applied to the first Local VCF: (1) states with the biggest irrigated farmland; (2) states with irrigated maize production and limited water availability; (3) existence of a larger number of *latifundia*; (4) higher number of funding projects granted to improve farming practices; (5) larger irrigated area with higher water stress; and (6) State with the highest costs associated with irrigation systems. This VCF indicated Kansas as the most attractive state for MyFARM. Then, the second Local VCF was built using the following filters: (1) counties with high water stress; (2) counties with the highest irrigated maize acres planted (more than 40,000 acres); (3) counties with the highest production of irrigated maize; and (4) county with the highest number of farmers and with the highest number of farm acres. This VCF revealed Stevens as the county where MyFARM should be launched. The most attractive market for Deimos' service had an average farm size of 1446 acres, more than 4130 pivots, an energy cost of $78.69 per acre, a strict regulation for water control, and Governmental subsidies that worked as incentives to adopt such precision farming services, identified as local market pains. Furthermore, regarding local competition, MyFARM was designed in a way that it was the only local tool delivering precise irrigation needs of water on a pivot and sprinkler basis.

3.5 Operate-Consolidate Value

Finally, in the fifth phase the VCW team developed and implemented the final solution. The board needed to decide on Go, NoGo, or Check. After the identification of the local market, the business model for the market entry was designed. Due to the company's pure technology orientation, most technology developed at Deimos did not have an end market or target in sight. It was the first time the

[2]FAOSTAT is the Statistics Division of the Food and Agriculture Organization of the United States.

question "Who Cares?" was asked at the company. This exercise allowed identifying that the target market with the highest potential for MyFARM were farmers with irrigated crops and that irrigation material companies were the best local partner to commercialize MyFARM in Stevens County. In order to enter Stevens, it was decided to pursue an export mode, in which Deimos and MARETEC would deliver the service directly to the end consumer and would have their own distribution channel, MyFARM's online platform, where any interested customer could subscribe to the service. In parallel, the irrigation material company (local partner) would provide access to potential local customers, handling local sales on behalf of Deimos and MARETEC. In order to do this, they would insert a code on the online platform during the new user's subscription and, consequently, receive a commission for each sale they performed.

The analysis of the 3 M's followed: Manpower, Money, Minute. First, regarding the human resources, as Deimos' team comprised mainly engineers, a new person with management and marketing background had to be hired. The development of the new website and promotional graphic material would be outsourced to Global Pixel. However, if the board of directors decided to start investing in projects with a commercial purpose in the future, it was inevitable that Deimos would have to inaugurate a marketing department.

The budget for the project was agreed on by the board of directors, who also decided that the sales forecast would be left for a later stage, after engaging in negotiations with the irrigation material companies and selecting the exclusive local partners. This decision was based on the lack of reliable information and primary data regarding the number of local pivots and sprinklers per farmer, the customer base of the candidates for local partners, and local business practices. Afterwards, the timeline for MyFARM's implementation in Stevens County was designed in compliance with the board's plan to launch MyFARM in 2017.

After the VCW was applied to the internationalization of MyFARM, Deimos' board of directors scheduled a meeting in order to discuss the impact of this project inside the organization. The board of Deimos expected to start creating a market-driven culture, implement a solution-driven approach while building capacity to start commercializing its technologies and services. However, the board was skeptical toward some orthodoxies that had to be challenged and some members queried if Deimos' conventional practices could be easily supplanted. Although the board agreed that their technologies could not be presented as breakthrough technologies to all types of customers, extinguishing the technical terminology from Deimos was off the table. Accordingly, the board acknowledged that in a company with more than 45 engineers, hiring a management person was crucial. A possible investment in a marketing team was also on the table. The main constraint was that the budget for human resources at Deimos was generally allocated to engineers and respective activities. Consequently, the team argued that new sources of revenue could tackle this specific problem in the long term. Due to the dynamic of the space engineering market, the board was unwilling to fully disregard the company's technology orientation. However, Deimos' board is prepared to pursue a more hybrid culture while building capacity to start commercializing its technologies and services.

After the project was concluded, the positive impact it had at Deimos was openly discussed. The directors unanimously decided to hire for the first time a person with a management background. Furthermore, the project proved to them that it was possible to bring Deimos' technologies into new markets while adding value to the company and to customers. António Gutierrez, Ground Systems Business Unit Director at Deimos, mentioned that "the VCW enabled the company to find the best approach to the internationalization of MyFARM while taking into consideration the existing constraints. For a company that provides engineering solutions like ours it is very interesting to find innovative business models for our technologies". According to Nuno Catarino, Head of the Payload Data Ground Systems Section at Deimos, "using the VCW made us look at our technology in a new light, focusing on our goals and identifying the core aspects for attaining them. It allowed us to quickly define priorities for our development, while taking into account inputs from all major stakeholders in a manageable way".

4 The Whymob Case: VCW Applied to IMS and Global Growth

Whymob is a start-up dedicated to developing IT solutions for information management. It was founded in 2013 by a team of senior managers, with technological know-how obtained in successful companies in the same area. The company's main focus has been on the healthcare sector with a strong emphasis on innovation. The start-up is currently involved in the development of several systems with the aim of supporting healthcare processes in Portugal. Whymob's capabilities cover consulting, design and implementation.

4.1 Tap-Discover Value

In this stage the VCW team met Whymob's board of directors in order to define the challenge to be tackled by the VCW. It was critical to understand the company's goals and the current state of the start-up. The board wished to expand internationally, but there were doubts about which products to select for international expansion. After discussing its product portfolio, the company decided to focus on their Transplantation Solution because of it presented a high Technology Readiness Level (TRL) and market potential. A starting point for the project was achieved. The research question to be answered by the VCW team was: "Who cares about the Transplantation Solution abroad?"

After the first encounters, the main concern now was to fully understand the Transplantation Solution and how it created value for the Portuguese healthcare system. This proved to be a daunting task, due to the technicalities of such a specific area. The VCW team conducted extensive research that included interviews, analysis of Whymob's internal documents, and meetings with Whymob's team.

The Transplantation Solution currently being implemented in the Portuguese healthcare system is a platform to manage all relevant information regarding the Transplantation process. It is comprised of a web system and a mobile app for patients and professionals. It is triggered when someone can be considered a potential organ donor. It aggregates data from all the stages in the transplantation process including the follow-up with the organ recipient after the transplant. The goal of the transplantation system is to save time and give better information to the patients and professionals involved in the process.

4.2 Induce-Create Value

In phase 2a of the second stage, the initial goal was to gather ideas for foreign market entry. In this particular case, it became a challenge because the board of directors, rather than imposing limitations, stimulated the generation of many solutions for market entry, namely regarding possible target countries, foreign stakeholders, and foreign buyers. In phase 2b of the second stage, creation of filters, the board also stimulated the generation of any type of criterion.

The VCW team conducted interviews and brainstorming sessions with people from diverse backgrounds in order to reach a wide range of ideas and filters. Interviews were made with experts in the healthcare area and entities that were involved in the development of the Transplantation Solution. Brainstorming sessions also included group exercises with 15 MSc Management students from Nova SBE, 14 BioEntrepeneurship students from the MIT Portugal program, and 10 BioEngineering students from FCT-Nova University. The first session was more focused on obtaining ideas, while the second and third sessions were more focused on identifying potential filters. At the end of this stage it was decided to consider all the countries in the world. Additionally, 19 possible foreign stakeholders and/or buyers emerged. Examples include national governments and health authorities; public and private hospitals; healthcare centers and specialized clinics on transplantation; doctors who detect potential donors, involved in the transplantation operations and specialized on transplanted patients; patients waiting for a transplant or who have received a transplant; insurance companies; bio-tech companies; research labs, health schools and teaching hospitals; healthcare organizations and donor associations.

This stage also led to 48 filters, which included the traditional PESTEL forces (political, economic, socio-cultural, technological, environmental and legal), company-specific (e.g., Whymob's vision and values, amount of staff required, synergies with existing products) and sector-related filters (e.g. insurance expenditure on health, number of transplants per million people, number of transplantation centers, number of patients on the transplantation waiting list, existing healthcare facilities, growth in the healthcare sector).

4.3 Analyze-Validate Value

After gathering the initial list of ideas and filters the VCW team met Whymob's board of directors. The board presented their own ideas and filters, which were then compared with the ones previously collected. The valuable input from those who are closer to the product prompted the decision that only IMF countries should be considered. They also increased the total of possible foreign buyers/stakeholders to 23 and filters to 51.

The potential of the different ideas was discussed with Whymob's board. Then the board ranked all the filters in order of importance to use in the next stage. The board displayed special concerns regarding the existence of similar systems in other countries. As a result, this was immediately identified as the first filter to be applied. Regarding the remaining filters, there were some concerns about the measurability of some of them, which caused them to be ranked lower. The similarity, convergence and interpretation of some filters were also major topics to be addressed (see POKER method).

4.4 Ground-Capture Value

In the fourth stage a Value Creation Funnel (VCF) was developed to identify a specific solution for foreign market entry. The VCF started with 189 countries (members of the IMF) and the filters were carefully applied to gradually reduce the number of countries in order to consider the 5 most important filters, according to the board. The first filter to be applied was countries without a similar solution. The board wished to be innovative and did not see any advantage in competing with similar solutions at a national level. The second filter was countries with a GDP per capita PPP higher than 10,800$, in order to eliminate the countries that were not economically attractive. The third filter was directly related to Transplant Activity, i.e. countries where the number of Actual Deceased Donors is more than 40 per year. By targeting countries that revealed significant numbers in terms of organ donors, the solution could have a bigger impact. The fourth filter aimed to select the countries with Health Expenditure per capita higher than 1400$, revealing the importance to healthcare investment to the government. Finally, the fifth filter addressed the technology level of the countries and selected the most advanced country in terms of Information and Communications Technology (ICT), measured through the ICT Development Index. This last filter is critical because the Transplantation Solution is highly advanced in terms on technology, requires developed infrastructures, and a relatively tech-savvy population.

The filters applied covered different areas that allowed us to have a very complete perspective of all the countries. In this case the VCF led to Ireland, a country that proved to be strong in all the indicators and, most importantly, did not show evidence of having any established transplant system in place. Within Ireland, the

VCW team still had to look at the potential targets for this kind of product. The VCW team's research highlighted three main targets as the ones with the highest potential in this country. The first one was the Government, more specifically the Organ Donation and Transplant Ireland (ODTI), the entity that manages organ transplantation in Ireland. This was a predictable target as it is the organization that presently manages all the transplant activity in the country. In Portugal, Whymob also targeted the Government. The second possible option was the St Vincent's Healthcare Group, a group of public and private hospitals that currently coordinates liver and pancreas transplants in one of its hospitals. The third promising option was the Irish Kidney Association, an organization with 25 branches around Ireland that supports and promotes kidney transplantation in the country. After further analysis, the Government revealed to be the most interesting target to focus on, due to its size, importance, role in the process, and potential perspectives for a replication of what was being implemented in Portugal. Further research revealed that the Government was looking to develop an improved database for organ transplantation. Moreover, transplant activity in Ireland is expected to increase due to changes in legislation. Since the government became the target, it was decided that at this stage it was not necessary to conduct a local VCF in Ireland (see Fig. 3).

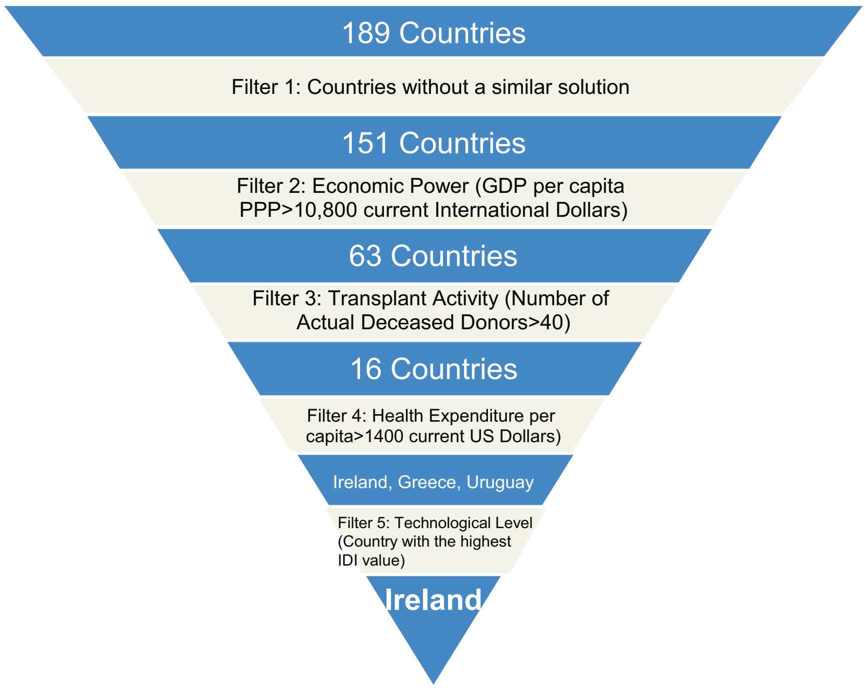

Fig. 3 The VCF-Value Creation Funnel of Whymob start-up

4.5 Operate-Consolidate Value

In the fifth stage an entry strategy is now being developed to target the Irish Government. Approaching the Irish Government poses a tremendous challenge due to several unknown factors that will become evident only after several meetings. Whymob will now approach the Irish Government through the HSE (Health Services Executive) in healthcare events and via direct contact. This will allow presenting the Transplantation Solution and checking the viability of such project in Ireland. The potential buyer might verify *in loco* how the implementation of this system in Portugal is evolving, the most important features of the Transplantation Solution to the potential client, and the benefits that can be derived from the system and from the app.

The VCW team scheduled a final meeting to present the results of the project and receive feedback from the main decision makers. The final results of the VCW generated an interesting discussion, as they captured the enthusiasm of the board. The feedback was incorporated in the business model for market entry. Two team members should be allocated with a complementary investment in promotional material. When the deal is settled, the client should be able to finance around half of the investment. After the sale a team of developers will start working on the adaptations of the product required for the local market, managed by a coordinator that will have direct contact with the client. There will be training sessions with the main users of the Transplantation Solution before the launch and full-time support for the first few months following the launch. When asked how useful the VCW was to their company, the CSO of Whymob mentioned that "Ireland makes sense as a market which we will pursue." The CEO mentioned that "if there were only two or three people coming up with the filters, we would not have arrived to such a wide range of filters". The CSO of Whymob complemented the idea by saying: "The VCW allowed us to have a clearer view regarding the entities who could care about our product."

5 Managerial and Public Policy Implications

There is a wide range of factors that explain the need for companies to internationalize (e.g., vision, gaining international experience, productivity improvement, profit, growth, diversification) and countries to export (e.g., creation of new jobs, accumulation of foreign exchange reserves, societal prosperity, development of national industries). However, existing IMS models tend to be very narrow and use a restricted number of indicators that might be (or not) aligned with the needs of managers and public policy makers. The IMS-VCW presents a holistic perspective to IMS which allows managers and public policy makers to bring their own input while stimulating the use of criteria present in IMS theories and methodologies, looking at those criteria as if they were plug-ins into the IMS-VCW that can be incorporated in order to bring added value to the management team. In addition to IMS challenges, over the last two decades, the VCW was applied in more than 100 international projects to address a wide range of problems/challenges. The VCW was applied in organizations such as NGOs (e.g., Girl Move, Refood), Cities, Governmental Agencies and Hospitals (e.g., Forbach, InvestLisboa, IPO Porto), start-ups (e.g., Whymob), SMEs (e.g., Renova) and large companies across different sectors (e.g., Eurocopter/Airbus Helicopters, Four Seasons, GDF Suez, Gemalto, IGT, Jerónimo Martins, Lufthansa Technik, Mastercard, Otis, Piraeus Bank, Rio Tinto Alcan, Vodafone). During this period, executives and public policy makers were asked about the impact of these projects on their organizations as well as on themselves. Below we present four major managerial inputs resulting from implementation of the VCW across different projects.

First, one aspect that is frequently mentioned is that the VCW respects and incorporates different points of view. It takes into consideration different and opposing arguments, promotes diversity in the discussion, and the ideas are analyzed based on the merits, rather than on the backgrounds of the participants. The VCW involves different internal and external stakeholders in different stages. According to the director of a technological company, the VCW is "a quick and efficient way to bring our ideas to the market while getting the team deeply involved in the process." It has the ability to align and unite a team for example, under the same vision, the same product/market opportunity and the same business plan. It helps to bring together the opinions of the people that are product/technology-oriented with those of the people typically concerned with market needs.

Second, the VCW also presents a flexible but structured approach that allows addressing the challenge until reaching satisfaction with the final outcome. Over the years this has been demonstrated by different managerial statements. As one executive mentioned, the VCW framework helps executives to acquire "knowledge to navigate in international markets". Another executive mentioned that it "brings clarity to this fairly blurry subject" because allows simplifying complex international market entry decisions, separates the relevant from the unnecessary data, and becomes more focused regarding major strategic decisions.

Very often executives mentioned that "(the) final result sounds logical. But at the beginning, we had no idea about this market opportunity." In other cases, the VCF allowed changing the way companies approach the market. The partner of a law firm mentioned "we used to make an unconscious funnel. Now it is different. Now, we are conscious about how to approach the clients and we have things more structured." Similarly, an international marketing manager responsible to enter new markets online, mentioned that although they "have the basic know-how and the tools to gain more awareness online, (they) lack an investment decision and a methodology to sustain it. Now it is available."

Third, the VCW helps executives to discover a wide range of criteria, which allows being simultaneously global to take advantage of economies of scale and local to satisfy local needs thus managing the GloCal paradox. As one executive mentioned, one of the major lessons was the "importance to mix Global and Local criteria to grow in the international market." Another executive mentioned that the

VCW helps to "identify our global and local uniqueness" and the added value versus other products/companies operating in the marketplace. It puts pressures on constantly focusing on the target market, namely by constantly answering the questions: "Who Cares?", "What is the Market Pain?" and "What do they Care About?".

Finally, all the projects conducted during the last two decades revealed that the VCW framework is transversal and can be used by the society in general, public policy makers, across a wide range of industries, as well as in different products, services, technologies, and patents. This is a typical limitation of other IMS tools (Ozturk et al., 2015). In addition to the traditional question of which international market is the most attractive, the VCW has addressed a wide range of challenges in a national and international context. Some examples of past VCW challenges developed for/by executive and public policy makers in an international business context include:

(a) What is the most appropriate strategy to grow globally?
(b) How to grow while benefiting from economies of scale and satisfying local needs?
(c) How to grow internationally without competing on prices?
(d) Which one is the best strategy to manage international customer support and growth in the target market?
(e) Which international market is the most attractive to invest in promotion activity, considering costs versus return, in order to bring talent to our city?
(f) Our material is not being accepted anymore in some countries due to legal, political, socio-cultural and security reasons. What is the best strategy for international market penetration?
(g) Our company wants to build on the existing core business and take advantage of EU legislation. In which one of the existing European markets shall we invest to grow?
(h) Our company traditionally sells product X to Y companies. Sales are declining due to lower demand and the current crisis. In which new market(s) to enter?
(i) Our start-up operates in the e-marketplace and would like to grow by replicating the existing service. Which international city is the most attractive in order to develop the business?
(j) Our organization wishes to grow abroad and needs to recruit, train, and manage the right human capital. What should be the business model, considering that the service provided is highly dependent on volunteer work and the implementation requires constant monitoring and training by qualified people?

6 Education and Science

After teaching this meta-framework in several courses of global marketing, international management, and international business across the globe, it was observed that several post-graduate students were particularly interested in applying this tool to find and target the international markets with the highest potential to find a job as well as organizing finalists' trips. This reveals that the VCW can be used by international business educators as a powerful framework to have both a professional and personal impact on their students. Similarly, when teaching this tool in different courses (e.g. Entrepreneurship, Innovation Management, Marketing Strategy, New Product Development, Tech-Transfer, Strategy, Value Creation) and supervising research projects (Master, Ph.D., and Post-Docs), students saw the VCW as a valuable opportunity to acquire rich and real experience in an effective way. The significant percentage of Executives and MBAs who, after receiving the VCW training, decided to use the VCW to solve their own problems/challenges and implement the VCW in their own organizations.

This problem-solving framework had its origins over two decades ago, when developing a conceptual framework that could help companies to address growth and long-term profitability. This conceptual framework was developed in the international context of Port wine firms, which, due to their strong brand image were illegally copied around the world, and of Portuguese table wine companies, which were losing market share due to the emergence of New World wine exporters (Lages, 1996, 1999). For the following decade this framework evolved in the context of solving performance challenges in the context of European exporters (e.g., Lages, Lages, & Lages, 2005c; Lages, Jap, & Griffith, 2008). Today this meta-framework has evolved significantly and become a transversal tool in problem-solving across industries and cultures. After this long journey, universities and schools in over 20 countries across different disciplines (e.g., Biotechnology/Chemistry, Economics, Entrepreneurship, Finance/Accounting, Law, Engineering, Medicine, Social Sciences, Sciences, Technology, and Tourism) have already applied VCW tools to solve real problems inside the classroom.

The potential to solve complex problems in international business and other contexts has also increased considerably over the years. For example, today there are Ph.D. and post-doctorate students applying the VCW framework to address very complex problems, such as in the topics of corporate social responsibility, prevention of international terrorism, and reduction of HIV/AIDS and cervical cancer. Additionally, the VCW has also been used as a pedagogical tool, which allows learning while having an entertaining environment in the classroom. For example, a VCW team of EMBA students from a top European business school traveled in 2017 to Bangalore in India as part of their academic program. They wanted to take advantage of the opportunity to extend their stay in India, in order to strengthen their cultural experience. They applied the VCW to select the destination within the country, considering a wide range of constraints (e.g. time, money, different tastes within the class). After applying the VCW, they found that the great Andra Pradesh District and surrounding area could provide the most interesting experience and covered nearly all expressed expectations of the group (see Fig. 4). When looking for local data for this region to design the final local experience (i.e., VCW's concept/prototype), the VCW team was flexible and always in an open-mode. They were particularly concerned about incorporating the criteria that their colleagues considered important but that were not incorporated in the VCF either because they

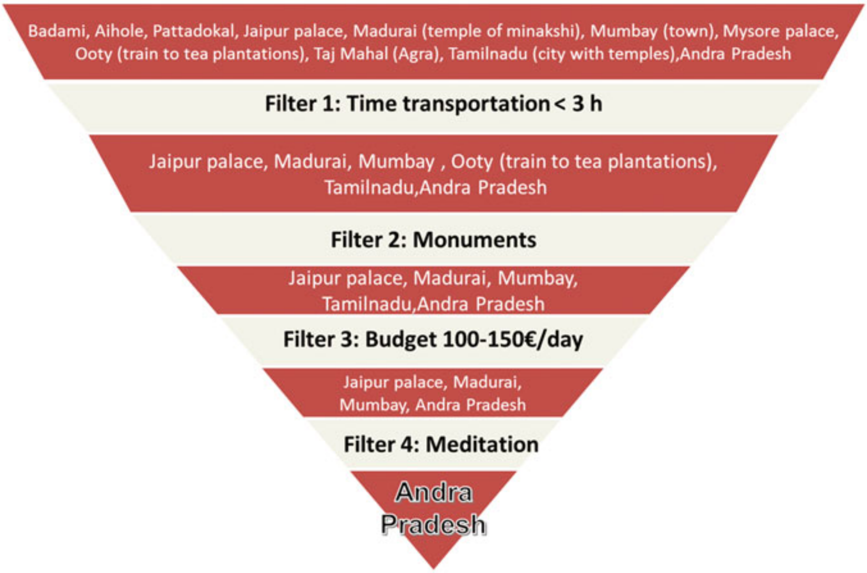

Fig. 4 The VCF-value creation funnel developed by EMBA students for the finalists trip

were hard to measure (e.g. Indian lifestyle experience, free time, and unusual location) or because they were not among the top filters (e.g., beaches, internet connection, experience on a train).

Concerning the VCW's 3Ms (Manpower, Minute and Money), the students decided to participate in this extra-trip of three days, and expected to spend less than 350€. On the first day they took a low cost flight to Chennai (the return flight is less than 50€) where they stayed in a hotel (less than 70€/night). In the afternoon, they had a Temple visit and free time for shopping and/or go to the beach. In the morning of the second day, they had a $1 train trip to Mahabalipuram (56 km from Chennai), which is famous for the seven pagodas. In the afternoon, they went to Kanchipuram (67 km from Mahabalipuram), the city of 1000 temples and 124 shrines. In the morning of the third day, they will had a city tour around Chennai in the flower and fruit market, high court, marina beach, cathedral, and Chennai Snake Park. In the afternoon, they flew back to Bangalore.

7 Theoretical Implications

The VCW can be used to address the relevance gap between theory and practice in IMS. Top journals have acknowledged that managers often disregard academic insights in their daily practice and do not invest their own time putting their knowledge into theory (e.g., Van de Ven, 2002; Van de Ven, & Johnson, 2006;

Weick, 2001). For many decades leading academic journals (e.g., Academy of Management Executive, Academy of Management Journal, Administrative Science Quarterly) mention that academics ignore managerial insights and research is becoming less useful for solving practical problems (Bailey, 2002; Hinings, & Greenwood, 2002; Rynes, Bartunek, & Daft, 2001). In the words of Weick (2001: S71), "The much lamented 'relevance gap' is as much a product of practitioners wedded to gurus and fads as it is of academics wedded to abstractions and fundamentals." These concerns are also often acknowledged in the international marketing literature (e.g. Madsen, 1998; Lages et al., 2005b). The alignment between international business theory and practice is its early stages and there is a need for models that solve international business challenges, are customized, and refined so that they can be used by managers and public policy-makers (Gaston-Breton and Martín Martín 2011).

In recent years several IMS studies have sought to integrate the IMS literature. For example, Papadopoulos and Denis (1988) classified existing IMS models into three groups: decision making, grouping and estimation models. Cavusgil et al. (2004) decided to integrate country clustering and country ranking to achieve foreign market selection. Another review on IMS decisions (Ozturk et al., 2015) identified over 30 criteria grouped into six groups of indicators: firm- and sector/product-specific as well as demographic, political, economic, and socio-cultural environment. However, and despite all these attempts, there is still a clear gap between IMS theory and practice (Ozturk et al., 2015) and an urgent need for IMS frameworks that managers can apply to define their IMS decisions.

The VCW framework presented in this chapter can help international business practitioners to manage complex paradoxes and replace the traditional trade-off as a solution for the majority of IMS decisions. The constant application of trade-offs (i.e., the either/or option) is not necessarily the right approach to succeed (Lewis, 2000; Lewis, Andriopoulos, & Smith, 2014). For example, several academics and practitioners argue that the answer to succeed in international markets is either to follow a global/standardized approach or a local/adapted approach. The VCW is a tested meta-framework that can help to deal with the GloCal paradox, which allows marketers to adopt a "glocal vision" and consequently benefit simultaneously from economies of scale while satisfying local needs (Lages, 2012). We defend that in order to deal with the paradox of choice and succeed abroad, managers must think not only "within the box" and "outside the box", but also "with no boxes." Rather than "think global and act local", today's managers are also encouraged to consider "to think and act both global and local" (Lages, Mata, & Griffith, 2013).

To our knowledge, there are no theoretical IMS frameworks that international managers or public policy makers can pragmatically use to enter new markets while dealing with current paradoxes, such as rigidity versus experimentation, and strategic focus versus flexibility (Bingham, Furr, & Eisenhardt, 2014). Theory and practice have distinct kinds of knowledge, and there are problems regarding knowledge-transfer and knowledge-production (Van de Ven & Johnson, 2006). The VCW meta-framework seeks to address these gaps. It is a customized framework aligned with the needs of managers or public policy makers, incorporating the inputs of academic research (e.g., past theories, models and selection criteria) with practitioners' perspectives. Moreover, it embraces the insights from internal and external stakeholders in order to generate additional perspectives for the existing challenges.

8 Conclusion

The VCW aims discover implementable solutions (Go/No-Go) for top priority problems, challenges, and paradoxes of organizations, governments, societies, and individuals. Compared to other problem-solving tools, the VCW offers unique features at different levels: (a) requires the commitment of key decision makers on critical steps, (b) separates solutions from filters, (c) presents a MAP approach (Maximize, Analyze, Prioritize) to solutions and filters in order to find the best value proposition and solution, (d) offers room to involve supporting and skeptical people, internal, and/or external stakeholders, and (e) is a transversal meta-framework that is both agile and structured (Lages, 2017). Specifically, in an international context one of the major challenges that organizations and individuals face has to do with the selection of the right international target market. The right selection is a critical element of value creation and growth. For many years managers determined that the value created is a function of the quality/benefits offered in the international market (Brouthers, Werner, & Matulich, 2000). This perceived value is traditionally increased by lowering price or improving product quality/benefits (Lages et al., 2013). Others defend that value can be increased through a standardized strategy that allows offering local value while benefiting from economies of scale, by selecting international markets that allow benefiting from synergistic marketing strategies (Cavusgil et al., 2004), or that have cheap available labor or inexpensive channels linking direct sellers to final customers (Ragland, Widmier, & Brouthers, 2015). The VCW presents a much broader perspective for value creation and growth, by identifying the most appropriate market considering the specific characteristics of an organization/product and respective environment, and determining the appropriate solutions, filters, and strategy according to the context and the specific type of international challenge. The different examples presented in this chapter demonstrate that the traditional "measurable" filters proposed by the IMS literature are very static. They are far from proposing a realistic solution aligned with the concerns and specific needs associated with the different international challenges.

The VCW is a transversal framework that can be applied across a wide range of organizations to find a new international market as well as to solve other international challenges while combining agility/flexibility with stage-gate principles. It is highly dynamic because the challenge, markets, and filters, are defined at the appropriate time by the managers and not imposed by the tool itself. What might be a good filter today for a specific purpose might be a poor one tomorrow (and vice versa). This explains why the VCW requires that key decision makers be flexible and involved during the whole process. Although dynamic and flexible, the VCW presents a systematized path to deal with the paradox of choice and to decide among a variety of complex options. In the presence of numerous international market possibilities, the VCW helps to align teams in terms of cognitive conflict, in order to generate and manage possible choices while avoiding affective conflict. As we could see through different cases presented in this chapter, the VCW will help the team to work together to select and target the market with the highest potential, and consequently identify the best way to implement the final solution in the local market in order to achieve sustainable growth.

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Market Withdrawal, International Orientation and International Marketing: Effects on SME Performance in Foreign Markets

Panagiota Sapouna, Pavlos Dimitratos, Jorma Larimo and Antonella Zucchella

Abstract Although withdrawal from a foreign market is a quite common decision for internationalized firms in the current competitive environment, it is apparent that this phenomenon has received rather scant attention in academic research. This is one of the few studies in the international marketing area establishing a direct link between market withdrawal and performance in foreign markets, as well as exploring the factors that affect this relationship. Therefore, we conducted a three-country study that investigates the effects of market withdrawal, international orientation, and marketing-related resources and capabilities on international performance of internationalized small and medium-sized enterprises (SMEs). The evidence suggests that withdrawal from a market negatively affects international performance, whereas international orientation, and marketing resources and capabilities positively affect international performance. The empirical results further show that in the case of strong presence of international orientation, withdrawal decisions have a positive influence on international performance.

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1 Introduction

Although there is a sufficient stream of research in the international marketing field on factors that affect the performance of the firm in foreign markets, our knowledge on certain aspects associated with internationalization is still limited. Such a critical parameter that has particularly been underemphasized is withdrawal of the firm from a foreign country (Alexander & Doherty, 2010; Cairns, Doherty, Alexander, & Quinn, 2008; Onkelinx, Manolova, & Edelman, 2013). Alexander and Quinn (2002) supported the view that international market withdrawal does not occur due to solely inherent weaknesses in the international activities of the firm. Indeed withdrawal may be a proactive rather than reactive decision when resources devoted to a particular international market can be more efficiently committed elsewhere. Alexander and Quinn's (2002) research supported Behrman's (1970) assertion that withdrawal from a foreign market can be perceived as a broader strategic choice for the firm concerned. Nonetheless, our knowledge on the effect of international withdrawal on international performance is scant (Benito, 2005; Haynes, Thompson, & Wright, 2002). This is due to the difficulty in examining withdrawal from an international market, which may be related to business failure on the eyes of the management. Withdrawal may dictate that resources divested from a market can be allocated to another one; hence, it is a strategic decision with significant performance implications.

On the other hand, there has been comparatively more research on aspects of international marketing that can affect the growth of the internationalized firm. Based on prior relevant small and medium-sized enterprise (SME) literature, management-related attributes and firm resources are important factors that need to be taken into consideration when seeking to understand their international performance (e.g., Wheeler, Ibeh, & Dimitratos, 2008). Such major organizational competence reflects the international orientation of the firm (Aaby & Slater, 1989; Belso-Martinez, 2006; Berry & Brock, 2004; Larimo, 2006; Pak, 1993; Pascucci, Bartoloni, & Gregori, 2016), which we examine in this research. Moreover, the international marketing perspective argues in favour of the employment of customer-led strategies based on marketing resources and capabilities that are hard to imitate (Calantone, Kim, Schmidt, & Cavusgil, 2006; Davcik & Sharma, 2016; Louter, Ouwerkerk, & Bakker, 1991; Srivastava, Fahey, & Christensen, 2001; Wood, Darling, & Siders, 1999; Yalcinkaya, Calantone, & Griffith, 2007). However, there is seemingly no research on how international orientation and marketing resources and capabilities, when combined with exiting from foreign markets, affect international performance. Such an analysis is essential inasmuch as international orientation of the internationalized firm and its marketing resources may influence withdrawing from a foreign country and subsequent performance (Pauwels & Matthyssens, 2003, 2004). Therefore, in this chapter we aim at offering some insights to fill this gap that has research and management implications. In doing so, we seek to complement the scant literature on market withdrawal and provide some suggestions to marketing managers as to their performance implications when exiting from foreign markets.

The evidence in this study draws from a large-scale empirical research conducted on SMEs in three European countries, notably Finland, Italy and Greece. These countries were selected because they represented a variety of European countries with different levels of economic characteristics and degrees of firm internationalization. All three countries are characterized by large numbers of internationalized SMEs that constitute the backbones of their economies. The research significance of internationalization of SMEs is well-documented in the literature (e.g., ENSR, 1997, 2004; Turcan, 2003).

This article is structured as follows. The second section discusses the theoretical background behind the aforementioned factors, namely market withdrawal, international orientation and marketing resources and capabilities. In doing so, it also advances the hypotheses that guide our empirical study. The third section outlines the methodological aspects concerning sampling, data-collection and measurement of variables. The fourth section elaborates on the statistical analysis. The concluding section discusses the findings of the study, and explores research and managerial implications.

2 Research Background and Hypotheses

2.1 International Market Withdrawals: Prior Literature

The majority of international business studies focus on firms that have sustained international development rather than firms that experienced withdrawals from international markets and possibly market failures (Alvarez & López, 2008). In today's competitive environment, the presence of a firm in a foreign international market is likely to face severe difficulties that eventually will force it to divest from that market (Engel, Procher, & Schmidt, 2013). Research that examines divestment activity is limited but there is a growing trend to examine firms that have discontinued their operations or withdrawn from at least one foreign market (Cairns, Quinn, Alexander, & Doherty, 2010; Coe & Wrigley, 2007; Fetscherin, Voss, & Gugler, 2010; Trąpczyński, 2016).

In most cases, researchers have paid attention to business unit or product exits rather than exits from international markets (Matthyssens & Pauwels, 2000). Most of the studies investigating foreign market exit decisions mainly focus on large multinational enterprises (e.g., Engel et al., 2013; Sousa & Tan, 2015) and are based on case studies (e.g., Kotabe & Ketkar, 2009; Matthyssens & Pauwels, 2000). Only a handful of studies deal with international market withdrawals of SMEs (e.g., Onkelinx et al., 2013; Turcan, 2003). There are some studies that investigate the patterns and strategies of exit (e.g., Karakaya, 2000; Mata & Portugal, 2000). Moreover, there is a growing body of literature attempting to uncover the critical determinants that can trigger such decisions (e.g., Pauwels & Matthyssens, 2003). These determinants are likely to stem either from the external environment of the firm such as economic conditions (e.g., Harris & Li, 2011; Gabrielsson & Pelkonen, 2008) or from its internal organizational environment such as strategic factors, managerial attributes, structural factors, etc. (e.g., Engel et al., 2013; Kotabe & Ketkar, 2009; Lafuente, Stoian, & Rialp, 2015; Sousa & Tan, 2015). Very few studies examine the consequences of international market withdrawals although this is a topic that deserves further attention (e.g., Baldwin & Yan, 2012; Haynes et al., 2002; Trąpczyński, 2016).

2.2 Withdrawal from a Country

According to prior literature, there is a variety of reasons that make firms decide on their withdrawal (Engel et al., 2013; Reiljan, 2004; Swoboda, Zentes, & Elsne, 2009). Wilson (1980) noted that there are two types of withdrawal, notably forced and market-determined. Forced withdrawal occurs when a firm exits a market as an action caused by necessity and against its plan. Market-determined withdrawal is a firm's reaction based on the understanding of uncertain or unfriendly market conditions and its unsustainable competitive position in a given host country, such as a declining market share, a non-performing investment, or absence of financial motives. Pauwels and Matthyssens (2003) presented two different types of withdrawal, namely tactical and strategic. In the former, the firm's top management team adopts a threat-rigidity stance and focuses on exploitative learning, whereas, in the latter, middle-level managers urge a failure-induced exploratory learning procedure. Another study conducted by Etgar and Rachman-Moore (2007) revealed that the quality of managerial decision-making could be a cause of failure in establishing operations in foreign markets. Their results suggest strategic decision-making (i.e. clear, distinct and superior values adapted to local consumer preferences) is better than tactical decision-making in order to avoid failure.

Pauwels and Matthyssens (1999) presented a six-stage strategy process study of export withdrawal. In this research, they offered firms some practical recommendations to firms in order to avoid being trapped in a failing international withdrawal process, with many detrimental implications on their growth and performance. However, exporting is considered to be generally a low commitment mode of operation and a low risk market entry form compared to other market entry modes (Agarwal & Ramaswami, 1992). As such, export market withdrawal can be viewed in a wider portfolio of strategic moves that the internationalized firm is likely to pursue (Benito & Welch, 1993; Douglas & Craig, 1996). In their recent study, Cairns et al., (2010) focusing on the role of leadership and managerial stability, highlighted that market withdrawal can be either a response to operating difficulties, or a strategic decision to devote resources more efficiently elsewhere. On this note, typical is the example of Wal-Mart that decided to withdraw from Germany in order to strengthen its focus by further developing its brand in the Americas as well as freeing up resources for other international operations (Marketwatch, 2006). In a similar vein, Duhaime and Grant (1984) suggested that a firm's financial strength influenced its decision to withdraw. A foreign market withdrawal could be triggered by decisions to restructure the activities of the firm (Richbell & Watts, 2000) or by changes in strategy such as decisions related to reallocation of its resources in other markets more efficiently (Benito, 1997).

As to the scant evidence between withdrawal and international performance, if a withdrawal from a foreign market is the result of some inconsiderate decisions made due to insufficient planning and analysis or inadequate interpretation of market signals, then this is expected to yield negative outcomes for the firm concerned (Reiljan, 2004). Leaving a country can mean exiting a market in which not only substantial opportunities existed but also sizeable investments were made (Akhter & Choudhry, 1993). If this is the case, the effect on international performance may be negative. Thus, we advance the following hypothesis to guide our empirical analysis:

Hypothesis 1 *Other things being equal, the decision of a firm to withdraw from a foreign market is likely to affect negatively its international performance.*

2.3 International Orientation

One of the most widely researched themes in the international marketing area concerns the role of the top management team and its disposition towards international activities. Indeed the international orientation of the top management team towards internationalization is key to the success of its firm in foreign markets and encapsulates its orientation towards foreign markets. The extent to which top management team of the firm are the committed champions in international endeavors is of critical success to effective internationalization (Aharoni, 1966; Welch & Luostarinen, 1988).

This is especially the case for internationalized SME, in which its top managers may effectively guide international activities of the firm (Dichtl, Leibold, Köglmayr, & Müller, 1984; Wheeler et al., 2008). Internationally oriented top management teams are characterized by a global mindset that enables them to cope with different cultural and competitive environments, and make strategic decisions to attain superior performance (Gupta & Govindarajan, 2002; He & Wei, 2011; Nielsen & Nielsen, 2011). Inspirational leadership, foreign business experience and knowledge in SMEs drive the whole internationalization effort forward and enthuse employees in the marketing and other value-added functions of the firm (Cadogan, Kuivalainen, & Sundqvist, 2009; Madsen & Servais, 1997; Oviatt & McDougall, 1995). Therefore:

Hypothesis 2 *Other things being equal, the more the firm is distinguished by an international orientation, the higher its international performance.*

2.4 Marketing-Related Resources and Capabilities

The resource-based view of the firm has emerged as an important framework examining sustainable competitive advantage in strategic management (Barney, 2001). To elaborate, Srivastava et al., (2001) concluded that the attention given to the resource-based view theory in marketing is not commensurate with its potential importance. Not all resources, however, are likely to be of equal importance in creating competitive advantage. The benefits of developing and exploiting marketing resources have been a significant theme in the marketing literature (Davcik & Sharma, 2016; Hunt & Morgan, 1996).

Marketing resources and capabilities can create value in the marketplace (Hooley, Greenley, Cadogan, & Fahy, 2005; Kozlenkova, Samaha, & Palmatier, 2014; Srivastava, Tasadduq, & Fahey, 1998). Typically, they are idiosyncratic to the firm, are built over time, and rely heavily on tacit knowledge and skills involving complex interrelationships with other resources. Recently there has been some interest on the role of marketing resources towards contributing to the creation of competitive advantage and subsequently firm performance (Albaum, Duerr, & Strandskov, 2005; Kamboj & Rahman, 2015). Hooley et al. (2005) found that marketing resources indirectly affect financial performance through the creation of customer satisfaction and loyalty, and the development of superior market performance. Snoj, Milfelner, and Gabrijan (2007) argued that the effects of marketing capabilities such as market orientation, innovation, and corporate/brand reputation on company performance are rather indirect and complex. Therefore, Snoj et al. (2007) posited that managers should focus not only on individual marketing resources but also on their integration into an adequate resource mix in an effort to develop factors that can lead to competitive advantage. Srivastava et al. (1998) additionally noted that firms are in a strong position to succeed in the marketplace through leveraging marketing resources.

In the international marketing area, Luo, Sivakumar, and Liu (2005) highlighted the moderating role of internationalization as captured through global product sourcing, global market seeking and global partnerships on the link between marketing resources and firm performance. Marketing resources and capabilities in Luo et al.'s (2005) research were measured through market orientation, entrepreneurial orientation, and innovative capability. Moreover, Spillan and Parnell (2006) examined the effects of several marketing capabilities on international performance. They found that two capabilities, namely customer orientation philosophy and inter-functional coordination are important in achieving better international financial outcomes. Taken all this together, it seems that marketing resources and capabilities constitute a key factor for the success of the firm and that these are likely to have a positive impact on the international performance of the small firm. Consequently:

Hypothesis 3 *Other things being equal, the higher the level of marketing-related resources and capabilities, the higher its international performance.*

2.5 The Moderating Role of International Orientation

The existence of strong international proclivity and commitment to international activities is likely to designate the ability of a firm to operate and respond within the international competitive environment (Alexander & Doherty, 2010). An internationally oriented management team may view a withdrawal decision as part of its internationalization strategy. The motives behind this type of decisions are more likely to be related with an intentional strategic choice rather than poor performance (Alexander & Quinn, 2002). In other words, withdrawal from a foreign market can enable refocusing of the strategic orientation of the firm (Markides, 1995). Under such conditions, the attempt of the firm to rejuvenate its internationalization plan via a withdrawal decision could advance its international performance outcomes (Palmer, 2004). Nevertheless, a withdrawal decision could be made due to the difficulty of the firm to operate effectively in a foreign market. Similarly, in this case, the existence of an internationally oriented mindset that helps to overcome the obstacles and unfavorable conditions faced in that foreign market and reallocate the resources elsewhere is likely to lead subsequently to enhanced international performance (Cairns et al., 2010).

Therefore, for international SMEs, we expect high levels of international orientation to have a positive moderating effect on the relationship between withdrawal decision and international performance. Firms that possess a management team who are internationally oriented and decide to withdraw are expected to enhance their international performance. This discussion suggests the following hypothesis:

Hypothesis 4a *The existence of international orientation is expected to moderate positively the relationship between the decision of a firm to withdraw from a foreign market and its international performance: among firms that decide to withdraw from foreign markets, existence of strong international orientation leads to enhanced international performance.*

2.6 The Moderating Role of Marketing-Related Resources and Capabilities

Marketing resources and capabilities can be the drivers of a competitive advantage over competition in the international marketplace (Davcik & Sharma, 2016). A withdrawal decision could emerge from promising market opportunities. Cairns et al. (2010) suggest that in the event of a market withdrawal, the firm can refocus and reallocate its unused marketing resources and capabilities on its core foreign markets. This reformulation of its internationalization strategy, meaning taking the decision to exit from rather unfavorable foreign markets could lead in positive financial outcomes (Craig & Douglas, 2005). More specifically, the use of the marketing resources that were previously committed in a foreign country with rather undesirable conditions can now be redeployed in more stable and promising foreign markets, and, hence, result in enhanced international performance in terms of sales and market share.

Based on the previous discussion, we conclude that the more marketing resources and capabilities a firm possesses, the more positive the effect of a market withdrawal on its enhanced international performance is expected to be. Consequently:

Hypothesis 4b The e*xistence of marketing-related resources and capabilities is expected to moderate positively the relationship between the decision of a firm to withdraw from a foreign market and its international performance: among firms that decide to withdraw from foreign markets, existence of a large amount of marketing resources leads to enhanced international performance.*

3 Methodology

3.1 Data Collection and Sample

The empirical part of the study is based on a two-step postal research in three European countries, notably Finland, Italy and Greece. These countries were chosen because they represented three European countries with different levels of economic characteristics and degrees of SME internationalization. The populations were obtained from standard sources of national company registers (i.e. the source book *Yritys Suomi* in Finland, the database of the *Union of Italian Chambers of Commerce* in Italy and the *ICAP Greek Financial Directory* in Greece).

The two selection criteria for a firm to be included in the survey were that: (a) the firm had 10–249 employees; and, (b) the firm had some degree of outward market international activities. As regards the data-collection procedure of the research, a structured questionnaire was used and answers were sought from the most informed manager on the international activities of the firm. A pre-testing of the questionnaire by academics and managers in order to check its comprehensibility and clarity had taken place before the launch of the survey. The response rates across the countries were in Greece 25.4%, in Finland 18.8% and in Italy 17.4%. In total we collected 574 questionnaires from firms consisting of 10–249 employees, yet 509 were fully completed questionnaires (i.e. 196 questionnaires from Greek SMEs, 211 questionnaires from Finnish SMEs and 102 questionnaires from Italian SMEs). No significant differences were found between respondents and non-respondents based on criteria including the size, age and international sales of the firms.

3.2 Measures

3.2.1 Dependent Variable

Sales-Related Satisfaction (*Cronbach's a = 0.87*): This study employs one associated perceptive measure of international performance, notably sales-related satisfaction. SMEs may often not be willing to provide sensitive financial data, even though confidentiality is assured (Dollinger & Golden, 1992; Sapienza, Smith, & Gannon, 1988). Moreover, it is questionable whether small firms possess the accounting methods with which to determine their international sales and profits (Barnhart, 1968; Hunt, Froggatt, & Hovell, 1967). In addition, researchers (Dess & Robinson, 1984; Geringer & Hebert, 1991; Patterson, Cicik, & Shoham, 1997) posited that subjective performance measures correlate successfully with objective measures. In addition, profit indicators may be hard to obtain since managers of SMEs are not aware of the accurate contribution of individual nations to their profitability levels. Hence, this variable measures the satisfaction that the firm enjoys through achieving its goals in relation to sales growth and market share indicators concerning the following factors over a three-year period: (1) sales growth of international partners/affiliates; (2) sales growth of international partners/affiliates in the main markets; (3) overall market share; (4) market share in the main markets. It is measured on a five point Likert scale (1 = not at all satisfied, 5 = very much satisfied).

3.2.2 Independent Variables

International Orientation (*Cronbach's a = 0.83*): This variable measures the extent to which management of the firm favors internationalization (Aaby & Slater, 1989; Aharoni, 1966). Using a five point Likert scale (1 = very low, 5 = very high), respondents were asked to rate their opinion on the following aspects: (1) international proclivity of management; (2) international experience of management; (3) management's level of language knowledge; and (4) management's commitment to the foreign business.

Marketing-Related Resources and Capabilities (*Cronbach's a = 0.82*): This variable measures the level of a firm's competitiveness in its main foreign markets, which is related to the marketing resources and capabilities that the firm possesses (Kim & Hwang, 1992; Namiki, 1988). The main marketing-related resources and capabilities, measured on a five point Likert scale (1 = very low/poor, 5 = very high/good), are: (1) customer knowledge; (2) competitor knowledge; (3) customer satisfaction; (4) quality of the product(s)/service(s); (5) new product/service development; (6) production technology; (7) branding of product(s)/services; (8) product positioning; (9) width and depth of product portfolio; (10) terms of payment; (11) advertising; (12) personal selling; (13) use of the internet; (14) other promotion (e.g., sales promotion activities); (15) distribution/logistics; and (16) delivery of goods on time.

Withdrawal Decision: Withdrawal from a market is a dummy variable (0 = the firm has not left any foreign market/countries during the last three years, 1 = the firm has withdrawn from at least one foreign market/country during the last three years).

3.2.3 Control Variables

Six control variables were employed in this study. The *age* of the firm was measured as the natural logarithm based of the number of years that it had been in operation since its establishment. The *size* of the firm was measured as the natural logarithm of its total number of domestic and foreign employees. *International experience* refers to the natural logarithm of the number of years that the firm had developed activities abroad. The number of *foreign countries* was measured as the natural logarithm of the total number of countries that the firm had market presence. All these variables have been shown to affect internationalization and international performance of the firm (e.g., Dunning, 1988; Johanson & Vahlne, 1977; Pan, Li, & Tse, 1999). Also two country variables, namely *Finland* (i.e., 0 = not a Finnish company, 1 = Finnish company) and *Italy* (i.e., 0 = not an Italian company, 1 = Italian company) were included as control variables.

3.3 *Reliability, Validity and Statistical Methods*

Since some of the measures of the current study are subjective, we had to assess the construct validity of the data collected. As far as reliability is concerned, the Cronbach's alpha values were estimated for sales-related satisfaction, international orientation and marketing-related resources and capabilities variables (please see the values presented in the Measures section). All Cronbach's alpha values were well-above the required alpha threshold of 0.70 indicating that items comprising each of these variables have high internal consistency. Likewise, the Spearman-Brown split half technique resulted in reliability coefficients that reveal relatively high levels of reliability for the abovementioned variables.

To reduce the likelihood of common method variance issues we followed a number of remedies suggested in prior literature (Chang, van Witteloostuijn, & Eden, 2010; Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). First, we designed the questionnaire mixing the order of the questions so that respondents were unlikely to combine the variables under investigation. Second, respondents were informed about the general aim of the research but not the investigation of the relationships between market withdrawal, international orientation, marketing-related resources and capabilities, and international performance. Third, respondents were asked to answer the questionnaire as honestly as possible, and were assured that the firms in which they are employed would be kept anonymous and their responses strictly confidential. Fourth, we sought to explore complicated statistical relationships, i.e., interaction effects, which were difficult to be detected by the respondents. Fifth, we used the post hoc Harman one-factor analysis that demonstrated that no single factor has emerged that accounted for a large proportion of the total variance. In light of the abovementioned actions, we do not consider common method bias to be an issue for this study.

In order to test our hypothesis we used hierarchical moderated regression analysis. In step one, we included only six control variables. In step two, we added the main effects of international orientation, marketing resources and capabilities and withdrawal decision. In step three, we entered both two-way interaction terms. Also, we mean centered our variables before checking for moderation effects to avoid multicollinearity (Irwin & McClelland, 2001).

4 Findings

Firms have a mean of 58.10 employees with a standard deviation of 54.48. Therefore, it appears that the typical investigated firm is of medium size, although both small and bigger SMEs are included in our analysis. In general, the international experience of the firm is quite considerable (mean of 17.74 years with a standard deviation of 12.08). The mean of foreign countries the firm has activities is 12.94 (with a standard deviation of 13.21).

Table 1 reports the means, standard deviations and pairwise Pearson's correlations between the dependent variable (i.e., sales-related satisfaction) and the nine regressors used in our analysis, namely firm age, firm size, international experience, foreign countries, international orientation, marketing-related resources and capabilities, withdrawal decision, Finland and Italy.

International experience of a firm is highly and positively correlated ($p < 0.01$) with the age of the firm. Furthermore, the number of foreign countries is strongly and positively correlated ($p < 0.01$) with firm age, firm size and international experience. International orientation is also positively and significantly correlated ($p < 0.01$) with sales-related satisfaction and the number of foreign markets/countries. The marketing-related resources and capabilities are highly and positively correlated ($p < 0.01$) with sales-related satisfaction, international orientation; and, the number of foreign markets/countries. As far as the withdrawal decision dummy variable is concerned, it seems that it is highly and negatively correlated ($p < 0.01$) with sales-related satisfaction.

Moreover, the assessment of variance inflation factors (VIF) for the regression variables indicated that all values are significantly lower than the acceptable cut-off value of 10. This provides further support that multicollinearity does not constitute a problem (Netter, Wasserman, & Kutner, 1996).

In order to find out the effects of the control, independent and moderating variables on international performance we ran hierarchical moderated regression

Table 1 Descriptive statistics and correlation coefficients

	Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1.	Firm age (ln)	3.10	0.66	1									
2.	Firm size (ln)	3.67	0.88	0.14	1								
3.	International experience (ln)	2.67	0.66	0.65	0.22	1							
4.	Foreign Countries (ln)	2.09	1.01	0.20	0.32	0.37	1						
5.	Finland	0.41	0.49	−0.16	0.01	0.09	0.14	1					
6.	Italy	0.20	0.40	0.26	0.05	0.23	0.27	−0.42	1				
9.	Withdrawal decision	0.19	0.39	0.01	−0.02	0.07	−0.03	0.06	0.02	1			
7.	International orientation	3.74	0.84	−0.08	0.08	0.12	0.38	0.14	0.12	0.00	1		
8.	Marketing-related res. & cap.	3.43	0.54	0.02	0.03	0.00	0.14	−0.12	0.02	−0.07	0.35	1	
10.	Sales-related satisfaction	3.27	0.81	−0.06	0.06	−0.03	0.17	0.03	0.03	−0.15	0.32	0.32	1

N = 509
Correlation values above 0.09 are significant at the 0.05 level
Correlation values above 0.12 are significant at the 0.01 level

analysis using a three-step regression model to test the main hypothesis. We did not seek to explain a large amount of the variance by including a large number of regressors since our emphasis was to examine the role of withdrawal from markets, international orientation and international marketing on performance abroad. Table 2 presents the results of the hierarchical moderated regression analysis.

In Step 1, we entered the control variables. The six control variables (i.e., firm age, firm size, international experience, number of countries, Finland, Italy) explain

Table 2 Regression results

Variable	Step 1	Step 2	Step 3
Constant	3.27***	3.27***	3.26***
	(0.04)	(0.03)	(0.03)
Firm age (ln)	−0.07	−0.01	−0.02
	(0.07)	(0.07)	(0.07)
Firm size (ln)	0.02	0.03	0.04
	(0.04)	(0.04)	(0.04)
International experience (ln)	−0.09	−0.10	−0.09
	(0.08)	(0.07)	(0.07)
Number of countries	0.16***	0.05	0.04
	(0.04)	(0.04)	(0.04)
Finland	0.00	0.06	0.07
	(0.09)	(0.08)	(0.08)
Italy	0.02	0.05	0.07
	(0.11)	(0.10)	(0.10)
Withdrawal decision		−0.27**	−0.28**
		(0.08)	(0.08)
International orientation		0.20***	0.19***
		(0.05)	(0.05)
Marketing-related res. & cap.		0.35***	0.36***
		(0.07)	(0.07)
International orientation × Withdrawal decision			0.27**
			(0.10)
Marketing-related res. & cap. × Withdrawal decision			−0.20
			(0.19)
R^2	0.04	0.18	0.19
Adjusted R^2	0.03	0.17	0.18
F	3.65**	12.22***	10.80***
ΔR^2		0.14	0.01
ΔF		28.17***	3.82*

N = 509. Unstandardized beta coefficients are reported with standard errors shown in parentheses
*$p < 0.05$
**$p < 0.01$
***$p < 0.001$

4% of the variation in international performance. This model is statistically significant at the $p < 0.01$ level.

In Step 2 the nine independent and control variables were regressed against sales-related satisfaction in the foreign markets. The results of the second model indicate that the inclusion of the independent variables (i.e., international orientation, marketing-related resources and capabilities and withdrawal decision) improves the amount of variance explained in performance significantly (R^2 increases 14%, F = 12.22). Withdrawal decision is negatively related to international performance ($p < 0.01$). This suggests that Hypothesis 1 is supported, meaning that firms that decide to withdraw from foreign markets/countries are likely to experience a decline in their international performance in terms of international sales growth and market share (Haynes et al., 2002; Pauwels & Matthyssens, 1999). In addition, international orientation is positively related to international performance ($p < 0.001$). Therefore, Hypothesis 2 is supported, which is in line with research evidence that confirms the view that the more the firm is distinguished by an international orientation, the higher its international performance is expected to be (Cadogan et al., 2009; He & Wei, 2011). Moreover, marketing-related resources and capabilities are positively related to international performance ($p < 0.001$). This suggests that Hypothesis 3 is supported. This is in line with prior studies that find that the more marketing resources and capabilities a firm has, the more satisfied it is from its international performance (Davcik & Sharma, 2016).

Then the regression equation was estimated using the interaction terms. More specifically, in Step 3 we introduced the interaction terms by considering withdrawal decision as a moderator ($\Delta R^2 = 0.01$, F = 10.80). Hypothesis 4a predicted a positive moderating effect of international orientation on the relationship between withdrawal decision and international performance. The results suggest that this two-way interaction is positive and significant ($p < 0.01$), which is consistent with our prediction and, hence, Hypothesis 4a is supported. This finding implies that the existence of international orientation positively affects the relationship between the decision of a firm to withdraw from at least one foreign market and its sales-related satisfaction in foreign markets.

Figure 1 presents the plot of this moderating effect in order to gain further insights into the nature of this two-way interaction. Two plots were drawn, one for firms with high levels of international orientation and another one for firms with low levels of international orientation (Aiken & West, 1991). Figure 2 suggests that at high levels of international orientation, withdrawal decisions have a positive influence on international performance.

Hypothesis 4b predicted a positive moderating effect of marketing-related resources and capabilities on the relationship between withdrawal decision and international performance. The results do not show a significant effect for this two-way interaction, meaning that the amount of marketing resources and capabilities do not seem to influence the impact of a withdrawal decision on the international performance of the firm. Thus, Hypothesis 4b is not supported.

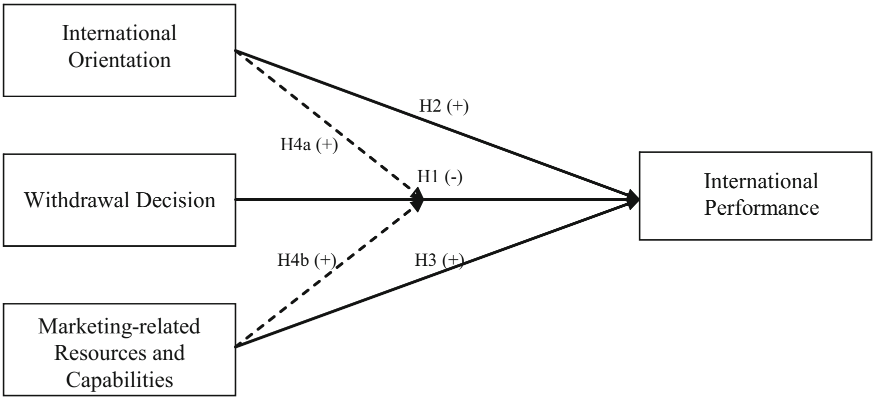

Fig. 1 Research model

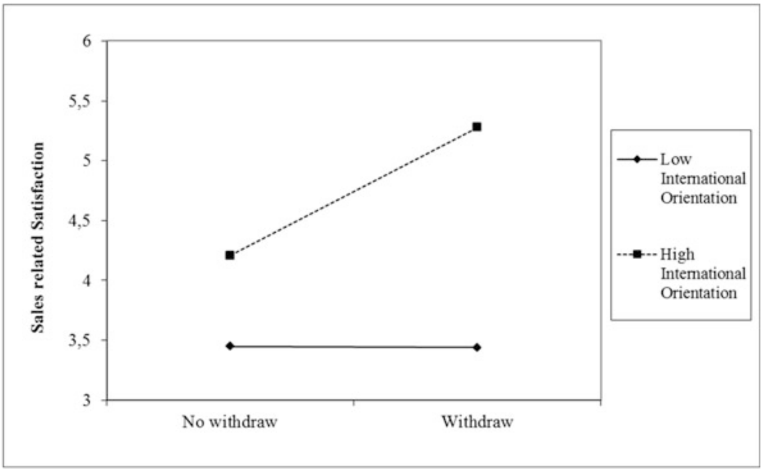

Fig. 2 Moderating effects of withdrawal decision on the relationship between international orientation and sales-related satisfaction

5 Discussion and Concluding Remarks

The findings of this three-country study show that the choice of a firm to exit from a foreign market/country has negative effect on the international performance in terms of sales growth and market share. This is one of the first studies establishing such a direct effect between withdrawal decision and international performance in the international marketing literature, an association that is not straightforward (Hennart, Roehl, & Zeng, 2002). Therefore, in relation to Hypothesis 1, it appears that firms that withdraw from at least one foreign country may experience some frustration with regard to their overall international performance (Duhaime & Grant, 1984; Hamilton & Chow, 1993; Haynes, Thompson, & Wright, 2003). It may be that resources dedicated in a particular foreign country require some time to render enhanced performance, implying that withdrawal could be a hasty decision. It could also be that withdrawal is perceived as failure in the eyes of the management of the internationalized SME as our international performance measure was a perceived indicator. Future research may investigate whether such a likely failure serves as a springboard to effective learning of the small firm in subsequent international markets and activities.

In support of Hypothesis 2, there is a strong and positive association between international orientation and perceived international satisfaction. International orientation of the firm appears to be that competence which positively affects international orientation in line with our expectations. Managers of internationalized SMEs have to nurture that international predisposition; acquire international experience abroad and foreign language knowledge; as well as be really committed to foreign markets despite the difficulties involved in order to achieve enhanced international performance (He & Wei, 2011; Nielsen & Nielsen, 2011). As far as Hypothesis 3 is concerned, the existence of a large amount of marketing-related resources and capabilities is positively related to international performance (Gursoy & Swanger, 2007; Spillan & Parnell, 2006). This result supports Hypothesis 3 and accentuates the significance of marketing competencies to the success of the firm abroad (Davcik & Sharma, 2016; Kozlenkova et al., 2014).

As regards Hypothesis 4a, it seems that the existence of strong international orientation plays a significant role as far as the impact of a withdrawal decision on international firm performance is concerned. This finding coincides with the assertion that if market withdrawals are guided by internationally oriented mindsets that aim to restructure their international strategy and reallocate more efficiently the resources elsewhere, then this decision is expected to improve the international performance of the firm (Alexander & Doherty, 2010; Palmer, 2004). While withdrawal on its own appears to be detrimental to international performance (Hypothesis 1), when coupled with a strong and positive international orientation its negative effect is reversed. This implies that withdrawals from foreign markets when effectively managed are likely to act as significant learning tools, and induce advantageous activities and operations of the internationalized firm.

This is one of the few studies in the international marketing area establishing a direct association between market withdrawal and performance in foreign markets of internationalized SMEs; as well as exploring if international orientation and marketing resources and capabilities can affect this relationship (Cairns et al., 2010). A handful of recent studies (e.g., Aykol, Leonidou, & Zeriti, 2012; Sousa & Tan, 2015) suggested that future studies should focus on the inclusion of managerial and internal firm characteristics as moderators when examining a firm's exit decision. More specifically, the main contribution of the study lies on the finding that co-existence of international orientation and exiting decisions from foreign markets can positively influence international performance. In doing so, this research enriches the scant evidence on this issue. Among the firm resources and capabilities, international orientation seems to be that capability positively affecting the relationship between the decision of a firm to withdraw from a foreign market and its international performance. The fact that marketing-related resources and capabilities do not affect the relationship between market withdrawal decision and international performance casts some doubt on the efficiency of sophisticated marketing capabilities and strategies and their interaction with exits.

The results of the current study are not of mere academic interest but should be carefully considered by practitioners as well. Managers dealing with internationalization decisions should be cautious when deciding to initiate a market withdrawal as this decision might have detrimental effects for the international performance of their internationalized SMEs. Moreover, SMEs should cultivate their managers' international orientation since this capability is expected to moderate positively the market withdrawal effects on international performance. Persistence and commitment of the management team in international marketplace is likely to yield positive outcomes (Dimitratos, Voudouris, Plakoyiannaki, & Nakos, 2012; Knight & Cavusgil, 2004). If we extend this statement, it appears that the way market exits are managed (i.e., within a firm's positive international orientation and predisposition) is more significant than the occurrence of exits per se. It may be that withdrawal has a long-run effect on the activities of the firm and may add to the stock of learning that organizations accumulate over time.

Therefore, this study can only serve as a starting point for further research. In the current research, we chose to operationalize the dependent variable, i.e., international performance and relied on international sales growth and market share following prior relevant literature. However, future research may benefit if international performance is expressed in terms of other indicators such as profitability, or if other international performance measures apart from the perceptive ones are used. Moreover, the availability of available objective data due to the sensitive character of foreign market exits is rather limited (Trąpczyński, 2016). It would be beneficial if researchers could operationalize the market withdrawal construct using more complicated measures that take into consideration the market size or growth as well as the fact that a firm may withdraw from multiple foreign markets at the same time. Longitudinal data incorporating withdrawals over a period of time alongside accumulated experience is also a way forward. Such a longitudinal analysis could further illuminate the dynamic nature between withdrawals and international performance. In a similar vein, the examination of other moderators, such as international market orientation or the environment of domestic and the foreign marketplaces may lead to a finer grained understanding of the contextual factors internationalized SMEs face when they withdraw from foreign markets.

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Part VII
Strategic Issues in International Marketing

Integration Mechanisms as Enablers of International Standardized Strategies

Gregor Pfajfar, Aviv Shoham, Maja Makovec Brenčič and Vesna Virant

Abstract This chapter aims to assess the relationships between standardization of international strategy and performance. Additionally, it aims to study the relationships of four integration modes with international strategies. A sample of Slovene exporters is used. Managers responded to a structured survey. Structural equation modeling (SEM) was applied. It was found that integration modes play a role in allowing standardized strategies to be developed and implemented successfully. This study is the first to assess the integration modes → standardization relationships. Its findings are useful to academia and international managers.

1 Introduction

International standardization has been researched heavily since Levitt's seminal paper (1983; see Lages, Abrantes, & Lages, 2008 for a recent discussion). The importance of this issue is due to globalization of world markets leading many firms to internationalize, especially through standardization (Leonidou & Katsikeas, 1996; Salomon & Shaver, 2005; Sanyal & Turgut, 2004; Shoham, Makovec Brenčič, Virant, & Ruvio, 2008; Zou & Cavusgil, 2002). We may even argue that current dynamic changes in the environment increase the opportunities for international marketing strategy standardization due to convergence of consumer segments across markets (Griffith, 2010). Arguments supporting standardization (see Theodosiou & Leonidou, 2003 for a review) include operational *economies-of-scale*

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and *consistent cross-country positioning* for globally converging consumer tastes. Major arguments supporting adaptation include *accurate positioning* and *price discrimination*, made possible by recognizing idiosyncratic consumer tastes (Jain, 1989), and a need to avoid *friction* with local representatives (Shoham, 1995) with commitment and cooperation in the exporter-importer relationship leading to importer adaptation (Leonidou, Palihawadana, Chari, & Leonidou, 2011).

Given conflicting arguments for the two approaches, Shoham's meta-analysis (2002) found that there is no universal solution—product and place standardization reduced performance; the other two components did not affect it. The inconsistent findings could be due to differing performance or standardization operationalizations (Lages et al., 2008; Shoham, 2002). Thus, a "think globally act locally" might be advised.

Standardization drivers have been researched extensively. Theodosiou and Katsikeas (2001) assessed the role of similarity in economic environments, government laws, distribution, customers, and PLC on pricing standardization. Shoham (1999) found that only a few antecedents affected standardization. Similarly, Cavusgil, Zou, and Naidu (1993) assessed the impact of standardization drivers such as international experience, product type and uniqueness, and market competitiveness (see also Ozsomer, Bodur, & Cavusgil, 1991). It was found that firms have to standardize their international marketing strategies to have positive impact on performance in the following situations (see Schmid & Kotulla, 2011 for more): high-tech industrial products (O'Donnell & Jeong, 2000), high foreign consumer familiarity with the brand (Pae et al., 2002), long international experience (Zou & Cavusgil, 2002), global organizational structure (Xu et al., 2006), cross-national consumer segments (Ko et al., 2007), cross-national similarity, high technological intensity and velocity (Katsikeas, Samiee, & Theodosiou, 2006), low dependence on—and high dynamics of the foreign environment (Grewal, 2008), large firm size, high degree of cross-national coordination of marketing activities, high product homogeneity, high number of foreign markets operated, cost leadership strategy (Hultman et al., 2009). All in all, there are underlying phenomena in the global environment (e.g. culturally distant distribution behavior, distributive institution rigidity, and international functional fragmentation) that enhance firm's ability to standardize (distribution channels in particular) across borders (Dimitrova & Rosenbloom, 2010). However, no research has addressed the role of the *integration mechanisms* (e.g., centralization; Lages et al., 2008) required for developing and implementing standardized strategies. Such modes include centralization, people, information, and formalization. This lacuna is important because without integration, standardization is difficult. Accordingly, this chapter aims to use integration as a driver of standardized strategies.

It has been found that internal integration is a precondition for external integration with global suppliers (Horn, Scheffler, & Schiele, 2014), more specifically, knowledge integration having a positive impact on export performance (Li, Zhou, & Wu, 2016), while socialization integration having a positive impact on a success of mergers and acquisitions (Khan, Rao-Nicholson, Akhtar, & He, 2016). In particular SMEs will need to develop certain internal mechanisms (information and knowledge integration, and collaborative management) to successfully internationalize (Costa, Soares, & de Sousa, 2016). In addition, mechanisms like formalization, are not only important in the case of MNCs, but also manufacturing SMEs in emerging markets, where formalization improves contract conditions for workers and leads to increase in profits and investments (Rand & Torm, 2011).

Second, research has reported inconsistent findings regarding the standardization-performance relationship. This chapter provides an additional test of this relationship. In sum, this chapter is designed to contribute by exploring the integration—standardization relationships. Finally, it tests the impact of standardization on performance.

We build on previous confirmed relationship between resources devoted to international operations (including research) and success of these operations (Shoham, 1998). In particular with the relation to the external partners strong integration has been found justifiable for complex, customized or/and uncertain transactions (Eriksson & Pesämaa, 2013). It has been suggested in theory to address B2B and B2C as part of integrated marketing context (Gummesson & Polese, 2009). Here we believe the process that affects firm's propensity to adapt to the (internal and external) environmental forces has largely been ignored (Canning & Hanmer-Lloyd, 2002). Thus, by studying integration-standardization-performance relationship we address issues that pertain business realities and are relevant to managers (Ankers & Brennan, 2002).

2 Literature Review and Research Hypotheses

2.1 The Integration-Standardization Relationship

Kim, Park, and Prescott (2003) argued that marketing drives performance. R&D, manufacturing, and management processes designed to cope with international competition require integration (Kim et al., 2003; Yip, 1992). Integration also allows firms to accumulate knowledge, experience, and capabilities and to transfer them across markets (Malnight, 1995). Notably, for the purpose of this chapter and following Porter (1986), we view industries as global, when high levels of integration of activities are required (for other approaches see De Wit & Meyer, 2004; Levitt, 1983; and Patel & Pavitt, 1991).

Indeed, Tallman and Yip (2001) defined globalization is as multinationals' *integration* of activities across international markets and Porter (1986) argued that international integration of some value chain activities is the essence of global competition. International integration allows firms to offer globally coordinated products, better face international competition (De Wit & Meyer, 2004), and take advantage of global geographic spread (Tallman & Yip, 2001).

"A global industry is a series of linked domestic industries, where competitive forces transcend national boundaries thereby creating worldwide competitive arena" (Porter, 1986 in Kim et al., 2003, p. 328; Kotabe & Helsen, 2008; Yip, 1989). Thus, integration modes are crucial for managing cross-border operations successfully en-route to performance (Birkinshaw, Morrison, & Hulland, 1995). According to Yip (1989, 1992), the essence of global companies is on marketing standardized products. Thus, he argued that strategies should be integrated to enable exporters to follow sequenced market entries, deal with effects of government actions, and reap the benefits of overall scale economies. Coordination/integration also impact market knowledge development, responsiveness to market information, and competitive advantage (Sullivan, 1992/3; Yeniyurt, Cavusgil, & Hult, 2005). The argument for integrated organizations is also at the center of the portfolio perspective (De Wit & Meyer, 2004). While headquarters should lead from the center, they should also bring in the voice of business level managers (Raynor & Bower, 2001). While such an approach leads to interdependent units pursuing similar standardized strategies, they require headquarters—subsidiary coordination.

In sum, integration affects international outcomes. We followed the approach developed by Kim et al. (2003), who dealt with the need for global integration of strategy through people, information, formalization, and centralization modes. Below, we review the integration modes companies can use to manage standardized international strategies.

2.1.1 People-Based Integration

Managers recruit employees, control their actions, and ensure cross-cultural function and process synchronization (Edstrom & Galbraith, 1977; Gupta & Govindarajan, 2000). People are the carriers of corporate culture attributes, such as values, norms, vision, and trust (Gupta & Govindarajan, 2000). Accordingly, Kim et al. (2003) viewed the transfer of managers across borders, the creation of cross-cultural teams, and cross-cultural sensitivity training as elements of a people-based integration mode. This mode assumes when face-to-face transfer of information and knowledge is important, such as when conducting cross-cultural transactions (Kim et al., 2003). When business exchange is based on transactions, B2B theory explains low adaptation opposite to relationship based business exchange, where possibilities for adaptation are high (Hadjikhani & LaPlaca, 2013). It is believed that managers learn the business culture and adapt it to behavior through constant interaction (Weck & Ivanova, 2013). Nevertheless, the choice of expatriates will moderate the positive relationship between adaptation strategy in home-host and cross-market scenarios and firm's market share and profitability (Chung, Rose, & Huang, 2012).

Yip et al. (1992) discussed international organizational structure and argued that the ability to design and implement a standardized global strategy depends on four facilitators, of which people-based is one. They called on international managers to use foreign nationals in their organizations, weigh multi-country experience as a positive when making advancement decisions, and use frequent international travel to allow people-based integration to become possible. Additionally, human resources management is a core driver of decision-making in centralized organizations (Drake & Claudill, 1981). Czinkota and Ronkainen (2007, p. 228) suggested that managers in headquarter and in subsidiaries "must bridge the physical and psychic distances separating them." They argued for the use of international teams to promote cooperation for implementation of globally standardized programs. Another advantage of integrated decision-making is the availability of expert personnel in one location (Buckley & Carter, 2004). Even with sophisticated communication technologies, there is no substitute for human relationships that are based on and develop through face-to-face interactions (Benson-Armer & Hsieh, 1997).

In short, people are important in managing international operations. Using people-based integration allows exporters to set and implement standardized programs in a way that reps or local subsidiaries can understand, accept, and follow.

2.1.2 Information-Based Integration

Coordination through information systems is important for conducting and managing global operations (Doz & Prahalad, 1981; Galbraith, 1973). International management requires a company-wide information system that can contribute to the coordination of activities. Thus, it is not surprising that information generation and dissemination are two building blocks of market orientation (Kohli & Jaworski, 1990; Jaworski & Kohli, 1993). An information system consists of three elements, namely a structure (i.e., data files and PCs) to store data, a network for tying the structural elements together, and information processes for evaluating, processing, and distributing internal and external gathered information among company decision-makers (Mühlbacher, Leihs, & Dahringer, 1999).

The availability of relevant information in a central location is a pillar of international integration (Buckley & Carter, 2004). Transmitting information enables global firms to successfully manage operations. Information-based integration enables individuals within and between firms to share information (Hansen, Nohria, & Tierney, 1999). Formal *and* informal information exchanges are critical to the creation of successful multinational organizations (Blackwell et al., 1995). Thus, information-based integration makes it possible for exporters to set standardized programs and transmit it to their subsidiaries/reps.

2.1.3 Centralization-Based Integration

Centralization refers to "the inverse of the amount of delegation of decision-making authority throughout an organization and the extent of participation by organizational members [international reps in this study's context] in decision-making" (Jaworski & Kohli, 1993, p. 56). Centralization complements formalization in defining hierarchy and decision-making authority for multinationals. Notably, when an international firm is active in several dispersed markets *and* wishes to set standardized strategies, managers at its headquarters should be most knowledgeable about the optimal level of standardization for all markets. Following Egelhoff (1988), then, integration by centralization should enable exporters to set standardized strategies. Yip et al. (1992) argued that the design of a global strategy depends on centralization-based integration as a facilitator with centralization of global authority as a way to develop global strategies. This approach requires that all businesses report to a central, headquarter-based authority. Given a paramount need for a headquarters-level focus on standardized strategies, it should dominate over country-specific foci.

Similarly, Sullivan (1992/3) recognized the value of centralization in achieving a balanced organizational control system. Such an approach becomes more feasible when home office managers gain global experience. In such cases, centralization enables global companies to seek efficiency and competitiveness and implement the standardized strategies required to achieve them. Likewise, Blackwell et al. (1995) and Buckley and Carter (2004) viewed centralized control, direction, and coordination as cornerstones of global operations. Using Czinkota and Rokainen's words, "many marketers faced with global competitive threats and opportunities have adopted global strategy formulation, which *by definition* requires some degree of centralization (2007, p. 227; emphasis added).

Lawrence and Lorsch's arguments for fit between organizations and environments (1967) provide a different argument for centralization. Recall that standardized strategies could lead to standardized and routine jobs in production lines (for standardized products) and in planning and executing promotions (for standardized advertising). In such cases, centralization leads to improved outcomes (Greenberg & Baron, 2003). De Wit and Meyer (2004, p. 544; emphases added) use a similar logic and argue: "certain activities can be pooled to reap economies of scale. Commonly this means that *activities must be centralized* at one or few locations, and that a *certain level of product and/or process standardization must be accepted*." Finally, Aaker (2008) provided two more reasons for international centralization. First, centralized decision making allows companies to create cross-border synergies. Such synergies are difficult to create without centralization because of the existence of 'silos', which leads to inefficiencies and duplication of efforts. Second, without centralization, brands can easily lose their global image when used to local advantage in each country silo.

2.1.4 Formalization-Based Integration

Procedures, rules, and standards guide many processes within and across firms. Thomson (1967) viewed coordination through formalization as an efficient approach to managing. Jaworski and Kohli (1993) defined *formalization* as the degree to which rules define roles, authority, and communications. Thus, it also refers to the extent to which the nature of inter-firm relationship is agreed upon and made explicit (Jain, 2001). Likewise, Daft (1997) viewed formalization as written documentation about rules and procedures used to direct and control employees, complementing an organization's structure by describing tasks, responsibilities, and authority (see also Blackwell et al., 1995).

De Wit and Meyer (2004) believed that an integrated organization is typified, by a formalized coordination of its units and recognized the need for multinationals to reap potential economies-of-scale through formalization. Similarly organizations that produce large quantities of standardized products often use cost leadership as a strategy, which requires formalization (Hitt, Ireland, & Hoskisson, 2001). Ekshan and Othman (2009) examined integration's dimensions of HRM practices and supported the positive role of an integrative approach to HR. Formalization also reduces the complexity inherent in international operations (Shoham, 1999). Mühlbacher et al. (2006) viewed the global experience of managers as critical to developing and using standardized procedures, which, in turn, help in reducing the complexity of the operations these managers oversee.

In sum, international standardization decisions require formalization as a coordination mechanism. It specifies the authority of the exporters' managers to determine which strategic elements should be standardized and to what extent.

Summary. Any of the four integration modes (or combinations thereof) could drive standardized international strategies. Thus, integration should lead to setting standardized programs. Hence (note that H1 is composed of 16 sub-hypotheses for four modes and four strategic components)[1]:

H_1 The relationship between the use of integration modes and standardization of international strategies is positive.

2.2 Standardization-Performance Relationship

According to Jain (1989), five factors drive standardization. First, international target markets' similarity (e.g., "GNP, disposable income, quality of life") should lead exporters standardized strategies en-route to higher international performance. A second driver is market positions of the countries in question, namely consumer behavior similarities (e.g., lifestyles) and exporter's competitive position (e.g., a similar set of competitors). A third consideration is the nature of the exported product, namely the product classification (with standardization better suited for industrial and high-tech products) and the applicability of home market positioning to the export markets. The environment constitutes the fourth driver of standardization with the similarity of the target markets vis-à-vis "physical, political, and legal environments" (p. 75) and marketing's infrastructure similarities (e.g., available channels). Finally, managerial consensus on a common worldview, on the

[1]Providing separate hypotheses for each path in our model would have required 16 hypotheses for H1 and another four for H2. We rely on readers to be able to view H1–2 as combination hypotheses.

tasks flowing from the strategies selected, and on key issues regarding standardization, as well as high levels of centralization for setting policy and resource allocation decisions also drive standardization. Some even argue that firm characteristics and strategic resources are the most critical drivers of firm's performance (Erdogmus, Bodur, & Yilmaz, 2010). Empirical support for Jain's theorizing has been reported by Baalbaki and Malhotra (1995), Katsikeas et al. (2006), and Shoham (1999).

Notably, findings about the relationship between standardization and international performance have been inconsistent (Cavusgil & Zou, 1994; Shoham, 1995; Shoham & Albaum, 1994). Some found no performance differences between firms pursuing overall standardization or adaptation (e.g., Samiee & Roth, 1992), some reported that standardization improved performance (e.g., Szymanski, Bharadwaj, & Varadarajan, 1993), and some found adaptation to enhance performance (e.g., Shoham, 1995). In addition, the relationship between standardization/adaptation strategy is moderated by both, the level of partners' dependence and the distance between importer and exporter (Leonidou et al., 2011), while some studies (e.g. Navarro, Losada, Ruzo, & Diez, 2010) report that adaptation does not directly enhance performance but only through creation of competitive advantages on foreign markets. The problem of inconsistent findings in the international marketing literature with respect to standardization-performance link was addressed by Katsikeas et al. (2006), who adopt contingency perspective and propose that "the degree of international marketing strategy standardization leads to higher performance levels only to the extent that there is fit between environmental imperatives and the strategy being deployed" (p. 869). Indeed, their study findings confirm that MNC pursuing strategic fit as a mean of enhancing international performance reported positive relationship between the degree of international standardization strategies and performance outcomes. Furthermore, the standardization of international marketing strategy seem to enhance the performance in large firms with homogeneous product offer, a cost leadership strategy, high levels of global market penetration and strong coordination capabilities (Schielke, Reimann, & Thomas, 2009). In sum, Schmid and Kotulla's (2011) research found among 330 reviewed articles on standardization and adaptation that 83% of all researchers support the idea that firms have to standardize or adapt their marketing across borders in order to enhance performance.

We note that like most research on the relationships, our study posits linear relationships. We acknowledge here that it may well be that the standardization-performance relationship is ∩-shaped such that performance suffers either when the level of standardization is too low, in which case the exporter pays for diseconomies of scale, or when it is too high, in which case sales are lost due to inappropriate positioning. Dow (2006) made an identical argument to explain ∩-shaped relationships in his study. However, our hypotheses are in line with the literature's dominant paradigm and the possible ∩-shaped approach will be tested and discussed in the "Post Hoc Analyses" section of the chapter.

In sum, research about the standardization-performance relationship has been inconclusive. However, given the preponderance of the arguments and empirical findings reported in the literature:

H_2 Standardization of the international marketing mix is related positively with international performance.

3 Research Methodology

3.1 Questionnaire

Data were collected using structured questionnaires.[2] Since the scales were originally in English, which is not widely spoken in Slovenia, we used back-translation. The questionnaire was then assessed by five academicians and ten managers with international experience for face and content validity, as well as for wording and clarity. A few items were modified based on their recommendations.

3.2 The Population, Sample, and Data Collection

Exporting manufacturers, active in at least two international markets, were sampled from *Slovene's Exporter Database*. We addressed letters to directors and export or marketing managers. Respondents were deemed to be valid key informants, averaging 9.8 years in their current company and 7.8 years of involvement in the export operation. Our sample included high- ("Electrical and Optical Equipment") and low-tech ("Textile and Woods") Slovenian exporters. The 727 exporters in the sampling frame (320 high- and 407 low-tech) were sent a cover letter, the questionnaire, and a postage-paid return envelope. Non-respondents were sent a reminder letter three weeks after the initial mailing. Notably, explanations as to what the scales measured and how to assign numbers were provided to all respondents by phone or in face-to-face interactions.

Of the 234 questionnaires returned (initial mailing: 137; second mailing: 97), 67 were unusable because respondents operated in one market or exported directly to end-users. Hence, 167 usable questionnaires (86 high- and 81 low-tech exporters) were used (response rate = 23.0%). Since early and late respondents did not differ, non-response bias appears to be a minor issue (Armstrong & Overton, 1977).

Respondents from two the industries were compared on the independent scales before combining them. Only one mean differed (product standardization; $p \leq 0.05$) and the difference was substantively small (high-tech: 5.86; low-tech: 5.26).

[2]A full list of items is available in Appendix 1.

As was expected given that the sample includes exporters to multiple markets, comparing the population (all Slovene firms) and respondents shows the sample as composed of higher-sales exporters ($p \leq 0.02$) with more workers ($p \leq 0.01$).

3.3 Scales

Integrating Modes. Seven-point items, adapted Kim et al. (2003), operationalized the four *integration modes* (1 = totally disagree to 7 = totally agree). *People-based integration* refers to "the transfer of managers, meetings, teams, training, committees, and integrators" (Kim et al., 2003, p. 330). The reliable 3-item scale had an alpha of 0.88. *Information-based integration* refers to "the international flow of information through impersonal communication systems" (Kim et al., 2003, p. 330). The scale consists of five items and was deemed acceptable (α = 0.80). *Formalization-based integration* refers to the extent to which functional tasks are performed across organizational units (e.g., standardized procedures). The 3-item scale was reliable (α = 0.79). *Centralization-based integration* refers to the extent to which decision-making authority is centralized at high management levels. The 4-item scale was also deemed acceptable (α = 0.91).

Standardization of Strategies. Seven-point scales, adapted from the items used by Samiee and Roth (1992) to assess the importance of the four strategic dimensions, were used for international strategies' standardization (1 = total adaptation to 7 = total standardization). Five items operationalized *product standardization* with acceptable reliability (α = 0.77). Four items assessed *promotion standardization* and had acceptable reliability (α = 0.76). Three items were used for *price standardization* (α = 0.74). Finally, three items (two Samiee and Roth's and a third one patterned after them) were used for *place standardization*. The scale was reliable (α = 0.81).

International performance. We used Zou et al.'s (Zou, Taylor, & Osland, 1998) three-dimensional (financial performance, strategic performance, and satisfaction with exports), nine-item scale for *international performance* (1 = low to 7 = high). However, given the very high correlations between the sub-dimensions (> 0.69), we treated performance as a reliable (α = 0.94) higher-order construct with the three dimensions as indicators.

4 Analysis and Findings

4.1 Measurement Model

Means, standard deviations, and correlations are reported in Table 1. Given the model's complexity (39 items for nine scales) and the need for a simultaneous test

Table 1 Correlations, reliability estimates, and descriptive statistics

Scale	Mean (s. d.)	C. R.	AVE	1	2	3	4	5	6	7	8	9
1. Product standardization	5.57 (1.08)	0.77	0.51	1								
2. Promotion standardization	4.86 (1.25)	0.76	0.52	0.60	1							
3. Price standardization	4.23 (1.48)	0.74	0.57	0.44	0.43	1						
4. Place standardization	4.32 (1.64)	0.81	0.57	0.41	0.58	0.36	1					
5. People integration	4.34 (1.63)	0.88	0.70	0.46	0.53	0.27	0.25	1				
6. Information integration	3.91 (1.62)	0.80	0.63	0.41	0.39	0.29	0.34	0.45	1			
7. Formalization integration	4.71 (1.31)	0.79	0.50	0.45	0.49	0.22	0.29	0.62	0.49	1		
8. Centralization information	5.27 (1.62)	0.91	0.77	0.11	0.30	0.16	0.21	0.14	0.19	0.28	1	
9. Performance	4.62 (1.18)	0.94	0.67	0.43	0.41	0.30	0.31	0.35	0.28	0.37	0.15	1

of its relationships, we used structural equations modeling (SEM). A measurement model was analyzed first to assess if items corresponding to each scale represent the same latent variable followed by a test of the full model. Bagozzi and Heatherton (1994) noted that measurement models are ideal with 3–5 indicators per latent variable. Since some constructs had more than five items, we used a parceling procedure for scales with more than three items. The items for the relevant constructs were randomly parceled into composites, which were used in the measurement model as latent variables' indicators.

The measurement model showed acceptable fit. Normed-χ^2 was 1.73 (χ^2 = 498.52, 288 degrees of freedom), NFI, RFI, IFI, TLI, and CFI exceeded 0.95 and RMSEA (0.07) was below the standard cutoff (0.08). Additionally, all items and parcels loaded highly and significantly (standardized loadings $\geq$ 0.41; t 5.11) on their respective constructs, in support of the measures' discriminant and convergent validity (Griffith, Hu, & Ryans, 2000). We further assessed the scales' discriminant validity by running models with the correlations between each pair of variables constrained to 1.0 and freed. All constrained models had significantly worse fit.

4.2 *Substantive Model and Tests of Hypotheses*

The substantive model had a significant χ^2 (811.52 with 330 degrees of freedom). However, except for RMSEA (0.09), slightly higher than 0.08, normed-χ^2 (2.46), NFI (0.94), RFI (0.92), and IFI and CFI (0.96), and TLI (0.95) were all acceptable.

Table 2 SEM model results (standardized coefficients)

Link	B	(p-value ≤)	Hypothesis
People integration → product standardization	0.26	0.01	H_1: support
People integration → promotion standardization	0.45	0.01	H_1: support
People integration → price standardization	0.14	0.07	H_1: support
People integration → place standardization	0.03	0.36	H_1: no support
Information integration → product standardization	0.29	0.01	H_1: support
Information integration → promotion standardization	0.27	0.01	H_1: support
Information integration → price standardization	0.31	0.01	H_1: support
Information integration → place standardization	0.34	0.01	H_1: support
Centralization integration → product standardization	−0.07	0.21	H_1: no support
Centralization integration → promotion standardization	0.25	0.01	H_1: support
Centralization integration → price standardization	0.10	0.15	H_1: no support
Centralization integration → place standardization	0.14	0.05	H_1: support
Formalization integration → product standardization	0.43	0.01	H_1: support
Formalization integration → promotion standardization	0.30	0.01	H_1: support
Formalization integration → price standardization	0.05	0.32	H_1: no support
Formalization integration → place standardization	0.17	0.03	H_1: support
Product standardization → performance	0.29	0.01	H_2: support
Promotion standardization → performance	0.15	0.07	H_2: support
Price standardization → performance	0.10	0.14	H_2: no support
Place standardization → performance	0.12	0.08	H_2: support

Fit Statistics: χ^2 = 811.52 (330 degrees of freedom), normed-χ^2 = 2.46, NFI = 0.94, RFI = 0.92, IFI = 0.96, TLI = 0.95, CFI = 0.96, RMSEA = 0.09

Hence, we examined the model's relationships next (Table 2 and Fig. 1 report standardized coefficients).

H_1 proposed that the use of people-, information-, centralization-, and formalization-based integration modes with affect standardization of product, promotion, price, and place (sixteen paths). These, in turn, will be related positively to performance (H_2; four paths). The four integration modes explained 34.1, 42.3, 12.8, and 16.3% of the variance in standardization of product, promotion, price, and place, respectively, which explained 19.8% of the variance in international performance.

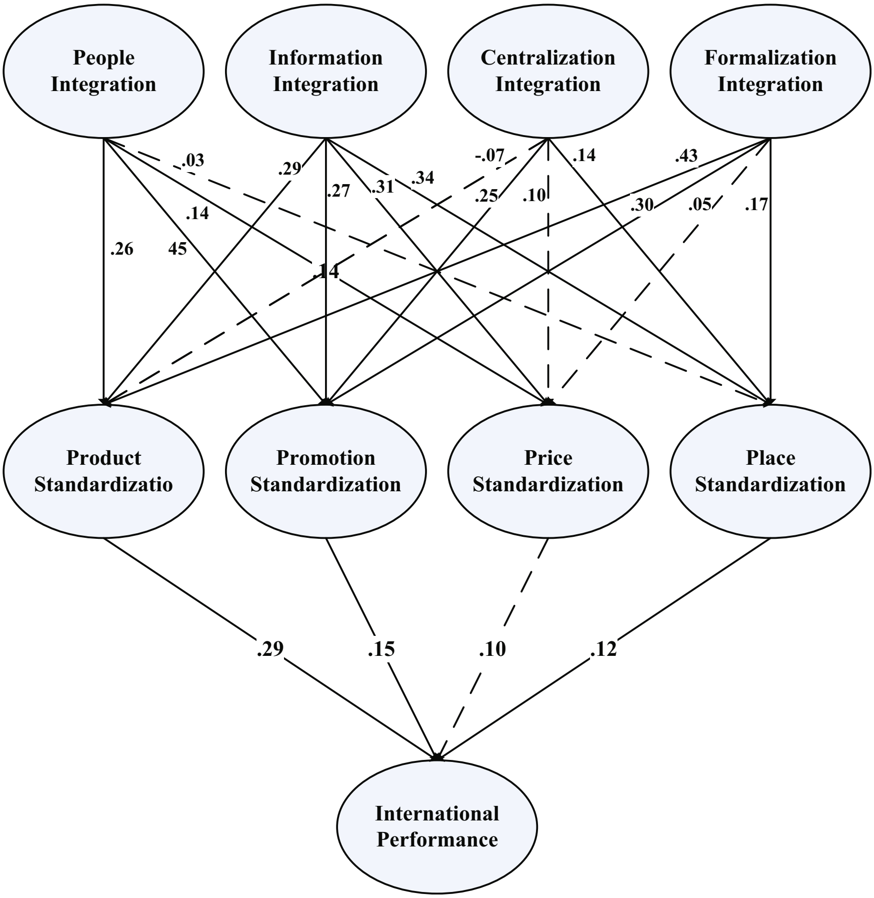

Fig. 1 Research model and findings (standardized coefficients). *Solid lines* show significant relationships ($p < 0.10$). *Dotted lines* show non-significant relationships

In support of H_1, eleven of the sixteen paths between the integration modes and standardization were positive and significant ($p \leq 0.05$) and one was marginally significant ($p \leq 0.07$). Specifically, use of a people-based integration mode was related to standardized product and promotion and marginally to price; using an information-based mode was related to the standardization of all four components of strategy; centralization was related significantly with standardization of promotion and place; and formalization was related to standardized place, product, and promotion.

The data mostly supported H_2. The relationships between standardized strategies and performance were positive and significant ($p \leq 0.05$) for product standardization and positive and marginally significant for promotion ($p \leq 0.07$) and place ($p \leq 0.09$) standardization.

4.3 Common Method Bias

A common method bias may occur as a consequence of self-reporting measures and data where each variable is from a single respondent (Campbell & Fiske, 1959). As we want to avoid inflated estimates of hypothesized relationships and misleading interpretations of findings due to influences such as self-desirability or ambiguity of respondents in the sample (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003), we employed Harman's one-factor test within a CFA setting (Podsakoff & Organ, 1986). The result showed nine factors with eigenvalues greater than 1.0, as expected, which accounted together for 74.58% of the total variance; and Factor 1 accounted for 16.04% of the variance. As Factor 1 did not explain most of the variance (above 50%) and not only a single factor emerged, we may conclude that common method bias is unlikely to present an issue in case of our dataset.

4.4 Post Hoc Analyses

Earlier, we discussed the possibility that the relationship between standardization and performance might be ∩-shaped. Additionally, the integration modes might complement standardized marketing strategies as drivers of international performance. In this section, we test these possibilities. Given the sample size and the added complexity of the required models, we used regression models.

Regarding a possible ∩-shaped standardization-performance relationship, Dow (2006) argued that at high levels of standardization, a firm might be under-performing because too many potential sales are sacrificed without sufficient adaptation to local tastes. Performance could also suffer when standardization is set too low to allow the exporter to reap the benefits of economies-of-scale.

We tested this possibility by a quadratic regression model (Hair et al., 1992) with the four original independent terms for standardization and their squared terms as a second block of independent variables. When only the first block with the original standardization scales was entered, the regression model was significant, explained 18% of the variance in performance, and included product and promotion standardization as significant positive antecedents of performance ($\beta = 0.18$ and 0.19, respectively, $p < 0.05$). Adding the four squared terms increased the explained variance by only 0.04, which is not significant ($p > 0.10$). Hence, we concluded that the relationships between standardized strategies and international performance are linear.

Following Argyres and Silverman (2003), we tested if integration modes potentially complement standardized strategies as drivers of international performance. This partial/full mediation possibility was tested according to Baron and Kenny's approach (1986). The data suggested that the modes are not complementary in that the four strategy standardization scales fully mediated the impact of the four integration modes on performance.

5 Discussion

Research results shed a new light on the international standardization strategies. Each component of standardized strategy is driven by different integration modes (or that the modes differ in strength). The strongest driver of standardized products was formalization ($\beta = 0.43$), followed equally by information ($\beta = 0.29$) and people ($\beta = 0.26$), with centralization being non-significant. People-based integration had a much stronger impact ($\beta = 0.49$) on promotion standardization than all other three modes ($\beta_{information} = 0.27$; $\beta_{centralization} = 0.25$; $\beta_{formalization} = 0.30$). Regarding price, information-based integration mode was the strongest predictor ($\beta = 0.31$) and people-based integration was marginally significant. Finally, place standardization was driven by information-based integration ($\beta = 0.34$), followed equally by centralization ($\beta = 0.14$) and formalization ($\beta = 0.17$) with people-based integration not related to it. These findings are important to practitioners by suggesting different integration emphases that should be pursued to the extent that an exporter seeks to standardize strategies cross-culturally when target markets are similar.

International firms might differ on the strength of their integration modes. Since only information-based integration was related to all components of standardization, this mode is a "jack of all trades". "Considering the phenomenal development of information technologies these days, information-based integration will be a more important and effective form of integrating various business functions and operations in the coming years" (Kim et al., 2003, p. 340). Thus, if a company seeks cross-cultural standardization and can afford (resource-wise) to develop only one mode, information-based integration should be the one to pursue. Alternatively, following a self-assessment process, a company might identify any of the other modes as a strong capability. For example, a company strong on people-based integration should be able to standardize its promotion, and, to a lesser extent, its product offerings. Conversely, centralization affects mostly promotions and formalization mostly affects the product component and, to a lesser extent, promotions.

Why should different modes be used beyond their relationship with standardization and, through it, with performance? Tseng and Chang (2005) showed that integrating subsidiaries with parent companies enhanced international performance, especially in global industries. As to when they should be used, Beusch (2007, p. 59) argued that formalization-based integration should be used under "pure bureaucratic/formalized control". Centralization-based integration might be the motivated by a quest for economies-of-scale (e.g., Buckley & Casson, 1976) or by the recognition that a centralized location might have unique competitive advantages. Centralization of knowledge-based activities could also allow faster organizational learning (Dunning, 1993).

Turning to the relationships between standardization and international performance, standardization of the product offerings had the strongest impact on international performance ($\beta = 0.29$). All other three components had weaker relationships with international performance ($\beta_{promotion} = 0.15$; $\beta_{place} = 0.12$;

$\beta_{price} = 0.10$ [not significant]). These are stronger than the ones reported in Shoham's meta-analysis (2002), where the highest standardized coefficient was for distribution (0.16) and the others varied between zero and 0.11. These differences are possibly due to the sample used here facing homogeneous international target markets.

Why did the pattern of findings reported here support a standardized approach whereas the literature has been inconclusive? According to Jain (1989), standardization should follow when markets are alike, with the OECD (Organization for Economic Cooperation and Development) serving as his prime example. Recall that the argument underlying the claim for superiority of standardized international strategies is the similarities across target markets (Jain, 1989). Did our sample face culturally similar export markets? The questionnaire inquired about the three largest export markets. The major markets were Germany, Croatia, Austria, Italy, Serbia, and Bosnia (appearing as first, second, or third 75, 62, 33, 31, 20, and 20 times, respectively). All other markets were cited very infrequently. Thus, we examined the cultural similarity across these countries, using the cultural dimension most pertinent to our research, namely uncertainty avoidance. The reason for using uncertainty avoidance as a benchmark is that there is a strong appeal for technological solutions in high-uncertainty-avoidance cultures (Hofstede, 2001), which corresponds well to the information-based integration mode. Additionally, such cultures show strong preference for formalization, corresponding to formalization-based integration and for hierarchical organizational structure closely paralleling centralization-based integration. Finally, such cultures exhibit a preference for group decisions and consultative management, in line with people-integration mode. Country scores were 65, 80, 70, 75, 92, and 88 (based on Yugoslavia—no data is available for Bosnia) respectively, values which are high and very similar (Hofstede, 2001).

Moreover, a detailed examination of the listed export markets revealed two clear clusters. One group of companies exported to countries broadly defined as Western (Italy, Germany, Austria, the USA, Finland, Sweden, etc.). Beyond having similar scores on uncertainty avoidance, these countries also had similar profiles on power distance (low) and individualism (high). A second cluster of countries is defined broadly as ex-communist (Croatia, Serbia, Bosnia, etc.). These countries exhibit high uncertainty avoidance, similar power distance (high), and individualism (low) scores. In short, the two sets of profiles were similar on uncertainty avoidance and, within each, had similar scores on individualism and power distance. In sum, the major export markets for the Slovenian sample are similar, to a large extent, on the cultural dimensions.

Finally, Kim et al. (2003) argued and documented that an effective global integration of business functions had a positive impact on international performance. Our model, in contrast, viewed the impact of integration modes on international performance as indirect and fully mediated by internationally standardized strategies, a view supported by our ad hoc analysis. In essence, standardization in our model serves the same purpose as did integration effectiveness in Kim et al.'s study (2003), which was used in their research as predictor of performance.

5.1 Managerial Implications

The results of the present study provide insights on how managers can enhance their business performance. Integration standardization is the strongest predictor of overall business performance. It was found that respondents have difficulties with standardizing information-based integration, which requires participation of all parties involved and is the only one that also requires huge investments. On the other hand, respondents were mostly small international players. Due to their size, their inability to interfere with reps' activities, and their risk-aversion, they tend to avoid investments that do not exhibit immediate results. Investments in information-based integration can be seen as such an investment. Competing in the global environment compels companies to response quickly to environment stimuli. Hence, companies should standardize integration, especially information-based integration.

The study offers also cross-cultural managerial implications. Huang and Tai (2003, p. 53) discussed customer value perception in a study of East Asian consumers and found that respondents from all four countries shared "a tendency to evaluate customer value on related products". Accordingly, they argued for standardized strategies emphasizing values such as harmony and devotion. Additionally, finding that respondents has similar concerns for skin care and cosmetic products led them to conclude that standardized messages with emphases on "sensitive" and "non-allergic" nature of products should be used. Similarly, Yavas and Benkenstein studied Turkish and German bank customers (2007, p. 165) and summarized: "On the practical side, the overall consistencies between the two groups in assessing service quality suggest that multinational banks operating in these countries can benefit from a standardized approach". Finally, Quer, Claver, & Rienda (2007, p. 75) studied the impact of country risks and cultural distance on entry modes based on a contingency approach, which posits that "flexible organisation will be better prepared to adapt to changing conditions…From this point of view, before a high-target country risk, the firm will have to find a flexible position that allows it to modify its decisions if environment conditions should change and even to leave the country without incurring substantial losses". They argued (p. 76) that "hybrid economic organizational modes for transactions (like contracts) will be used less frequently under high uncertainty conditions, since adaptations cannot be completed fast due to the need for agreement between both parties". While the purpose of obtaining flexibility differs from our context, the conceptual arguments are parallel. The flexibility needed to operate with reps requires high flexibility, as well as the use of integration mechanisms.

In sum, the cross-cultural managerial implication of our findings is that when operating in several similar international markets, achieving needed standardization requires a company-wide emphasis on the proper use of several integration modes. Without these, efforts to achieve cross-cultural strategic consistency might well fail. Notably, as found in the present study, some of the four modes are more important than others.

5.2 Limitations and Future Research Directions

We recognize some limitations of our study. First, a question arises as to the generalizability of the findings. In the context of generalizing the findings to other Slovenian exporters, we believe such extrapolation is justified because the sample includes firms from two Slovenian export industries and the sampling frame included all exporters in these industries. As for generalizing the findings to other countries, the major assumption made here was that the set of target countries should be culturally similar. This requirement is independent of the origin of the exporters under study. However, recognizing that Slovenia is a developing country and depends on international sales for growth, further research should be conducted in fully and less developed countries.

Second, the SEM model explained 19.8% of the variance in performance. Notably, this level parallels the average variance explained reported in a meta-analysis of international performance studies (22.3%; Shoham & Rose, 1993). However, future research should incorporate additional explanatory constructs, such as international strategic planning (Shoham, 1995).

The study offers several future research directions. Notably, information-based integration was the most consistent predictor, positively and significantly related with all four components of standardization. This pattern parallels of Kim et al.'s (2003), which showed information-based integration as the strongest driver of effectiveness for all three organizational functions. Thus, our study takes a first step in showing this mode to have a universal impact in a new context. From a cross-cultural perspective, managers could use information-based integration with added confidence in its potential enhancement of successful standardized strategies. Yet, the findings of our research are encouraging in that the impacts of the other three modes were stronger than those in Kim et al.'s. Thus, future research should incorporate the set of integration modes with more confidence in its impact on strategies in additional domains.

6 Summary

Exporters are faced with a globalizing marketplace and need to consider standardized versus adapted marketing strategies. Managing such strategies behooves managers of internationally active firms to rely on differing integration modes and to varying degrees. Our findings suggest which integration modes will be most useful as drivers of international standardization. Further, our data suggests which components of international marketing strategies have the highest potential payoffs in way of international performance.

Appendix 1: Measurement Scales

Construct
Product standardization
[Seven-point Likert scale, adapted from Samiee and Roth (1992)]
Regardless of the market, our company…
1. …emphasizes new product development
2. …emphasizes product quality
3. …offers a broad range of products
4. …develops unique product features
5. …emphasizes specialty products
Promotion standardization
[Seven-point Likert scale, adapted from Samiee and Roth (1992)]
Regardless of the market, our company…
1. …emphasizes advertising and promotion
2. …builds brand awareness
3. …builds reputation in the industry
4. …develops a highly skilled salesforce
Price standardization
[Seven-point Likert scale, adapted from Samiee and Roth (1992)]
Regardless of the market, our company…
1. …produces high priced products for market niches
2. …prices at or above competitive price levels
3. …is price leader in the industry
Place standardization
[Seven-point Likert scale, adapted from Samiee and Roth (1992)]
Regardless of the market, our company…
1. …serves a wide variety of customers
2. …is geographically diversified on each of the markets
3. …serves a wide variety of segments in each market
People integration
[Seven-point Likert scale, adapted from Kim et al. (2003)]
Regardless of the market, our company…
1. …organizes meetings of our reps
2. …encourages contacts among our reps
3. …has a committee that meets regulatory to plan and integrate reps' activities
Information integration
[Seven-point Likert scale, adapted from Kim et al. (2003)]
Regardless of the market, our company…
1. …has databases to share information with reps
2. …has worldwide electronic communication systems

(continued)

(continued)

Construct
3. …has internationally interconnected computer systems
4. …has internationally integrated software applications
5. …has worldwide integrated information systems
Formalization integration
[Seven-point Likert scale, adapted from Kim et al. (2003)]
Regardless of the market, our company…
1. …has fairly well-specified common rules and policies
2. …has fairly well-specified standard operating procedures
3. …monitors to ensure the common rules, policies, and procedures are not violated
Centralization information
[Seven-point Likert scale, adapted from Kim et al. (2003)]
Regardless of the market, our company…
1. …makes the final decision on brand name
2. …makes the final decision on advertising and promotion
3. …makes the final decision on product line
4. …makes the final decision on pricing
International performance
[Seven-point scale, ranging from "low" to "high", adapted from Zou et al. (1998)]
Our performance with the selected product or product group…
1. …has been very profitable
2. …has generated a high volume of sales
3. …has achieved rapid growth
4. …has significantly increased our market share
5. …has been very satisfactory
6. …has been very successful
7. …has fully met our expectations

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Patterns of SME's Marketing Mix Combinations and Their Characteristics in Export Markets

Jorma Larimo, Antonella Zucchella, Minnie Kontkanen and Birgit Hagen

Abstract Standardization versus adaptation of the marketing mix strategy in foreign markets has been one of the key research areas in international marketing since the late 1960s. Based on the existing studies we have a broad understanding of factors having an effect on standardization and adaptation levels, and the implications of the marketing mix on performance. However, the findings in the field can be partly described as contradictory and fragmented. We suggest that adopting a configurational approach to marketing mix strategies would offer a richer description of the strategic options available. This would mean that the potential different combinations of marketing mix elements are taken into account, increasing the understanding of the holistic treatment of the marketing mix package. Based on a two-country sample of SMEs we identified five distinct patterns of marketing mix strategies, which also had implications for the performance.

1 Introduction

For a marketer, one of the challenging decisions relates to the market offering, specifically, how to allocate resources across the marketing mix elements (Hanssens, Thorpe, & Finkbeiner, 2008). In addition to efficient resource allocation, the decision on the standardization level of marketing mix elements offers an important tool to compete in international markets (Theodosiou & Leonidou, 2003).

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An appropriate plan and implementation of the marketing mix standardization/adaptation have also been found to be crucial for the firm's overall internationalization strategy and structure (Schmid & Kotulla, 2011) and have been related to firm's performance.

Because of the obvious managerial relevance of the topic, international marketing mix decisions have been of research interest since the 1960s. In most of the studies, the focus has been on multinational firms or on general exporters without describing the difference between small and medium sized companies (SMEs) and large companies (Tan & Sousa, 2013; Theodosiou & Leonidou, 2003). This is surprising, taking into account the importance of SMEs in the national economic growth and the increasing amount of SMEs which have started exporting during the last thirty years. In addition, SMEs' limited resources, greater dependence on short-term survival and the difficulties to manage poor performance compared to larger organizations (Lages, Jap, & Griffth, 2008b) limits the marketing strategy options available for SMEs. On the other hand, in general, a more flexible and lighter structure increases the possibility for SMEs to offer more customized packages compared to MNCs (Lages et al., 2008b). Thus SMEs clearly differ from MNCs, based on several characteristics which also may have implications on the marketing strategy decisions. This evidently calls for explicit focus on exploring the SME exporters' marketing mix strategies.

Based on the meta-analysis and review articles (Leonidou, Katsikeas, & Samiee, 2002; Schmid & Kotulla, 2011; Tan & Sousa, 2013; Theodosiou & Leonidou, 2003), the main findings of the existing studies can be categorized into three main areas. Firstly, we know that the standardization/adaptation levels of the mix elements (product, price, promotion and place) can vary from high level of standardization to high level of adaptation. Secondly, several external and internal factors have been identified to have an effect on the variation of the standardization levels. Thirdly, either the standardization level has direct performance implications or the performance implications are dependent on the appropriate fit between the internal and external factors and the implemented standardization level.

However, we argue that we still have limited understanding of the international marketing mix package from the holistic approach. One important aspect increasing the holistic understanding is the treatment of the marketing mix package from the multidimensional perspective. Even though the majority of the studies have focused on one or two of the four traditional marketing mix elements (see e.g. Cavusgil & Zou, 1994; Lages, Mata, & Griffith, 2013; Sousa & Novello, 2014), the need for multidimensionality has been recognized and as a result, the number of studies incorporating all four elements has increased. The multidimensionality has been approached by two alternative ways. In the first approach the multiple marketing mix elements have been aggregated into one score by a second-order construct (Magnusson, Westjohn, Semenov, Randrianasolo, & Zdravkovic, 2013; Ruzo, Losada, Navarro, & Díez, 2011; Schilke, Reimann, & Thomas, 2009). In the second approach the elements have been kept separate (Fuchs & Köstner, 2016; Shoham, 1999, 2003; Sousa & Lenger, 2009). The findings of the first group of studies have enhanced our understanding of the average standardization levels of the marketing mix package and its single path effect on performance, while the second group of studies has shed some light on the relative standardization levels of different marketing mix elements, their antecedents and performance implications.

However, both approaches have limitations. In the first group of studies, by offering an aggregate measure on the degree of standardization, the possible interactions among the first-order elements (product, price, promotion, place) are not taken into account. Thus, they do not capture the potential distinct patterns, which are made up of different combinations of marketing mix elements (Lim, Acito, & Rusetski, 2006). In other words, the same second-order construct score could represent quite different combinations of marketing mix elements (Lim et al., 2006). These studies have also been criticized because of the fact that the performance implications are different for different elements in terms of their adaptation level (Hultman, Robson, & Katsikeas, 2009) and therefore each element should be considered separately (Helm & Gritsch, 2013).

In the second group of studies, this criticism is answered by offering individual treatment of each marketing mix element. However, the findings of the positive performance implications of some mix elements and/or the negative implications of some other mix elements, depending on their adaptation level, do not convey their combined effect. Is it for example enough to adapt product strategy, when there are differences in the macro- and micro environments in the home and export target country, in order to increase performance? Or does it depend on the adaptation levels of the other marketing mix elements? Thus, the individual treatment of the elements still does not capture the potential interactions between them and their possible combination effects.

Identifying the different marketing mix combinations/patterns would increase our understanding of the strategic options that firms have available to structure their marketing offer in international markets (Lim et al., 2006). This would also offer insights into the interdependence of marketing mix elements called for by some researchers (see e.g. Tan & Sousa, 2013). Further support for the importance of identifying the distinct patterns of marketing mix elements is offered by the configurational approach, which has quite a strong tradition in the study of organizations (see e.g. Ketchen & Shook, 1996). One of the basic premises of it (see e.g. Miller, 1981, 1986; Miller & Friesen, 1977; Meyer, Tsui, & Hinings, 1993) is that "various elements of strategy can interact or combine differently in multidimensional space" (Lim et al., 2006: 503). According to Meyer et al. (1993), the configurational approach supports the holistic stance based on the argument that single parts of an entity cannot be understood in isolation. This forms the basis for the need to take into account the four main elements of international marketing mix strategy and their combinations.

Finally, existing studies have identified the context which may lead to an increasing or decreasing level of adaptation of individual marketing mix elements and performance. Thus, this calls for a need to increase our understanding of the characteristics behind the potential marketing mix combinations instead of the individual elements.

By adopting the configurational approach applied by Lim et al. (2006), we will classify and describe the patterns of international marketing mix elements. Thus the research question we aim to answer in the study is the following: ***What are the typical patterns of marketing mix configurations and the managerial, organizational, internationalization, market-related, and performance-related characteristics of these patterns?*** The empirical part of the study focuses on the marketing mix decisions used by 261 Finnish and Italian SMEs. The approach is exploratory using cluster analysis to group firms empirically; univariate ANOVA and chi-square analysis are used to compare the differences in the antecedents and outcomes of the categorized groups of firms.

The study contributes by giving new insight into the holistic discussion of standardization/adaptation of marketing mix elements by paying specific attention to the combination of the marketing mix program instead of treating it either as one aggregated second-order construct or exploring the elements individually without showing the connection to other elements by the same company.

The structure of the paper is as follows: In section two we will give an overview of the prior studies in international marketing mix standardization/adaptation. Methodological choices and results are presented in sections three and four. The paper ends with discussion and conclusions.

2 Literature Review

In the following we will review the three perspectives, also referred to as three schools of thought, which have been guiding the design of international marketing strategy (Theodosiou & Leonidou, 2003: 142). This is followed by a review of the latest export studies focusing on the marketing mix decision.

Standardization, adaptation and contingency perspectives represent the three schools of thought. Based on the standardization approach, marketing mix strategies should be standardized, because markets are considered to become more similar in several respects, and thus standardization allows achievement of economies-of-scale, the maintenance of a consistent, high-quality image worldwide and reduced managerial complexity through better coordination and control of international operations (Shoham, 2003; Theodosiou & Leonidou, 2003).In addition, standardization has been said to decrease a product's time to market by reducing the time needed to adapt to local specifications, enabling firms to exploit superior products and operations in multiple markets (Schilke et al., 2009.) However, the outcomes of standardization strategy are not always positive. According to Kashani (1989), in the case of over-standardization, local inventiveness and experimentation dry up, and this causes challenges in updating the program and being able to respond to changing market conditions. Thus, according to Vrontis, Thrassou, and Lamprianou (2009: 481), "standardization may scare off customers, alienate employees and blindside businesses to their customers' real needs".

Proponents of adaptation try to respond to the weaknesses of the standardization approach. They argue that, in spite of the globalization tendencies, variations between countries in terms of the macro- and micro-environmental factors are still great. These differences require adaptations in marketing mix strategies in order to offer long-term profitability through improved exploitation of the different customer needs in different markets (Sousa & Bradley, 2009; Theodosiou & Leonidou, 2003). In a review by Shoham (2003), potential friction between exporter's headquarters and their local representatives seems to encourage the use of adaptation strategy. However, extreme adaptation is an expensive option and thus reduces the efficiency of international marketing programs.

The contingency perspective, on the other hand, offers an approach to overcome the two extreme perspectives. According to the contingency perspective, standardization and adaptation are two ends of the same continuum where the degree of standardization/adaptation can vary depending on the contingency factors relating to a specific situation. (Theodosiou & Leonidou, 2003).It is acknowledged that differences in markets do not make it possible for full standardization. However, as Vrontis et al. (2009) state, adaptation cannot be used extensively either, because of the huge costs involved in it. Thus, in the contingency approach, both advantages and disadvantages of the two extreme perspectives are recognized and there is an attempt to utilize the strengths of both them. According to Theodosiou and Leonidou (2003), the critical aspect here is to decide what is the degree of standardization/adaptation of the different marketing mix elements under certain conditions. Most recent international marketing mix literature is mainly based on the contingency perspective (Sousa & Bradley, 2009).

In line with these perspectives, theoretically, at least two potential patterns of marketing mix combinations can be expected. Based on the standardization perspective, all marketing mix elements would be highly standardized, and based on the adaptation perspective all marketing mix elements would be highly adapted. This would indicate consistency within the standardization/adaptation level between the different marketing mix elements. The contingency perspective, on the other hand, seems to support a more mixed approach in which, depending on the external and internal factors, some of the individual marketing mix elements could be more standardized, others more adapted or positioned in the middle of the continuum. Thus based on the contingency perspective, in theory, a great number of patterns could exist as the set of possible combinations is countless. However, according to the configurational approach, only a limited number from the theoretically possible configurations are viable and thus would be observed empirically (Meyer et al., 1993). A review of the latest studies on exporting firms and their marketing mix decisions shows that the need to explore all marketing mix elements in the same study has been recognized (see Table 14.1). Some of the studies have focused on analyzing the role of various macro- and micro environmental factors on the standardization/adaptation levels (Helm & Gritsch, 2013; Lages & Montgomery, 2004; Lages et al., 2008b). Others have studied both the antecedents and the potential performance implications of the individual marketing mix elements. The findings support strongly the basic premises of the contingency

Table 1 Key empirical export studies on adaptation/standardization

Study	Sample and method	Marketing mix element(s)	Antecedents	Performance	Findings
Cavusgil and Zou (1994)	N = 202 US product-market export venture cases Majority large firms	– Product – Promotion Individual treatment	Firm characteristics Product characteristics Industry characteristics Export market characteristics	Achievement of goals Growth of export sales Profitability	Product adaptation → + performance Promotion adaptation → − performance International competence, little experience with product, culture specific or unique product, industry technology intensive and export market competitive → + product adaptation
Shoham (1999)	Israeli exporters	Standardization: – Product – Promotion – Channel – Price	Exporting country image Competition structure Local laws Local government influence Competitive position Physical environment Marketing infrastructure	Satisfaction Change in satisfaction (five years)	Channel and price standardization → + performance Product and promotion adaptation → + performance Local government → + product standardization and − promotion standardization Competitive position similarity → + promotion standardization Physical environment → + price standardization
Lages et al. (2008b)	N = 519 Portuguese exporters Mostly SMEs	– Product – Promotion – Place – Price Individual treatment	Commitment to exporting International experience Export market development	–	Commitment to exporting → + product adaptation Export market development → + product, promotion and distribution adaptation
Hultman et al. (2009)	N = 341 Swedish exporters	– Product	Economic, regulatory, sociocultural,	Market, financial and customer performance	Fit between the level of product adaptation and macro and micro environmental context → + performance

(continued)

Table 1 (continued)

Study	Sample and method	Marketing mix element(s)	Antecedents	Performance	Findings
	Medium and large		technological environment Customer and market characteristics Marketing infrastructure Competitive intensity and stage of PLC Export commitment Scope of export Experience Duration of export venture		Sociocultural and technological environment, marketing characteristics, infrastructure and PLC, export commitment, duration of export venture → + adaptation Competitive intensity → − adaptation
Lages and Montgomery (2004)	N = 459 Portuguese exporters SMEs	Adaptation: – Product – Promotion – Distribution – Price Individual treatment	Export market competition Satisfaction with prior year's export performance Export market development Firm's current commitment to exporting		Satisfaction with prior year's export performance → − pricing and distribution adaptation Export market development → + product, promotion and distribution adaptation Firm's current commitment to exporting → + product and distribution adaptation
Sousa and Lengler (2009)	N = 201 Brazilian industrial exporters	Adaptation: – Product – Promotion – Channel – Price	Psychic distance Product type	Export intensity Export market share Meeting expectations	Product and promotion adaptation → + performance Channel and price adaptation → − performance

(continued)

Table 1 (continued)

Study	Sample and method	Marketing mix element(s)	Antecedents	Performance	Findings
	RR 20.1% structural equation maximum likelihood Export venture	Individual treatment			Psychic distance and consumer products → + adaptation
Hultman et al. (2011)	N = 336 Swedish exporters Medium and large exporters	Adaptation: – Promotion	International experience as a moderator – Duration – Scope – Intensity	Market, financial and customer performance	Long duration and high intensity: Promotion adaptation → − performance Short duration and low intensity: Promotion adaptation → + performance
Ruzo et al. (2011)	N = 150 Spanish exporters SMEs	Index of the level of marketing-mix strategy adaptation: – Product – Promotion – Channel – Price	Resources – Scale – Experiential – Structural	Objective (favorable) Subjective (satisfied)	Marketing-mix strategy adaptation → + performance
Stoian, Rialp, and Rialp (2012)	N = 155 Spanish SMEs SEM	Index of the overall marketing mix standardization/adaptation: – Product – Promotion – Distribution – Price	Firm size Industrial sector Environmental differences (cultural, political, legal) as export barrier	Export intensity Satisfaction with export performance (growth market share, results in main markets,	Standardization/adaptation → insignificant to overall performance, − performance (larger firms), + performance (smaller firms) + performance (low tech intensity firms) Environmental differences is barrier: level of standardization/adaptation → − performance

(continued)

Table 1 (continued)

Study	Sample and method	Marketing mix element(s)	Antecedents	Performance	Findings
				achievement of export objectives)	Environmental differences is not barrier: level of standardization/adaptation → + performance
Helm and Gritsch (2013)	N = 198 German exporters 44% SMEs (17% 250–500; 39% 500–3000) Project business markets	– Product – Promotion – Place – Price Individual treatment	Marketing strategy uncertainty	–	Uncertainty → + pricing and promotion adaptation
Lages et al. (2013)	N = 519 Portuguese exporters	Price-quality	Past performance Competitive intensity	–	High competition foreign markets: Standardization → − performance Low competition markets: Adaptation → − performance
Magnusson et al. (2013)	N = 153 US exporters 51% SMEs Export venture PLS	Adaptation: – Product – Promotion – Channel – Price	Motivational CQ Metacognitive CQ Environmental differences (cultural, economic, geographic, political), firm size, scale of economies, resource advantages, age of export venture, age of exporting, management's	Competitors and customers profitability of export venture Five year average revenues growth Strengthening of strategic position	Adaptation of marketing mix → insignificant to performance Environmental differences → + adaptation

(continued)

Table 1 (continued)

Study	Sample and method	Marketing mix element(s)	Antecedents	Performance	Findings
			international experience		
Sousa and Novello (2014)	N = 154 Italian SMEs	Adaptation: – Price	Technology intensity Size of the firm Environment Competitive intensity	Export sales growth, meeting expectations, export profitability, and export market share	Environmental differences → + price adaptation
Fuchs and Köstner (2016)	N = 115 Austrian SMEs	Adaptation: – Product – Promotion – Distribution – Price Individual treatment	Export market experience International commitment Competitive intensity	Sales growth Profitability Goal achievement Overall success	Product,price and distribution adaptation → + performance Export market experience → + price and distribution adaptation Commitment to internationalization and competitive intensity → + all marketing mix elements

perspective. In other words, some factors have positive or negative influence on the adaptation levels of some of the marketing mix elements, while they do not have any effect on some other elements. In a similar way, depending on the context, some elements have positive or negative effect on export performance while others have no effect.

However, the contradictory results on the influence of the same factor on the adaptation levels of the mix elements raise some questions. Lages and Mongtomery (2004) found that export market competition did not have an effect on the adaptation levels of any of the mix elements. On the other hand, findings based on Fuchs and Köstner (2016) show that competitive intensity had a positive effect on the adaptation levels of all the marketing mix elements. In addition, comparing the results of the influence of commitment on exporting, the findings show that it had a positive relationship with product and distribution adaptation (Lages & Montgomery, 2004), while in another study the positive relationship was found only for product adaptation (Lages et al., 2008b).Similar contradictory findings are evident also in studies focusing on marketing mix decisions by MNCs (see, for example, Birnik & Bowman, 2007).

These contradictory results support the criticism presented in the introduction that the individual treatment of the elements, even though studied at the same time/in the same study, is not enough because it does not capture the potential interactions between them and their possible combination effects. However, so far the studies exploring the interrelationships between different marketing mix elements are limited, even though the need for them was recognized over decade ago (see e.g. Theodosiou & Katsikeas, 2001). One of the few studies explicitly analyzing the interrelationships between the mix elements is a study by Sousa and Bradley, (2009). They found out, based on a sample of industrial Portuguese firms, that the more product, distribution and communication strategies were adapted the more adapted also was the price strategy. Similar results were found also in a meta-analysis by Tan and Sousa (2013), which was based on 110 independent samples published in 108 articles. These findings indicate consistency between pricing strategy and the other three mix elements in terms of the adaptation level. However, the results do not offer insights into the potential interdependences between the other mix elements. In other words, they do not cover the complexity of the entire marketing mix package.

The studies by Michell, Lynch, and Adabdali (1998) and Lim et al. (2006) are exceptions in international marketing mix studies as they touch upon the issue of combination of marketing mix elements. Michell et al. (1998) identified the following three clusters based on the standardization level: (1) more standardized, (2) moderately adapting and (3) more localizing. However, the data presented regarding the clusters describe the overall mean of the marketing mix variables instead of showing in more detail the variations in the different elements. Thus, this represents a similar approach to prior studies utilizing the aggregated or second-order construct of marketing mix elements. Lim et al. (2006), on the other hand, covered broader aspects of marketing strategies. In addition to the dimension of marketing mix standardization/adaptation, they also took into account concentration/adaptation and integration/independence dimensions. However, regarding the marketing mix dimension, they found three distinct patterns. The patterns found were the standardization approach and two different types of mixed approaches. One of the mixed approaches utilized standardization in channel design and in brand name while promotion, product design and pricing were more adapted. In the second mixed approach, there was a moderate standardization in sales promotion tactics, but product design, advertising, pricing policy and channel design were more adapted. The results support the findings in Sousa and Bradley (2009) and Tan and Sousa (2013) about the interrelationship of pricing strategy and the other marketing mix elements. These findings give some indication of the potential patterns, but the sample was based on MNCs and thus the results are not directly generalizable in the SME context.

Previous discussion shows that there is limited understanding of the potential patterns of marketing mix combinations. Thus, it is not possible to develop an explicit hypothesis about the patterns nor their antecedents or outcomes. Therefore we will apply a clustering approach in which taxonomies are based on facts in order to identify natural clusters (Meyer et al., 1993; Miller, 1996). In the following section the clustering procedure will be presented in detail.

3 Methodology and Sample

The empirical part is based on Finnish and Italian SMEs and their export operations. These countries were chosen because in both countries SMEs dominate, but the countries represent a variety of European realities with different economic characteristics and domestic market size, degrees of firm internationalization, institutional structure and national cultures. Representative samples of international small and medium-sized firms were drawn from national company registers. The target respondent was the CEO or the most knowledgeable manager regarding international activities. The selection of target companies was based on four criteria, in that the firm: (a) had 10–249 employees, (b) had an annual turnover of less than 50 million euros, (c) operated in the manufacturing or ICT sectors, and (d) was established between 1960 and 2000. The initial sample in Finland was 1481 firms based on the combined information from Fonecta Finder and Blue Book databases and 850 firms in Italy drawn from the Union of Italian Chambers of Commerce database. The data were collected by means of a mail survey with closed questions.

The survey was developed together by researchers from the two European countries. The survey instrument was pre-tested locally and translated into the respective country language in order to increase understanding and enhance response rate. Multi-item, 5-point Likert scales were used to operationalize the constructs (see Appendix 1, Table 2). The questions and the operationalization were mainly based on Knight (1997) and the STRATADAPT scale by Lages, Abrantes, and Lages (2008a).

Table 14.2 Five patterns of marketing mix combinations

	Consistent adaptation 21.84% n = 57	Consistently neutral 30.27% n = 79	Mixed pattern 1: moderate product standardization and adaptation of other elements 13.79% n = 36	Mixed pattern 2: communication standardization and price adaptation and neutral product and place 17.62% n = 46	Consistent standardization 16.48% n = 43
Product strategy standardization versus adaptation (Mean = 2.86)	4.28	2.96	2.39	2.78	1.91
Pricing strategy standardization versus adaptation (Mean = 3.35)	4.25	2.84	4.00	3.78	1.88
Communication strategy standardization versus adaptation (Mean = 2.87)	3.98	3.24	3.97	1.61	1.54
Place strategy standardization versus adaptation (Mean = 3.07)	4.07	2.62	4.22	2.85	1.61
Overall mean of the cluster	4.15	2.92	3.63	2.75	1.74

Note 1 = fully standardized … 5 = fully adapted

The total number of responses received was 393 consisting of 269 Finnish companies (response rate 18.2%) and 124 Italian companies (14.6%). However, the additional criteria for this study, that the company should have had a share of exports of at least 10% and have two or more export target countries, reduced the sample size into 307 companies. Discarding those responses that lacked the information relating to some of the included additional variables resulted in a final total of 261 firms, 193(73.9%) Finnish, and 68 (26.1%) Italian firms.

Following Armstrong and Overton's (1977) recommendation, we assessed non-response bias by comparing early and late respondents. Additionally we compared respondents and non-respondents based on their size and international activities. In both cases no significant differences were found.

Because data for both the dependent and independent variables came from the same respondent, common method bias (CMB) might be present. Following MacKenzie and Podsakoff (2012) we tried to ensure that the respondent was able and motivated to respond accurately without satisficing. The respondents were informed about the general aim of the research but not about the study on the managerial, organizational, internationalization, market-related, and performance-related characteristics of the marketing mix combinations. The respondents were selected to be managers responsible for the exports of the participating firms. Besides, respondents were asked to answer the questionnaire as honestly as possible and were assured that firms would be kept anonymous and responses strictly confidential. To enhance motivation, the respondents were promised a summary report of the findings to ensure high personal relevance. Furthermore, the length and complexity of the survey instrument was minimized. Finally we used Harman one-factor analysis, which demonstrated that no single factor has emerged that accounted for a large proportion of the total variance.

3.1 Clustering Procedure

We followed a two-stage clustering process recommended by Punj and Stewart (1983) using marketing mix variables as input variables. We first employed hierarchical clustering with Ward's minimum variance method to obtain a candidate number of clusters. Because Ward's method is sensitive to outliers, we made sure that the data set did not include outliers. We found some observations (1.5% of sample) to be outliers in pricing strategy, but because of the limited number of outliers and the minor difference between mean and 5% strimmed mean (3.31 vs. 3.35), the outliers were not removed from the data set.

In order to determine the number of clusters, multiple methods were used as suggested by Ketchen and Shook (1996). The final number of clusters was decided based on the dendogram, and change in agglomeration coefficient. This was conducted for the total sample and for ten randomly selected subsamples each containing 75% of the sample. Based on inspection of the results, either a four- or a five-cluster solution was found to be appropriate.

A three cluster solution distinguished only the clusters with more or less consistent patterns within all four marketing mix elements, ranging from a clear adaptation approach to a standardization approach. In addition, one of the clusters situated in the middle of the continuum represented the more neutral, although consistent approach to standardization/adaptation level. Four and five-cluster solutions offered richer understanding of the possible ways marketing mix elements could be combined, including the mixed approach. In addition, in the five-cluster solution, the adaptation level in the consistent adaptation cluster increased for some of the marketing mix elements increasing the clarity of its pattern. For these reasons we chose a five-cluster solution.

In the second step of the clustering approach, we used the observed cluster values based on Ward's method as an initial input for K-means clustering to re-cluster the observations to a five-cluster solution. One-way ANOVA indicates that the clusters were significantly different in terms of all four marketing mix elements ($p < 0.001$). The final centroid values for clusters can be seen in Table 1.

4 Results

In this section we will first introduce the identified distinct marketing mix patterns. Secondly we will compare the similarities and differences of the identified patterns based on their internal and external characteristics and their potential outcomes.

4.1 Identification of Marketing Mix Patterns

Five types of the marketing mix patterns were identified based on the cluster analysis. The analysis indicated clear differences in the adaptation levels (see Table 2). In the following section, the five patterns are described.

Pattern 1: Consistent adaptation. Firms belonging to this cluster adapted strongly (3.98–4.28) all four marketing mix elements in the main export markets, thus clearly differentiating it from the other clusters with its consistent adaptation pattern. Product (4.28) and pricing (4.25) strategies had the highest adaptation level within the cluster, followed by place (4.07) and communication strategy (3.98). This was the second most common pattern with 21.8% of the SMEs belonging to this category.

Pattern 2: Consistent neutral adaptation. Firms in this cluster differed from the other four pattern types by adopting a more neutral, although consistent, approach to standardization/adaptation level. The standardization/adaptation levels varied from 2.62 to 3.24. The highest adaptation level (3.24) was used for communication element and lowest (2.62) for the place element. This consistent, neutral pattern was most often applied among the firms (30.3%).

Pattern 3: Mixed pattern1: Moderate product standardization, adaptation of other elements. This mixed pattern was utilized by the lowest number of firms, representing 13.4% of the sample firms. In spite of representing a small group of firms, the marketing mix pattern had a distinctive configurations compared to the other identified patterns. While the price (4.0), communication (3.97) and place (4.2) elements were clearly adapted, the product was moderately standardized (2.39).

Pattern 4: Mixed pattern2: Neutral product and place adaptation, adapted pricing strategy and standardized communication strategy. This cluster of firms represented the most variety in the standardization/adaptation levels of the different marketing mix elements. There was variation from strong standardization of communication element (1.61) through more neutral positioning in product (2.78) and place (2.85) elements to clear adaptation in pricing (3.78). About 17% of firms followed this pattern in their marketing offer.

Pattern 5: Consistent standardization. Firms belonging to this cluster adopted the other extreme position in the standardization/adaptation continuum. All marketing mix elements were clearly standardized (1.54–1.91). From the sample firms 16.5% applied this pattern in their main export markets.

The most often used approaches for Finnish firms were the consistent adaptation pattern (27.5%) and the consistent neutral pattern (28.0%). For Italian firms the most common ones were consistent neutral pattern (36.8%) and the mixed pattern 2 (combining pricing adaptation and standardized communication) (27.9%). There was a significant difference in the home countries of the firms which utilized either consistent adaptation pattern or the mixed pattern 2. The pattern of adapting all marketing mix elements was more common for Finnish firms than for the Italian firms ($p < 0.01$) and the mixed pattern 2 was more common for Italian firms (See Appendix 2a).

4.2 Characteristics of the Five Patterns

In the following, we will compare the similarities and differences between the firms utilizing different marketing mix patterns in terms of their internal and external factors. The comparison is based on the ANOVA and chi-square analysis. In the case of ANOVA, the Tukey HSD post hoc test was used to identify the significant differences between the five marketing mix patterns. More detailed information of the test results is available in the Appendix 2b–2f. We will first present the managerial, organizational, internationalization and market-related factors. This is followed by exploring the performance-related aspects.

Managerial factors showed a lot of similarities between the clusters. Thus previous international experience, international orientation of the management, and their commitment to internationalization were relatively high (3.8–4.2/5). However, previous international experience was one of the elements in which two of the clusters differed significantly. Firms utilizing the consistent adaptation pattern had more internationally experienced managers than firms utilizing the consistent neutral pattern.

The studied *organizational factors* of firms following the different patterns, in terms of the size of the company, company age and whether the company was a family company or not, were quite similar. Company age varied between 19 and almost 22 years. Although there were no significant differences in the firm size, firms utilizing the consistent standardization approach represented the smallest ones.

In terms of the *internationalization factors*, the number of export countries ranged from 12 countries in the case of consistently standardizing firms to 18 export countries for firms utilizing the mixed pattern 2 (price adaptation and communication standardization).The lowest export intensity (48.4%) was represented by firms in mixed pattern 1 (product standardization in combination with adaptation of the other elements), while firms in the consistent adaptation cluster had the highest export intensity (58.6%). Export growth during the last five years in terms of the relative increase in the number of export countries was the highest in the cluster described by consistent neutral adaptation pattern (66%) and the lowest in the consistent adaptation cluster (33.1%). However, even these differences which were identified were not statistically significant.

When exploring the *market-related factors* in terms of customer characteristics in all five groups, business firms were the most common type of customers compared to the final customers. Therefore, also the number of customers in the three most important countries was limited and was quite similar among the five groups. In addition, the type of competitors was quite similar among the clusters. Main competitors were mostly the same in most countries and most of the competitors had been the same over the last five years. In terms of cultural distance between the home country and the three most important export countries, there were no significant differences in the five groups. Also geographical distance did not produce a clear difference between the clusters.

When assessing the *performance-related aspects*, firms adopting the consistent adaptation pattern performed better compared to the mixed 2 pattern (pricing adaptation and communication standardization) in terms of respondents' satisfaction in the total international performance. Similarly, the performance of the firm versus competitors was significantly higher for the firms adopting the consistent adaptation pattern compared to the firms utilizing the consistent standardization pattern.

5 Discussion and Conclusions

5.1 Conclusions

Our main argument in the paper was that there is a need to take a holistic approach on the standardization/adaptation levels of marketing mix elements, which would go beyond the two multidimensional approaches applied in the existing studies by either integrating the various marketing mix elements into one score or keeping the elements separate. This more appropriate holistic approach is offered by using a configurational approach, in which the potential different combinations of marketing mix elements become important. Thus the objective of the study was to identify the typical patterns of marketing mix combinations and their managerial, organizational, internationalization, market- and performance-related characteristics.

By utilizing cluster analysis we were able to identify five distinct patterns of how Finnish and Italian SMEs combine the four main marketing mix elements. The identified patterns were (1) consistent adaptation, (2) consistent neutral adaptation, (3) consistent standardization, (4) moderate product standardization combined with adaptation of other elements and (5) neutral product and place adaptation combined with adapted pricing and standardized communication element. In general, the characteristics of the firms utilizing the five distinct patterns were quite similar in terms of their organizational, internationalization and market-related factors. However, there were significant differences between some patterns in terms of their performance, the previous international experience of the managers and the home country of the firm.

5.2 Implications

While three of the patterns—consistent adaptation, consistent neutral and consistent standardization—could have been identified using a single average score, the two distinct patterns of mixed adaptation levels could not have been recognized. Thus, we were able to show the existence of patterns which differ from the traditional two perspectives in standardization/adaptation literature. This shows that there are more strategic options available for firms than the two extreme positions (complete adaptation and complete standardization). In addition, the findings contribute to increasing the understanding of the viable options based on the contingency perspective. Thus, even though in theory there could be a great number of different patterns available, based on the various adaptation levels of marketing mix elements and their combinations, our findings show that in practice only a small number of combinations are viable and therefore observable in reality. This also supports the argument presented in the configuration approach (see e.g. Meyer et al., 1993).

The limited differences in the internal and external characteristics between the patterns raise questions of how managers are actually making the adaptation decisions on the marketing package. The findings indicate that the decision making on the adaptation level of the combined marketing mix package is simplified and fewer factors are taken into account, compared to the decision making on individual marketing mix elements. However, the role of prior international experience of the managers was highlighted. The findings may indicate that managers with more international experience consider that the differences need to be resolved by adapting strongly and consistently the market offer, instead of making only minor level changes.

Our findings of the outcomes of firms utilizing distinct patterns indicate the superiority of firms following the consistent adaptation pattern compared to the firms utilizing the consistent standardization pattern and the mixed pattern 2 (pricing adaptation, communication standardization). However, firms utilizing the consistently neutral pattern and the mixed pattern 1 (with moderate product standardization and high adaptation of other elements) did not differ in their competitiveness or performance from the consistently adapting firm. This shows that there is not just one best performing strategic option available, but rather, different combinations may work well. This is in line with the configuration perspective (Meyer et al., 1993).

What do the identified patterns tell about the interdependence of the marketing mix elements? The findings indicate that in most of the cases, the adaptation levels of the elements are quite similar within in the marketing package. In three out of the five patterns there is consistency between the elements, representing approximately 67% of the sample firms. Only in one of the patterns, mixed 2, were there quite big differences in the adaptation levels between some of the elements. This may mean that decision making is simplified by treating the different elements as a combined package. It may also mean that decision makers are thinking that adaptation levels need to be similar in order to have a positive performance in the export markets. However, the data in this study do not allow for this analysis.

5.3 Directions for Further Research

Our comparison of the groups of firms was based on separate analysis of antecedents and outcomes. This is why the interlinked effects of antecedents of adaptation levels of marketing mix elements and their outcomes could not be properly explored. Thus, further research is needed to study these fits between the different parts. In general the need to study fit in the international marketing mix context has already been recognized and conducted (see, for example, Hultman, Katsikeas, & Robson, 2011; Sousa & Lenger, 2009). However, most of the studies approach the fit from a moderation or mediation perspective (see review by Schmid & Kotulla, 2011).In these studies, the underlying conceptualization of fit is interaction, and the number of variables in the specification of fit is two (Venkatraman, 1989). In order to increase the understanding of fit when the patterns based on multiple marketing mix elements are taken into account, fit as gestalts could be a more useful perspective. There the fit is conceptualized as internal congruence and multiple variables are taken into account (Venkatraman, 1989). Utilizing the gestalt perspective in the fit analysis could increase our understanding of the performance implications of different marketing mix patterns.

It would be also important to have qualitative studies on the decision making regarding the marketing mix combination. This would increase our understanding of how decision makers are seeing the interrelationships between the elements. Are the decisions made by taking into account the whole package from the very beginning, or are some of the elements more important; this is the basis on which the decision on the adaptation levels of the other elements are made. In addition, longitudinal studies are called for. They would contribute in understanding how changes in markets and companies affect decisions on the marketing package. In-depth case studies based on firms from different clusters would also enlighten the context in which the companies are operating. In general, it would also be interesting to see whether distinct patterns could be identified within a single industry. Thus it is recommended for further studies to focus on a single industry. This would increase our knowledge of the context and its role in the adaptation of the mix elements.

The findings that Finnish firms more often used the consistently adapted pattern than did the Italian firms, and that for Italian firms the pattern of mix 2 was more common than for Finnish firms, indicate that there are country level characteristics which could explain the adoption of a specific pattern. Thus differences in the institutions and national level mimetic behavior could be explored in more detail, as elements explaining the differences in the patterns. This also emphasizes the need for more multi-country studies.

It is also important to take into account the fact that the results of this study are valid only in the main export countries exploited by the firms polled. As the home country of the firms had an effect on the adopted pattern type, it would be interesting to study the patterns of firms in other countries.

Appendix 1: Operationalization of Marketing Mix Variables

Variable	Operationalization
International experience of the management	The level of international experience of the management. Scale 1 = very low … 5 = very high
International orientation of the management	The level of international orientation of the management. Scale 1 = very low … 5 = very high
Management commitment to internationalization	The level of management's commitment to the foreign business. Scale 1 = very low … 5 = very high
Firm size	Total number of employees
Company age	Number of years the company has existed
Family company	Describes whether the company is a family owned business or not. Scale 1 = family firm, 0 = not family firm
Number of export countries	Number of the company's export countries
Internationalization speed	Describes how fast the company began its exporting. Born international = exporting started within 3 years of establishment and the share of exports was at least 25%. Scale 1 = born international, 0 = traditionals
Export intensity	Share (%) of exports from the company's total sales
Export growth	Relative (%) change in the number of export countries during the last 5 years
Export growth	Change in export share during the last 5 years
Final versus business customers	Describes whether the company's customers are final or business customers. Scale 1 = final customer, 0 = business customer
Number of customers	The number of customers the company has in the three most important export countries. Scale 1 = one important customer, 2 = 2–5 customers, 3 = 6–10 customers, 4 = 11–19 customers, 5 = more than 20 customers, 6 = differentiated
Main competitors in the main markets are large MNCs	Addressed with the question: How well the following adjectives and statements are describing your key competitors in your main markets? Large multinational companies. Scale 1 = describes very poorly … 5 = describes very well
Same main competitors in most countries	Addressed with the question: how well the following adjectives and statements are describing your key competitors in your main markets? Our company has the same main competitors in most of our main market areas. Scale 1 = describes very poorly … 5 = describes very well

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Variable	Operationalization
Most competitors are same during the last 5 years	Addressed with the question: how well the following adjectives and statements are describing your key competitors in your main markets? Most of our competitors are the same as five years ago. Scale 1 = describes very poorly … 5 = describes very well
Cultural distance	Measured between the parent company's home country (Finland or Italy) and the company's export country with 1st largest market share. CD based on Hofstede's (1980) original four cultural dimension score values and the Kogut and Singh (1988) index
Geographical distance	Measured between the capitals of the parent company's home country (Finland or Italy) and the company's export country with 1st largest market share
Degree of standardization versus adaptation of the marketing mix	Total degree of standardization of product, price, communication and distribution activities in the main target countries of exports. Scale 1 = fully standardized … 5 = fully adapted
Total international performance	The level of satisfaction of the company's performance in foreign markets in total. Scale 1 = very dissatisfied … 5 = very satisfied
Performance of the firm versus competitors	The level of satisfaction of the company's performance compared to main competitors. Measured with scale 1 = very dissatisfied … 5 = very satisfied

Appendix 2a: Home Country of the Firms

Home country						
		Consistent adaptation (21.8%, n = 57) I	Consistent neutral (30.27%, n = 79) II	Mixed pattern 1: moderate product standardization and adaption of other elements (13.79%, n = 36) III	Mixed pattern 2: communication standardization and price adaptation and neutral product and place (17.62%, n = 46) IV	Consistent Standardization (16.48%, n = 43) V
Home country**	Finland (n = 193)	**27.5%**	28.0%	14.0%	**14.0%**	16.6%
	Italy (n = 68)	**5.9%**	36.8%	13.2%	**27.9%**	16.2%

**($p < 0.01$)

Appendix 2b: Results of Managerial Factors

Managerial factors								
		Consistent adaptation (21.8%, n = 57) I	Consistent neutral (30.27%, n = 79) II	Mixed pattern 1: moderate product standardization & adaption of other elements (13.79%, n = 36) III	Mixed pattern 2: communication standardization & price adaptation & neutral product and place (17.62%, n = 46) IV	Consistent standardization (16.48%, n = 43) V	F statistics	Tukey HSD
International experience of the management	Mean = 3.8	**4.2 a***	**3.7a***	3.9	3.6	3.7	**2.790**	**I > II**
International orientation of the management	Mean = 4	4.2	4	4	3.8	4	0.981	.
Management commitment to internationalization	Mean = 4.2	4.4	4.2	4.2	4.2	4.1	1.250	

*($p < 0.05$)

Appendix 2c: Results of Organizational Factors

Organizational factors							
		Consistent adaptation (21.8%, n = 57) I	Consistent neutral (30.27%, n = 79) II	Mixed pattern 1: moderate product standardization and adaption of other elements (13.79%, n = 36) III	Mixed pattern 2: communication standardization and price adaptation and neutral product and place (17.62%, n = 46) IV	Consistent standardization (16.48%, n = 43) V	F statistics/chi-square
Firm size	Mean = 56.7	62.0	63.7	52.5	56.4	40.4	1.594
Company age	Mean = 20.6	19.8	21.0	21.7	21.3	19.1	0.461
Family company	Yes	19.7%	28.0%	14.4%	20.5%	17.4%	2.552
	No	24.2%	32.8%	12.5%	14.8%	15.6%	

Appendix 2d: Results of Internationalization Factors

Internationalization factors							
		Consistent adaptation (21.8%, n = 57) I	Consistent neutral (30.27%, n = 79) II	Mixed pattern 1: moderate product standardization and adaption of other elements (13.79%, n = 36) III	Mixed pattern 2: communication standardization and price adaptation and neutral product and place (17.62%, n = 46) IV	Consistent standardization (16.48%, n = 43) V	F statistics/chi-square
Number of export countries	Mean = 15.83	16.26	16.34	15.03	18.09	12.56	1.0003
Internationalization speed	Born internationals	24.2%	26.1%	13.0%	15.5%	21.1%	5.2
	Traditional	21.1%	32.9%	15.8%	19.7%	10.5%	
Export intensity	Mean = 52.1%	58.6%	50.2%	48.4%	52.2%	50.1%	1.101
Share of export country with the first largest market share	Mean = 22.9%	26.6%	22.9%	19.0%	20.7%	23.5%	0.947
Share of export country with the second largest market share	Mean = 12.2%	13.4%	13.8%	10.4%	10%	12.1%	1.638
Export growth	Mean = 49.9%	33.1%	66.5%	44.7%	52.8%	43.1%	1.108
Export growth: export share		6	9.7	2.1	10	7.9	1.786

Appendix 2e: Results of Market-Related Factors

Market-related factors							
		Consistent adaptation (21.8%, n = 57) I	Consistent neutral (30.27%, n = 79) II	Mixed pattern 1: moderate product standardization and adaption of other elements (13.79%, n = 36) III	Mixed pattern 2: communication standardization and price adaptation and neutral product and place (17.62%, n = 46) IV	Consistent standardization (16.48%, n = 43) V	F statistics/chi-square
Final versus business customers	Final (n = 44)	18.2%	38.6%	13.6%	15.9%	13.6%	1.9
	Business (n = 217)	22.6%	28.6%	13.8%	18.0%	17.1%	
Number of customers	One important (n = 48)	20.8%	33.3%	12.5%	18.8%	14.6%	28.1
	2–5 (n = 63)	30.2%	33.3%	6.3%	17.5%	12.7%	
	6–10 (n = 21)	19.0%	9.5%	28.6%	14.3%	28.6%	
	11–19 (n = 13)	23.1%	38.5%	0%	15.4%	23.1%	
	>20 (n = 27)	22.2%	29.6%	0%	25.9%	22.2%	
	Differentiated (n = 89)	16.9%	30.3%	22.5%	15.7%	14.6%	
Main competitors in the main markets are large MNCs	Mean = 2.81	3.1	2.7	2.8	2.9	2.4	1.798

(continued)

(continued)

Market-related factors							
		Consistent adaptation (21.8%, n = 57) I	Consistent neutral (30.27%, n = 79) II	Mixed pattern 1: moderate product standardization and adaption of other elements (13.79%, n = 36) III	Mixed pattern 2: communication standardization and price adaptation and neutral product and place (17.62%, n = 46) IV	Consistent standardization (16.48%, n = 43) V	F statistics/chi-square
Same main competitors in most countries	Mean = 3.8	4.0	3.9	3.7	3.6	3.9	1.206
Most competitors are same during the last 5 years	Mean = 3.9	4.2	3.9	3.7	3.6	4.1	2.441
Cultural distance	Mean = 1.5	1.8	1.4	1.6	1.4	1.4	1.181
Geographical distance	Mean = 2.44	2.21	2.23	2.86	2.72	2.44	2.567

Appendix 2f: Results of Performance-Related Factors

Performance-related factors								
		Consistent adaptation (21.8%, n = 57) I	Consistent neutral (30.27%, n = 79) II	Mixed pattern 1: moderate product standardization and adaption of other elements (13.79%, n = 36) III	Mixed pattern 2: communication standardization and price adaptation and neutral product and place (17.62%, n = 46) IV	Consistent standardization (16.48%, n = 43) V	F statistics	Tukey HSD
Total international performance	Mean = 3.5	**3.7a***	3.6	3.4	**3.3a***	3.5	**2.374**	**I > IV**
Performance of the firm versus competitors	Mean = 3.5	**3.7a***	3.5	3.4	3.3	**3.2a***	**2.962**	**I > V**

*($p < 0.05$)

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Global Sourcing Strategy: An Evolution in Global Production and Sourcing Rationalization

Masaaki Kotabe and Janet Y. Murray

Abstract Increased global sourcing of manufacturing and service activities from independent suppliers has been a prominent part of the restructuring of firms' supply chains since the 1980s. Academics and consulting companies have advocated global sourcing as one of the key drivers of superior corporate strategy that has a direct impact on marketing performance, including market share, product quality, customer satisfaction, and brand loyalty, among others. In this chapter we first discuss the trend and nature of global sourcing strategy as it has evolved in response to the climate of the time since the 1980s. We then discuss how global sourcing levels must achieve a strategic fit with the environment. Finally, we combine these balance and fit perspectives to suggest how changes in the fit alter the required balance in global sourcing over time. From this synthesis we develop several future research questions related to important conceptual and theoretical perspectives on global sourcing.

1 Introduction

As early as 1954, Peter Drucker had claimed that logistics would remain "the darkest continent of business" (Drucker, 1954)—the least understood area of business—and his prediction has proved true until to this day. We can easily demonstrate the importance of the physical handling, moving, storing, and retrieving of materials. In nearly every product, more than 50% of the product cost is material related, while less than 10% is labor. Yet, over the years, this fact has not

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received much attention. For three consecutive years, from 2006 to 2008, the U.S. total logistics cost stayed at nearly 10% of the GDP. In the subsequent years, however, total logistics cost in the United States moderately declined to 8.3% of the GDP in 2014 (Supply Chain Digest, 2015). On the other hand, logistics spending in China was roughly equivalent to 18% of the GDP, higher than in other developing countries (India and South Africa spent 13–14% of GDP) and double the level in the developed world (*Economist*, 2014).

Since logistics cost represents a high percentage of a product's cost, firms should strive to deliver products to customers both *efficiently* and *effectively* (Hunt & Duhan, 2002; Kotabe, 1998), which poses a challenge even for big firms. From 2012 to 2015, Amazon.com's shipping costs as a percentage of sales revenues had risen from around 8.6 to 11% (Soper, 2016). Thus, how best to design a global sourcing strategy to remain competitive is of critical concern to all firms. Global sourcing strategy is commonly referred to as global logistics or global supply chain management.[1] It involves the global management of (1) logistics identifying which production units will serve which particular markets and how components will be supplied for production and (2) the interfaces among R&D, manufacturing, and marketing in generating competitive advantage (Kotabe, 1992). It has played a critical role in the growth and development of world trade and in the integration of business operations on a global scale. Lambert and Cooper (2000, p. 65) have asserted that "[o]ne of the most significant paradigm shifts of modern business management is that individual businesses no longer compete as solely autonomous entities, but rather as supply chains."

The American Marketing Association (2013) states that "marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." The primary objective of a firm's global sourcing strategy is to develop a cost-efficient delivery mechanism in which it helps increase the market performance of its international marketing strategy. A firm's effective and efficient global sourcing strategy helps decrease selling prices through cost reduction,

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[1]Some authors (including the authors of this chapter) use the terms *logistics, supply chain management*, and *sourcing strategy* interchangeably, while others generally define supply chain management somewhat more broadly than logistics and sourcing in between. although, In this chapter, we try not to engage in this definitional debate over what functions are included in each, the council of logistics management offers the following definitions. *Logistics management* typically includes inbound and outbound transportation management, fleet management, warehousing, materials handling, order fulfillment, logistics network design, and inventory management of third-party logistics services providers to varying degrees, the logistics function also includes sourcing and procurement, production planning and scheduling, packaging, assembly, and customer service. *Supply chain management* is an integrating function with the primary responsibility for linking major business functions and business processes within and across companies into a cohesive and high-performing business model. It includes all of the logistics management activities noted above, as well as manufacturing operations, and it drives coordination of processes and activities with and across marketing, sales, product design, finance, and information technology (see Kotabe & Helsen, 2017).

improve delivery time, secure right inventory, and ultimately increase international market performance. The effect of global sourcing strategy on international market performance may include product differentiation, consumer confidence, brand equity, and corporate reputation, among others (Kotabe, Mol, Murray, & Parente, 2012).

In today's hypercompetitive markets, firms have to reduce costs and achieve high product quality with quick response to global market turbulence simultaneously (D'Aveni, 1994). Thus, how to develop a new supply chain system that can achieve both high-quality production standards and low-cost operations has become of utmost importance to firms. Indeed, marketing transactions encompass both the buying (i.e., supply chain) and selling (i.e., market selection) aspects of the exchange process. Although marketing organizations are examined mainly in their roles as sellers rather than as buyers, the buying aspect (i.e., supply chain issues) of the exchange process should not be ignored (Kotler & Levy, 1973). The boundary-spanning marketing organization that has to be developed and maintained depends on how well the marketing activities, customer value–creating business processes, networks, and stakeholder focus are molded together to form an integrated organization. The primary objective of global sourcing strategy is to develop a task-effective delivery mechanism for customer satisfaction (Hult, 2011). For example, Coca-Cola's success relies largely on Coca-Cola Enterprises, its global distribution arm and the world's largest bottler group. It helps Coca-Cola produce and distribute bottled and canned products worldwide. The group also purchases and distributes non-carbonated beverages such as isotonics, teas, and juice drinks in finished form from the Coca-Cola Company to satisfy the diverse needs of its consumers (Coca-Cola Enterprises, August 12, 2016).

Since firms have to deal with a drastically shortened life cycle for most products in an era of global competition, it is not advisable for them to adopt a polycentric, country-by-country approach to international business. If firms that have developed a new product adopt a country-by-country approach to foreign market entry over time, a globally oriented competitor will likely overcome their initial competitive advantages by blanketing the world markets with similar products in a shorter time interval. Therefore, it is important for firms to continuously develop and acquire capabilities that would help them generate a sustainable competitive advantage over their competitors. Increasingly, using outsourcing to source globally has become a critical strategic decision that is affected by the capabilities needed to compete. Indeed, "[i]t's no longer a company's ownership of capabilities that matters but rather its ability to control and make the most of critical capabilities, whether or not they reside on the company's balance sheet" (Gottfredson, Puryear, & Phillips, 2005, p. 132).

Barney (1991, p. 102) has emphasized that firms possess sustained competitive advantage when they adopt a strategy that is "not simultaneously being implemented by any current or potential competitors *and* when these other firms are unable to duplicate the benefits of this strategy." However, simply having product innovations cannot guarantee that firms would enjoy sustainable competitive advantage. Rather, firms should be able to complement their product innovations with powerful manufacturing and marketing capabilities. This is mainly because, in today's highly competitive market, protecting proprietary technology through legal means has become ineffective as new product innovations are easily reverse-engineered, improved upon, and invented around by competing firms without violating patents and other proprietary protections (Baumol, Nelson, & Wolff, 1994; Levin, Klevorick, Nelson, & Winter, 1987). Production sharing facilitates technology diffusion through traditional and non-traditional channels among competitors. Thus, the value of owning technological knowhow has reduced drastically recently as the inventing company's temporary monopoly over its technological knowhow has become transient.

In a highly competitive environment, many manufacturers either produce in lower-cost locations or outsource components and finished products from lower-cost producers on a contractual OEM (original equipment manufacturer) basis. However, firms increasingly outsource to gain access to suppliers' capabilities (Barney, 1999). The ultimate objective of global sourcing strategy is for the firm to exploit both its own and its suppliers' competitive advantages and the locational advantages of various countries to better serve its customers on a global basis. Indeed, Hult, Ketchen, and Arrfelt (2007, p. 1035) have argued that "[w]hen rivals such as UPS and FedEx clash, it is not merely their individual capabilities, but rather the collective capabilities of their respective supply chains, that determine the outcome."

Although firms have embraced global sourcing of goods and services, they have experienced mixed results. Gottfredson et al. (2005) found that about 50% of firms in their sample reported that their outsourcing programs did not live up to their expectations. Only 10% were highly satisfied with the cost savings, and 6% were highly satisfied with their offshore outsourcing overall. Other researchers (e.g., Leiblein, Reuer, & Dalsace, 2002) have even suggested that outsourcing may not be related to performance. Due to the inconclusive performance outcomes, practitioners have started to question whether universally prescribing global outsourcing is the right way to go.

One plausible argument is that based on a "balance" perspective, there is an optimal degree of outsourcing. The outsourcing-performance relationship has an inverted-U shape, suggesting that as firms deviate further from their optimal degree of outsourcing, by either outsourcing (or insourcing) and offshoring (or onshoring) too much, their performance will suffer disproportionately (Kotabe & Mol, 2009; Kotabe et al., 2012). So, the key question for sourcing firms is how much global sourcing they should engage in, in order to achieve desirable marketing and other performance.

Another plausible argument for the inconclusive sourcing performance findings is that desirable sourcing performance requires the sourcing strategy to achieve a strategic "fit" with the environment. Indeed, researchers have theorized that whether a particular strategy is appropriate or not is dependent on its "coalignment" or "fit" with environmental contingencies (Drazin & Van de Ven, 1985). Using contingency theory to examine the environment-strategy coalignment effect on performance, we believe that the environment and strategy interact in a dynamic process, and that a match between them would exert a positive impact on performance. Thus, firms that can adapt their global sourcing strategy effectively to both internal and external factors are likely to achieve better performance.

We focus on global supply chain as it adds many more complexities that do not apply to domestic sourcing strategy. When developing viable global sourcing strategies, firms must also consider the availability of infrastructure (including transportation, communications, and energy), industrial and cultural environments, the ease of working with foreign host governments, and other factors, in addition to manufacturing and delivery costs, the costs of various resources, and exchange rate fluctuations. Furthermore, the complexity of global sourcing strategy creates many barriers to its successful execution. For example, logistics, inventory management, distance, nationalism, and a lack of working knowledge about foreign business practices, among others, are major operational problems faced by both U.S. and foreign multinational firms engaging in global sourcing.

Intuitive arguments, like 'focusing on core competency' and 'strategic sourcing', are often made to legitimize the trends toward more global outsourcing. We first discuss the recent trends in global supply chain management. Then, we highlight the advantages and disadvantages of global sourcing, by providing a list of intuitive arguments for each. We then attempt to explain global sourcing levels and how these relate to performance based on the two complementary perspectives of "balance" and "fit." By synthesizing these two perspectives, we introduce existing theories of sourcing in this chapter, followed by future research.

2 Trends in Global Sourcing

In developing global sourcing strategy, the firm's primary objective is to exploit both its own and its suppliers' competitive advantages and the locational advantages of various countries in global competition. From an ownership point of view, the global sourcing of intermediate products such as components and services by firms takes place in two ways: (1) from the parents or their foreign subsidiaries on an "intra-firm" basis (i.e., *insourcing*), and (2) from independent suppliers on a "contractual" basis (i.e., *outsourcing*). Similarly, from a locational point of view, multinational firms can procure goods and services either (1) domestically (i.e., *onshoring*) or (2) from abroad (i.e., *offshoring*). This leads to a matrix of possible choices presented in Table 1.

Table 1 Different sourcing strategies

Ownership aspect	Locational aspect	
	Domestic sourcing	Foreign sourcing
Insourcing (intra-firm sourcing)	Onshore insourcing	Offshore insourcing
Outsourcing (contractual sourcing)	Onshore outsourcing	Offshore outsourcing

In the last three decades, we have witnessed three distinct trends of global sourcing. The first trend, which started in the mid-1980s, was primarily based on the decoupling of various aspects of manufacturing activities. Therefore, research was conducted mainly on manufacturing firms. Large manufacturing firms increasingly set up their operations worldwide and started to buy from suppliers in many countries to exploit best-in-world sources (Quinn & Hilmer, 1994). As a result, supply chains became more global and complex, with manufacturing firms sourcing from suppliers in many countries for raw materials, intermediate, and final products to reduce labor costs.

A second trend began to take place in the early 1990s, when firms started outsourcing their information technology (IT) departments that had grown substantially. IT itself had been a support function to many manufacturing firms. As such, many firms had little interest in developing new information systems in-house, and thus this IT outsourcing trend spawned the growth of specialist providers, such as Accenture and Infosys. Global sourcing mostly involved labor-intensive and standardized programming activities, which could be easily sourced from low-cost locations such as India. The rise of commercial applications for a wide range of firm activities, epitomized in Enterprise Resource Planning systems, also suggested that a marketplace had developed where independent suppliers could help firms reduce costs and improve operational performance by IT-aided decision-making tools.

A third trend, characterized as the offshoring movement, began in the early 2000s in which it helps firms reduce costs and increase customer satisfaction. We have witnessed the rise of business process outsourcing that goes beyond IT services to a range of other services related to accounting, human resource management, finance, sales, and after-sales services such as call centers. Between 1992 and 2005, U.S. firms outsourced more than tripled the value of services by using offshoring (Liu, Feils, & Scholnick, 2011).

It is this third trend of business process outsourcing that has generated so much publicity. Many are concerned that foreign business processes suppliers may be moving up the knowledge chain more quickly than expected by the sourcing firms. Such knowledge transfer could undermine the sourcing firms' ability to differentiate themselves from their foreign suppliers over time. Indeed, such hollowing-out concerns have previously been raised on outsourcing of manufacturing activities before (Bettis, Bradley, & Hamel, 1992; Kotabe, 1989, 1998). We summarize our argument on these recent waves of global sourcing in Table 2.

3 Global Sourcing Strategy and Performance

"Since one of marketing's main concerns is delivering value to the end user, efficient supply chains are perhaps the most imperative for the marketing function" (Kozlenkova, Hult, Lund, Mena, & Kekec, 2015, p. 587). An effective and efficient supply contributes to marketing's domain on providing value and satisfaction to

Table 2 Recent trends in global sourcing

Time period	First trend (since 1980s)	Second trend (since early 1990s)	Third trend (since early 2000s)
Type of activity	Manufacturing	Information technology	Business processes
Destinations	China, Central and Eastern Europe, Mexico and others	India, Ireland and others	India, Pakistan, South Africa and others
Type of firms	Manufacturing	Manufacturing, banks and others	Financial services, services more generally
Primary motives	Reduction in labor costs	Obtaining enough skilled programmers and cost reduction	Reduction in labor costs and round-the-clock service provision

their customers, which ultimately improves firms' performance (Kozlenkova et al., 2015). Likewise, global sourcing is broadly considered to improve performance, particularly cost effectiveness (e.g., Trent & Monczka, 2003). Firms in developed countries are often confronted with expensive labor costs, compared to the value that is added to their products. At the other extreme, some global sourcing may be driven by knowledge concerns. Some inputs, such as liquid crystal displays and technical expertise, may be available only in certain other countries, thus making global sourcing not a choice but an imperative. As for the sourcing of many raw materials, domestic sourcing is not an option since many raw materials are unavailable domestically. Certain intermediate products tend to be sourced from locations near the source of raw materials. Another argument in favor of global sourcing is that it allows a firm to produce closer to its customer markets, thereby increasing access to them and obtaining critical market knowledge for product development. For instance, Japanese manufacturing firms have replicated their supply chains in North America and Europe over time in order to operate closer to these markets. Their production and sourcing experience in these regions has also enabled them to improve their product offerings. Another reason to opt for global sourcing is that demand from various regions can be pooled, thus achieving maximum scale and bargaining power through single sourcing from a foreign supplier.

On the other hand, there are disadvantages associated with global sourcing. One major problem is 'cultural differences' between buyers and their foreign suppliers (see Ribbinka & Grimm, 2014). Indeed, differences such as institutional and language problems may affect a relationship negatively. This raises other issues related to the long-term sustainability of firms' core competencies, in particular when firms increase their reliance on independent suppliers through outsourcing (for a more extensive discussion of outsourcing and core competencies, see Mol, 2007). There are two opposing views of the long-term implications of outsourcing. One school of thought argues that many successful firms have developed a dynamic network capability through increasing cross-border joint ventures, licensing, and subcontracting activities (Miles & Snow, 1986). This flexible network system, also known as supply-chain alliances, allows each participant to pursue its own unique competence. Each network participant is complementing rather than competing against the other participants for the common goals. The other school of thought argues that while firms may gain short-term advantages, negative consequences could develop over time. As firms become more dependent on their independent suppliers, they may not be able to keep abreast of constantly evolving design and engineering technologies without getting engaged in those developmental activities (Kotabe, 1992, 1998). As a result, firms encounter the inherent difficulty in sustaining their long-term competitive advantages. In other words, over time firms' technical expertise and capability surplus vis-à-vis their foreign suppliers may diminish to the point that their value added is limited, and they may become more like trading companies. Thus, based on the arguments for and against outsourcing, we need to synthesize our thinking on outsourcing and performance. A summary of these opposing arguments is presented in Table 3.

Table 3 Arguments for and against outsourcing

The case *for* outsourcing	The case *against* outsourcing
Strategic focus/reduction of assets Through outsourcing activities a firm can reduce its level of asset investment in manufacturing and related areas. Since more or less similar absolute profit levels can be obtained with lower fixed investments, the firm's return-on-investment position improves. Furthermore, outsourcing can permit the management of a firm to focus on its core competencies, instead of having to possess and update a wide range of competencies	*Interfaces/economies of scope* Firms may benefit from internalizing production through scope economies. If there are important interfaces among R&D, manufacturing, and marketing activities, decoupling them into separate activities performed by different suppliers will generate less than optimal results. Manufacturing firms, in their outsourcing decisions, need to reflect on the hidden cost of losing interfaces among these activities
Strategic flexibility Outsourcing may increase the firm's strategic flexibility. By using outsourcing, it is much easier to switch from one supplier to another. If an external shock occurs, firms are able to react quickly by simply increasing or decreasing the volumes obtained from external suppliers. If the same item were produced in-house, firms would not only incur high restructuring costs but also a much longer response time to external events	*Hollowing out* Firms that outsource activities excessively are hollowing out their competitive base. Once intertwined activities have been outsourced, it becomes difficult to differentiate a firm's products on the basis of these activities. Furthermore, a firm could lose bargaining power vis-à-vis its suppliers because its suppliers' capabilities may increase relative to those of the firm
Avoiding bureaucratic costs Internal production is associated with rising production costs, due to a lack of a price mechanism and economic incentives inside a firm. As a result, firm efficiency will suffer	*Opportunistic behavior* External suppliers may behave opportunistically as their incentive structure varies widely from that of the outsourcing firm. Opportunistic behavior allows a supplier to extract more rents from the relationship than it would normally do, for example: by supplying a lower than agreed-upon product quality or withholding information on changes in production costs

(continued)

Table 3 (continued)

The case *for* outsourcing	The case *against* outsourcing
Relational rent In recent years, many researchers have argued that certain relationships with external suppliers can help firms create a unique competitive advantage aided by their suppliers' knowledge. By outsourcing items based on idiosyncratic and valuable relationships with suppliers, firms may be able to innovate, learn and reduce transaction costs	*Rising transaction and coordination costs* Excessive outsourcing may lead to high coordination costs. Firms have limited capacity in working with outside suppliers as partners and therefore have to prioritize outside partners. If they simultaneously invested time and attention to all outside suppliers, this would induce very high coordination costs
	Limited learning and innovation A form of learning that is deemed especially important for obtaining tacit knowledge is learning-by-doing. The supplier may acquire tacit knowledge by performing the activity; consequently, the outsourcing firm cannot appropriate all benefits. Appropriation of innovation and rents is always a problem in buyer-supplier relationships because both parties will try to obtain as many private benefits as possible. Furthermore, it may become more difficult to innovate, due to the different incentives available and the subsequent lack of interfaces between firms

Source Kotabe and Mudambi (2009)

3.1 A "Balance" Perspective

A "balance" perspective on using both outsourcing and insourcing offers insights on the sourcing strategy-performance relationship. The underlying argument of a "balance" perspective is that firms that outsource all of their activities run into a multitude of problems, such as a lack of innovations and bargaining power, and an inability to be distinct in the eyes of the customer. However, firms that only insource fail to use the powerful incentives supplied by markets, thus becoming bureaucratic and inefficient. Therefore, outsourcing some but not all activities provides the best solution overall, and there is an optimal degree of outsourcing. In other words, firms should strike the most effective balance between outsourcing and insourcing to capitalize on their benefits and mitigate their costs (Rothaermel, Hitt, & Jobe, 2006).

Failing to strike a balance between outsourcing and insourcing and instead outsourcing too much may contribute to lower performance for the following three reasons. First, firms often compete for and enter the most promising outsourcing options first, thus leaving less productive outsourcing options when they outsource more. Second, increased outsourcing requires more managerial attention and constrains internal managerial resources, thus leading to an inadequate oversight of the outsourcing activities. Third, more outsourcing increases transaction and bureaucratic costs, beyond a point where the benefits are outweighed by their costs (Kotabe et al., 2012; Rothaermel et al., 2006).

We believe a similar line of reasoning can apply to the degree of internationalization of sourcing (i.e., onshoring and offshoring) and how that affects performance. More specifically, there are advantages and disadvantages associated with global sourcing, as we highlighted above. As a firm does more offshoring (particularly, offshore outsourcing), the disadvantages become larger to the point where they severely impede performance. If firms do not use offshoring at all, they cannot enjoy any of the advantages of offshoring, such as having a wider supply base from which to choose and enjoying lower costs. This line of reasoning is consistent with research in international business, it is for instance indirectly suggested by Dunning's (1993) treatment of international sourcing, and neo-institutional economics traditions, particularly the transaction costs framework (Williamson, 1985).

Williamson (1985) distinguishes between production and transaction costs. Production costs refer to the costs of producing a good or service, and transaction costs represent all the costs incurred as the product moves from one supply chain partner to the next. When firms use offshore outsourcing by procuring from foreign suppliers, it may help reduce their production costs. In some instances, a local supplier's production costs may be lower than those of foreign suppliers, but this is often the exception and not the rule. Transaction costs, on the other hand, tend to be higher for such offshoring, as there are many types of institutional, cultural and language barriers that must be overcome.

The cost of searching for supply sources abroad, whether internal or external sources, is somewhat higher than that for local supply sources. The cost of evaluating those foreign supply sources is much higher, as the evaluation costs are strongly related to the familiarity that decision-makers have with the other party. Since firms are likely to be less familiar with foreign supply sources and decision-makers may not be able to draw on their networks in helping them evaluate these sources, this induces substantial evaluation costs. Rangan (2000) uses this argument to explain why buying firms are much more likely to choose a domestic than a foreign supplier, even when the physical distance between the buyer and each of these suppliers is the same.

We argue that offshoring is a balancing act between production and transaction costs. Firms need to find the proper balance between domestic and foreign supply sources (using onshoring and offshoring) if they wish to locate on the top of the curve and obtain the highest possible performance. They can achieve this by using foreign sources for part, but not all of their sourcing. Sourcing everything from abroad produces poor performance results because the disadvantages of offshoring, like the hollowing-out argument, become too large. Focusing all efforts on onshoring, however, is a serious form of myopia with equally disastrous effects for firm performance, primarily because the firm is not capitalizing on important opportunities to improve competitiveness. A graphic illustration of our argument on

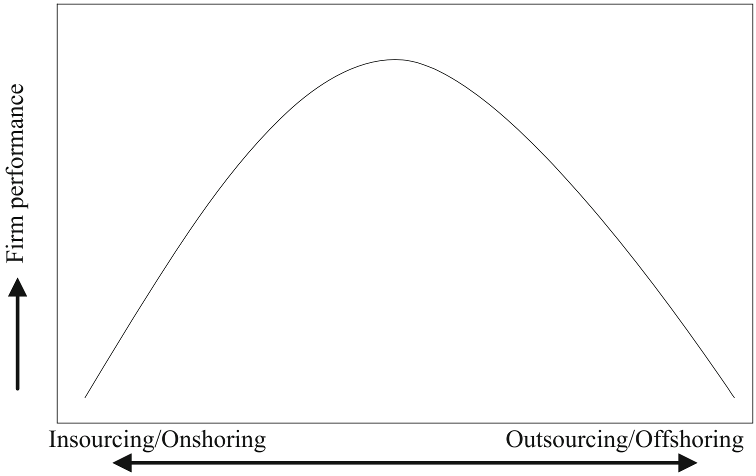

Fig. 15.1 A curvilinear relationship between the degree of global outsourcing and firm performance

achieving a balance between outsourcing and insourcing (offshoring and onshoring) is presented in Fig. 1.

The balance perspective is therefore summarized as follows: *Some activities are best outsourced globally while others ought to be insourced globally (from a performance perspective). A firm can enjoy optimal performance when it correctly outsources and insources all activities. Similarly, the firm also needs to balance between onshoring and offshoring activities. This produces a pattern of an inverted U-shaped (negatively curvilinear) relationship between outsourcing (offshoring) and performance, with the top of the curve presenting the performance optimum.*

3.2 A "Fit" Perspective

Despite the heightened publicity of global sourcing, many firms have been highly dissatisfied with their sourcing performance. Let us illustrate the following three historical cases from the personal computer industry. *First*, Dell Computer was established in the 1980s when Michael Dell had seen a burgeoning market potential for IBM-compatible personal computers in the United States. After his immediate success in the U.S. market, Dell began exporting its PCs to Europe and Japan, followed by foreign production and subsequently by outsourcing more of its production to Quanta, a major Taiwanese computer contract manufacturer just as other PC brand companies did. In the process, Dell's computers have lost their uniqueness in the eyes of consumers in the competitive market. *Second*, think about a notebook-size Macintosh computer called the PowerBook 100 that Apple introduced in 1991. Since Sony, the Japanese consumer electronics giant, was long known for its expertise in miniaturization, Apple enlisted Sony to design and manufacture this notebook computer for both the U.S. and Japanese markets. Sony had been a supplier of disk drives, monitors, and power supplies to Apple for various Macintosh models. In an industry such as personal computers, where technology changes rapidly and the existing product becomes obsolete in a short period of time, a window of business opportunity is naturally limited. Therefore, Apple's inclination was to outsource production of its notebook computer so as to introduce it in markets worldwide as quickly as it could, before competition picked up. However, this outsourcing relationship did not last long as Apple became concerned about a technology loss to Sony. *Third*, take a look at Sony's own recent struggle with its worldwide recall of lithium-ion batteries for notebook computers used by Dell, Apple, and Lenovo and its postponement of the European release of the PlayStation 3 game system due to delays in production of blue laser diodes, a key component of Blu-ray Disc players. Sony was once the symbol of technological excellence and product creativity in the highly competitive Japanese electronics industry. One explanation for Sony's recent crises is attributed to the outsourcing trend to electronic manufacturing services (EMS) companies to reduce costs. Consequently, Sony has lost both consumer confidence and market share (Kotabe et al., 2012).

The problem may be due to the fact that many practitioners have adopted a deterministic view in evaluating the global sourcing strategy-performance relationship, without exercising caution that such a view tends to over-generalize the sourcing benefits. Researchers often adopt the contingency approach in representing a "fit" perspective of the environment-strategy-performance relationship. Extant research has confirmed that some environmental factors indeed exerted moderating effects on the sourcing strategy-performance relationship. In the manufacturing context, Murray, Kotabe, and Wildt (1995) concluded that the financial performance advantage of global insourcing over global outsourcing of non-standardized (i.e., major) components strengthened with increased product innovations, process innovations, and asset specificity.

Using foreign firms manufacturing in China as subjects of their study, Murray, Kotabe, and Zhou (2005) found that global outsourcing of major components (in the form strategic alliance-based sourcing) did not have an effect on market performance. Instead, product innovativeness and technological uncertainty moderated such a relationship. Specifically, at low levels of product innovativeness/technological uncertainty, using strategic alliance-based sourcing of major components by the sourcing firm is positively related to market performance. However, at high levels of product innovativeness/technological uncertainty, the sourcing-performance relationships become negative. While the findings may appear to be counter-intuitive to an average manager, theoretical justifications support such conclusions. At high levels of product innovativeness, sourcing major components from alliance suppliers may put the firm at a competitive disadvantage due to unnecessary technological spillover to its suppliers. At high levels of technological uncertainty, it is extremely difficult if not impossible for the sourcing firm to evaluate appropriate alliance suppliers, since it does not know which technological advances will work. Managers should be cautioned that a high level of technological uncertainty does not mean that the know-how involved in the technology is better. Instead, it refers to the lack of information on the technological developments faced by the sourcing firm (Murray et al., 2005).

In refuting the popular arguments that insourcing or outsourcing will lead to superior performance, they found that sourcing strategy per se did not significantly affect market performance. Instead, the sourcing strategy-performance relationship was driven by factors underlying sourcing strategy choice. They further cautioned against the universalistic normative implications for firms deciding on whether or not to insource or outsource their value-chain activities and stressed the value of contingency-based theoretical approaches.

Similarly, Bertrand (2011) concluded that offshore outsourcing enhances MNEs' international competitiveness. However, the impact of offshore outsourcing on firms' export performance is contingent on export country- and firm-specific (i.e., size and experience) characteristics. For example, export performance is higher if firms outsource intermediate inputs from the market to which they export. By offshore outsourcing intermediate inputs from the export market, firms obtain local market information, thus reducing location-specific disadvantages and strengthening their position in the export market.

As discussed earlier, global sourcing of services did not take place until the second wave of global sourcing; therefore, extant literature on global sourcing of services (see Kotabe & Murray, 2004) is limited when compared to that in manufactured goods. Murray and Kotabe (1999) found that similar to components and finished goods sourcing, supplementary services were sourced globally, either by insourcing or outsourcing. The higher the asset specificity and the lower the transaction frequency of the supplementary services, the higher global insourcing is used. Finally, insourcing and offshoring of supplementary services were negatively related to a service's market performance.

The fit perspective is therefore summarized as follows: *There is a range of contingency factors (e.g., capital intensity, degree of service inseparability, market/technological uncertainty, and transaction frequency, product innovativeness, labor productivity) at the transaction-, firm-, and context-levels. These factors determine how much global outsourcing (both onshore and offshore) ought to take place from a performance perspective. To an extent the contingency factors also explain how much global outsourcing actually takes place in practice. Fit is achieved when the actual global outsourcing level is in accordance with the level predicted based on the contingency factors. If a firm matches a global outsourcing decision to the relevant contingency factors, the resulting strategic fit helps achieve superior market performance.*

3.3 A "Balanced Fit" Perspective

The previous discussion raises two related questions. First, are these contradictory or rather complementary perspectives; if they are complementary, how do they complement each other? Second, how can we, taking into account these perspectives, explain the large increases in offshore and global outsourcing? We now seek to answer these two questions based on the extant literature, specifically by drawing upon possible conceptual angles on global outsourcing.

To describe how the balance and fit perspectives complement each other, and to explain why over the past two decades or so we have witnessed the degree of global sourcing shifting toward more offshoring, we need to draw more directly upon key academic perspectives on global sourcing. We summarize eleven such perspectives in Table 4.

In theory, outsourcing has been primarily explained by transaction cost economics (Williamson, 1985) and resource-based theories (Barney, 1991; Teece, Pisano, & Shuen, 1997). Related work shows that firms undertake outsourcing primarily to reduce costs (Smith, 2006) or to acquire core competencies (Kotabe & Murray, 2004; Mankiw & Swagel, 2006). Outsourcing costs can arise from asset specificity (Williamson, 1985), incomplete contracts (Grossman & Hart, 1986) or agency conflicts (Jensen & Meckling, 1976). The make-or-buy decision can also be framed as a real option, where outsourcing and insourcing are undertaken to develop a platform for future investments and strategizing. The higher the uncertainty surrounding decision-making, the more valuable such options will become (Leiblein, 2003; Leiblein & Miller, 2003).

The concept of operational or strategic flexibility is recognized in the business press as well as in academic work. An executive at Unisys Corps, for instance, notes that outsourcing "can offer companies the flexibility to quickly change technology as their needs change" (*Wall Street Journal*, January 29, 2007). Firms use flexible contract provisions to adjust capacity or to withdraw from unfavorable market circumstances (*Wall Street Journal*, January 25, 2006). Trigeorgis (1993) suggests that strategic flexibility is value-enhancing, as it provides a complex set of operating and strategic options. Leiblein (2003) demonstrates that in addition to transaction cost economics and resource-based view perspectives, a real options view offers a compelling complementary approach for evaluating investment

Table 4 Perspectives on global outsourcing

	Firm	Context	Transaction
Past	Resource-based view	Social networks	
Present	Costly contracting Micro-economics Core competencies	Industrial organization Institutional voids	Transaction cost economics Agency theory
Future	Real options Relations and learning		

opportunities in uncertain environments. Leiblein and Miller's (2003) empirical work demonstrates that looking at a number of product markets as strategic options, firms are more likely to invest in vertical integration-enhancing economic efficiency (i.e., insourcing) when they serve many product markets. On the other hand, increased market uncertainty originating from serving a number of product markets could induce an increased level of outsourcing (Alvarez & Stenbacka, 2007). Kotabe and Mol (2009) concur that strategic flexibility is important for firms to cope with external shocks.

The real options theory of outsourcing focuses on the notion that contracting a supply of non-core functions or inputs for a fixed but renewable time period provides a strategic flexibility, which is valuable to the firm under market demand uncertainty; the firm can renew or terminate the contract (and switch to domestic or other production or operating alternatives) depending on market demand situations at contract expiration. This form of strategic flexibility or the means of framing a strategic response to uncertainty is not an integral part of transaction cost or resource-based theories of outsourcing. For a recent review of the role of flexibility in strategic management, see Trigeorgis and Reuer (2017).

It is not in the scope of this chapter to describe each perspective in details or show how different perspectives are useful in predicting global outsourcing (for a more detailed description, see Mol, 2007). However, it is important to note that these perspectives operate at three different levels: the transaction, the firm, and the industry and institutional context. Taken together, they represent almost all the contingency factors that the academic literature has produced to date. Which of these perspectives matters most is to an extent determined by the empirical context in which outsourcing is investigated. Some of the perspectives (transaction cost economics and resource-based view) have been more prominent than others in recent academic studies of outsourcing, which may reflect their actual importance in practice.

This takes us back to the two questions. The first question can be answered by stating that *exactly where the optimal point of outsourcing (balance) lies is determined by the scores on the contingency factors (fit)*. In terms of the second question, the optimal point in terms of how much a firm should engage in offshoring will shift over time. Over the past three decades or so we have witnessed that the degree of global sourcing has shifted to the right in Fig. 1, i.e., toward more outsourcing and offshoring. This implies that *changes in both the level of the contingency factors as well as their constitution (i.e., which variables matter and to what extent) have caused the increase in outsourcing and offshoring levels*.

Taken together, the implication is that the balance in global outsourcing has shifted toward higher levels of outsourcing and offshoring because of the need to fit global outsourcing levels to a set of changed circumstances. We suggest two major drivers of this change. First, information technology, including the Internet, has greatly facilitated cross-border business-to-business transactions. Second, institutional changes, which lie at the heart of the rise of both China and India as supply destinations, have also facilitated cross-border trade and investment, both of which in turn lead to more global outsourcing. These conclusions provide different implications for managers.

4 Conclusions and Managerial Implications

Based on our discussions, managers should reconsider and redesign their global outsourcing activities. Many managers have a strong general idea for what constitutes a sound outsourcing and offshoring policy. They recognize that outsourcing and offshoring every activity may lead to disasters; they also realize that not all activities should be insourced and onshored.

There is a current sentiment in practice to describe outsourcing or offshoring performance problems as "implementation issues." Managers often think that their outsourcing or offshoring decision is the appropriate design choice, and tend to attribute its undesirable performance to various implementation problems that occur when dealing with independent and overseas suppliers. We suggest that there are many more fundamental problems of outsourcing or offshoring that are unrelated to implementation problems. Rather, there are limits to outsourcing and offshoring, and many inputs of a firm should not be outsourced or offshored.

Managers are often not conscious of the fact that there is an optimal degree of outsourcing and offshoring across their entire portfolio (Leiblein et al., 2002). Instead of using this portfolio level, they tend to see the good or the evil of outsourcing or offshoring particular items or activities in that suppliers are not well equipped, insufficient guarantees are built into contracts, or market circumstances change rapidly. Many firms do not conduct enough analyses before they jump into outsourcing or offshoring. This helps explain why in practice outsourcing or offshoring often looks like a bandwagoning process. Likewise, many academic approaches (e.g., transaction cost economics) have centered on analyzing individual make-or-buy decisions by focusing on one transaction at a time.

The knowledge-based view of the firm may help address this limitation in that outsourcing and insourcing provides complementary knowledge across different stages of a firm's value chain. Consequently, firms do not outsource their entire production, especially in times of technological change. If firms engage in too much outsourcing of supply technologies, they may risk not having the opportunity to learn about changes in these technologies through insourcing (Brusoni, Prencipe, & Pavitt, 2001). Therefore, the benefits of outsourcing or offshoring will only materialize when a firm has the organizational capacity to integrate outsourced and/or offshored items/activities into its operations. In addition, many firms make outsourcing or offshoring decisions by evaluating a handful of options based on their previous experience and by following their competitors.

Managers are in need of guidelines as to where the optimal point lies for their particular business at a particular time. Based on the contingency approach using a "fit" perspective, the following indicators help answer that question: asset specificity, uncertainty, firm competencies, industry trends, and firm nationality and location. These moderating variables may help determine what is optimal for a particular firm at a point in time. Indeed, Jain and Thietart (2014, p. 1881) have warned that "capabilities serve as shift parameters that result in a change in the critical value of asset specificity at which firms switch from insourcing to outsourcing" in that capabilities can change a firm's production costs and its governance costs relative to the market. As a result, the frontier at which outsourcing gives way to insourcing shifts over time. Timing is crucial, as the optimal point will shift due to changes internal and external to the firm.

From a managerial perspective, developing a model that helps determine a firm's optimal degree of outsourcing or offshoring would be very useful. Based on the model, managers could prioritize their set of activities and outsource or offshore until they more or less reach optimality. As global sourcing is a dynamic process, competing firms may not accurately grasp the full benefits (and costs) of outsourcing or offshoring activities due to causal ambiguity. Furthermore, firms face their unique set of internal and external factors that affect their optimal level of outsourcing and offshoring. Therefore, simply following the first-mover's current outsourcing or offshoring strategy does not offer any guarantee for improved performance. Instead, tackling that challenge involves a broader behavioral understanding of how firms' outsourcing or offshoring trajectories change over time and within industries.

5 Future Research

In extending the research on global sourcing strategy, we offer the following suggestions. First, the impact of global sourcing strategy on a firm's financial performance has been widely examined. However, similar to other research in marketing, market-based asset performance indicators (e.g., customer relationships and brand equity) have received scant attention (Katsikeas, Morgan, Leonidou, & Hult, 2016). Furthermore, instead of treating performance as a global latent construct, researchers should attempt to include several aspects of performance, because a global sourcing strategy may involve trade-offs in different performance indicators. For example, the strategy may have a positive effect on one (e.g., financial performance) but a negative impact on another (e.g., customer satisfaction) (Katsikeas et al., 2016).

Second, due to the unique characteristics of services, the appropriateness of a global sourcing strategy for manufactured goods may not hold true for intangible services. For example, in the case of component sourcing, a component buyer is faced with a single point of contact, with only one interface between a supplier and a buyer. However, for logistics sourcing, several interfaces may exist as there are multiple third-party suppliers in the distribution process (Maltz & Ellram, 1997). Except for very few studies (e.g., Murray & Kotabe, 1999), the extant literature has not provided adequate guidance on the applicability of existing theories on sourcing of manufactured goods to those of intangible services.

Third, as most of the empirical studies on global sourcing strategy are cross-sectional in nature, they fail to capture the dynamic process of such an important strategy. As strategies do not stay the same over time, it is imperative to examine the critical factors behind a change in global sourcing strategy and the subsequent effect on market performance.

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Part VIII
International Buyer-Seller Relationships

Foreignness in Export and Import Social Relationships: The Liability of Psychic Distance

Irena Vida and Claude Obadia

Abstract In this contribution, we systematically review the academic literature on foreignness in the context of exporter-importer social relationships published between 1997–2016. We consolidate the scholarship, analyze the nature of the phenomenon, its operationalization and measurement, and contribute to the resolution of the problems that affect this field of study. We find that the literature on foreignness in export and import relationships is relatively scarce and dispersed, lacks theoretical guidance and suffers from a low confirmation rate of the hypotheses. We contend that many problems stem from the inadequate conceptualizations of the phenomenon, the rationales underlying operationalization and the measures employed. The later includes various forms of measure objectivization, the managerial relevance of the indicators, the unit of analysis used, and the misspecification of the measurement instruments. We analyze these issues, seek solutions, and we conclude that future efforts will need to address these neglected areas of research as much as offer actionable recommendations for export/import managers.

1 Introduction

Research has long embraced foreignness and related concepts (i.e., psychic distance, cultural distance, cultural similarity) as central in explaining various international business phenomena such as internationalization process, international marketing standardization/adaptation and cross-country interactions. Many previous contributions have addressed theoretical and methodological shortcomings of this construct and its ability to explain international business activities (e.g.,

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Shenkar, 2001, 2012; Zaheer, Schomaker, & Nachum, 2012). In view of existing problems, some researchers call for the concept to be abandoned all together (e.g., Harzing & Pudelko, 2016; Nebus & Chai, 2014) in favor of more context-driven conceptualizations, whereas other scholars are in favor of merely reconceptualizing and refining it (e.g., Ojala, 2015; Williams & Grégoire, 2015). The intent of this review is not to reiterate the controversies surrounding the psychic (cultural) distance concept in general, but rather to provide a systematic analysis of foreignness and its effects specifically as it relates to relational exchanges at the exporting-importing level. Samiee, Chabowski, and Hult (2015) recently developed foundations for future research in the international relationship marketing (IRM) domain, and contend that "incorporating foreignness in future IRM studies of channel actions will propel the field forward" (p. 14), and Harzing and Pudelko 2016 call for more context driven approach to examine the phenomenon.

Indeed, foreignness is a salient phenomenon that distinguishes export relationships from local ones (Rosson & Ford, 1982). Fedor and Werther (1995) indicate that the performance of international interfirm relationships depends on the ability of the firms involved to resolve the issues associated with their relative foreignness. Leonidou, Samiee, Aykol, and Talias (2014) maintain in their meta-analytic study of exporter-importer relationship quality that behavioral dimensions of exchange partners' working relationships need to be carefully harnessed in light of the significant differences in business environments between the two parties. Yet, despite a recent debate that tends to emphasize the possible positive aspects of foreignness, the latter is still considered as a liability that increases interrelational hazards for firms that operate internationally (Edman, 2016). Thus, it is essential to understand the role of foreignness in the social exchanges that develop in longer-term export relationships.

Zaheer (1995) indicates that foreignness issues result "from the unfamiliarity of the [foreign] environment, from cultural, political, and economic differences, and from the need for coordination across geographic distance." (p. 341). The exporting literature assesses foreignness with multiple constructs. The majority of the studies use definitions based on the distance metaphor such as psychic distance (PD) or cultural distance (CD). Typically, PD is conceptualized as a sum of differences between the home and the foreign market in terms of "culture, language, legal and economic systems, business practices, and other country-level factors" (Katsikeas, Skarmeas, & Bello, 2009, p. 7). Additional approaches to foreignness include cultural sensitivity, i.e., a firm's understanding of and adaptation to its exchange partner's domestic business practices … (LaBahn & Harich, 1997), and the cognitive issues associated with foreignness (Chelariu, Bello & Gilliland 2006; Obadia, 2013).

The aim of this review is to examine the phenomenon of foreignness in social relationships of exporters-importers from the perspective of the academic research that has been published over the past two decades. We strive to consolidate the scholarship and make proposals regarding the nature of the phenomenon, its operationalization, and its measurement. In doing so we intend to contribute to the knowledge of this subject and to the resolution of the severe problems that affect the literature on international interfirm exchanges.

The rest of the paper is organized as follows. First, we explain our methodological approach in identifying studies that focus on the foreignness phenomenon in the context of import-export social relationships (see Appendix) in order to critically examine the literature published in the last two decades. Second, we group the interfirm relational studies into three categories, two of them consistent with the Shenkar's (2012) criterion differentiating between studies that use the distance metaphor and those that draw on the friction metaphor to define foreignness. We focus on four core aspects of foreignness which are its conceptualization, operationalization, measurement, and nomological network. Third, we draw from the literature in review, and more broadly, from the International Business (IB) literature to propose solutions to the more pressing problems uncovered in our examination. Finally, in our conclusions we develop perspectives for future research.

2 Analysis of the Literature on Foreignness in Export-Import Relationships: 1997–2016

2.1 Methodology

This review builds on previous works regarding psychic distance and foreignness in exporting developed by Prime, Obadia, and Vida (2009) and Obadia (2013). Our investigation covers research studies published in the marketing or general international business literature from 1997 to mid-2016. We use the following selection criteria to identify relevant publications included in this review.

First, studies needed to focus on an investigation of the impact of foreignness (and related concepts) on social relationships[1] at the exporting/importing level. Our working definition of foreignness relates to the concept that entails some (dis) similarities in cultures, business practices and/or external environment (at the country-country, the firm-country or a person-country level) that affect social relationships in the export-import context. For example, based on this definition, we excluded from this review studies investigating the impact of foreignness (or related concepts) on firms' decisions to adapt their export marketing strategy (e.g., Magnusson, Westjohn, Semenov, Randrianasolo, & Zdravkovic, 2013), or focusing on both domestic and non-domestic partners rather than exclusively on import/export relationships (e.g., Lund, Scheer, & Kozlenkova, 2013).

Second, to be included in this review, articles had to report results of empirical quantitative work with data obtained from at least one side of the exporter-importer

[1]It was decided to include some studies about relationship governance which theme overlapped with the social aspects of interfirm relationships.

dyad. We included empirical papers that used a foreignness related concept either as an independent variable affecting some relational phenomena or as a moderating condition for a causal relationship in the context of international relational exchange [e.g., cultural closeness as a moderator of the link between social relationships and relational quality by Solberg (2008)]. However, we excluded studies that used foreignness *as a control variable* (e.g., Obadia, Bello, & Gilliland, 2015).

Finally, the condition for inclusion in this review comprised papers published in internationally recognized academic journals published in English, and/or in existing editions of *Advances in International Marketing* on the subject. Relevant studies were identified in various electronic databases (i.e. Google scholar, WOS) using keywords frequently used in the literature to examine foreignness concepts such as psychic distance, cultural distance, distance, foreignness, cultural (un)familiarity, cultural sensitivity, cultural intelligence or similarity/closeness, national culture, etc.

In summary, the key conditions for inclusion in our review were: (a) that the paper investigated foreignness-related concept as a dependent, independent or moderating variable (but not as a control variable); (b) that the study examined the core concept in the context of social relationships at the exporting-importing level; (c) that the research was empirical and quantitative in nature; and (d) that the paper was published in an adequate outlet.

The papers analyzed in this review were independently evaluated by two researchers based on a deductive, a priori content analytical approach requiring that categories be established based on some theory or rationale (Neuendorf, 2002). We applied the following four key research criteria in our category system and recorded the information for each article: the definition of the concept of foreignness, its operationalization, the measures utilized, the dependent variables studied, and the results (direction and hypotheses testing results). Overall, there was similar inter-rater classification, and minor differences in a few specific areas were resolved by consensus between the two researchers. The table in the Appendix of this chapter displays the key characteristics of the studies that we examined according to the aforementioned publication selection criteria.

2.2 Key Study Characteristics and Results

The research process yielded 31 articles published in 12 different academic outlets (chronologically presented in the Appendix). The most frequently used journals were the *Journal of International Marketing* (eight papers), *Industrial Marketing Management* (four papers), followed by three papers each, respectively: the *Journal of International Business Studies*, *Journal of Business Research, International Business Review, International Marketing Review,* and other journals (one paper each). Eighteen of these papers surveyed exporters, 10 articles studied importers, and three of the studies included both exporters and importers in a single or in multiple countries.

The research context of these contributions covered a wide range of countries, most frequently the U.S. (12 studies), with other research settings including Canada, Australia, UK, France, Spain, Norway, Sweden, China, Japan, South Korea, Taiwan, Thailand, Chile, and Bangladesh. The majority of the 31 papers studied the phenomenon of foreignness in social relationships from a single focal country perspective. Only a few studies (i.e., Bianchi & Saleh, 2010; Hoppner, Griffith, & White, 2015; LaBahn & Harich, 1997; Styles, Patterson, & Ahmed, 2008) examined the phenomenon in two country contexts (either from the perspective of exporters, importers, or both), and two papers adopted the perspective of importers from multiple countries (i.e., Obadia, 2013 used 25 countries in his post hoc analysis, and Skarmeas et al., 2008 studied Dun & Bradstreet importers). Considering the focus of this analysis on the effects of foreignness in the context of international relational exchanges at the exporting-importing level, it is surprising to find that merely a single study in our review (Styles et al., 2008) utilized dyadic data set in the main study, and another one (Obadia, 2013) analyzed a small dyadic data set in his follow-up study.

2.2.1 Conceptualization Problems

> A construct is an abstraction formed by generalization from particulars
>
> (Kerlinger, 1992 in Diamantopoulos, 2005, p. 27).

The 31 studies in our review (see Appendix) have used quite a diverse terminology in identifying the focal concept of foreignness in exporter-importer social relationships. Altogether, these studies used 33 concepts,[2] most frequently termed psychic distance-PD (including interfirm PD or relationship PD), followed by "sensitivity" related concepts (e.g., cultural sensitivity, sensitivity to national business culture). We used Shenkar's (2012) metaphorical approach to categorize the use of the phenomenon into "distance" related constructs denoting some quantifiable differences, gauge or proximity among cultures, and into "friction", related foreignness constructs assessing the interaction of actors from different cultures. Hence, based on the application of the focal foreignness concept, the export-import studies in our review can be split into three categories: ***(a) the distance metaphor*** (21 studies—see shaded rows in the Appendix Table); ***(b) the friction paradigm*** (nine studies); and ***(c) other paradigm*** (two studies) consisting of constructs that cannot be classified within the two former major categories.

[2]Two studies use two foreignness related concepts in a single paper, i.e., cultural knowledge and cultural adaptation in Pettersen and Rokkan (2006), and psychic distance and cultural sensitivity in Skarmeas, Zeriti, and Baltas (2016).

In the first group of 21 studies[3] that adopt the distance metaphor, 12 investigate the phenomenon using the concept of *psychic distance*, four studies apply *cultural distance*, and two studies examine Leonidou et al. (2006) *distance* that does not explicitly emphasize international aspects of distance (Leonidou et al., 2006; Leonidou, Palihawadana, Chari, & Leonidou, 2011). Additionally, three studies examine *cultural closeness* or *cultural similarity* (the opposite of distance) between the two partners (Bianchi & Saleh, 2010; Solberg, 2006; 2008).

The distance metaphor was introduced to the international business researchers by Johanson and Wiedersheim-Paul (1975) with their definition of psychic distance as: "the sum of factors preventing or disturbing the flow of information between firm and market. Examples of such factors are differences in language, culture, political systems, level of education, level of industrial development, etc." (p. 308). Despite the unequivocal importance and relevance of the issues brought to light by these authors, we believe that many of the current problems in the export literature stem from the fact that this definition has not been adequately advanced and refined over the last four decades. Indeed, the appraisal of the various conceptualizations in our review (see Appendix) demonstrate that the foreignness phenomenon in the literature is mostly defined as the sum of its components and their effects, rather than "… an abstraction formed by a generalization from particulars" (see the definition of a construct at the outset of this section), indicating the absence of an actual conceptualization. "Distance" is a metaphor, a figure of speech, not a concept. At best, Johansson and Wildershem-Paul's definition is what Diamantopoulos (2005) refers to as an operational definition. It includes the components of the measure [called psychic distance stimuli by Dow and Karunaratna (2006)] and the main effect(s) of the phenomenon. As a result of this lack of adequate conceptualization, export researchers are still oblivious to the nature of the phenomena called psychic distance, cultural distance, and the like.

In order to fine-tune our discussion of major problems related to the studies adopting the distance methaphor in this and subsequent sections of our analysis, we develop Table 1 depicting key characteristics of these 21 studies related to conceptualization, operationalization (subjective vs. objective scale), measurement (unit of analysis, specification),and results. The analysis of various conceptualizations reveals that while six of these studies do not explicitly provide any definition, eleven studies define distance as the differences between markets, that is, they rely on its components to define the phenomenon. Three studies (Bello & Gilliland, 1997; Ha, Karande, & Singhapakdi, 2004; Lee, 1998) slightly increase the level of conceptualization by using the more general terms of difference or similarity as singulars. In line with Child, Rodrigues, and Frynas (2009), we believe that the "psychic" nature of psychic distance has been neglected in favor of a factual approach that focuses on the specific components of this phenomenon (i.e., cultural differences and business practices differences between countries) in its definition.

[3]The study by Skarmeas et al. (2016) is counted twice as their foreignness phenomena fall into both the distance metaphor (psychic distance) and friction metaphor (cultural sensitivity).

Table 1 Characteristics of the studies following the distance metaphor paradigm

Authors[a] (*scale source unless their own*)	Conceptualization	Subjective Scale	Unit of analysis	Specification	Hypotheses: supported/proposed
• Bello and Gilliland (1997)	Components	Yes	**Firm-country***	Reflective Misspecified	1/1 Inflated coefficients
• Lee (1998) (Johanson & Vahlne, 1977)	Components	Yes	**Country-country****	Reflective Misspecified	1/1 Inflated coefficients
• Bello et al. (2003) (Korth, 1991)	Components	Yes	**Firm-country**	Reflective Misspecified	0/1 Inflated coefficients
• Zhang et al. (2003) • Nes et al. (2007) (Kogut & Singh, 1988)	Not provided Not provided	No	**Country-country** **Country-country**	Index	0/2 2/2
• Ha et al. (2004)	Concept	No	**Country-Country**	Categorical	0/4
•Leonidou, Barnes, and Talias (2006) •Leonidou, Palihawadana, Chari and Leonidou (2011) (Leonidou et al., 2006)	Concept Concept	Yes	**Firm-firm***** **Firm-firm**	Reflective	2/7 2/2 3/3
• Solberg (2006) • Solberg (2008) (Solberg, 2006)	Not provided Not provided	Yes	**Country-country &** **Firm-firm**	Reflective Misspecified	1/1 2/2 Inflated coefficients
• Katsikea, Theodosiou, and Morgan (2007) • Johnston, Khalil, Jain, and Cheng (2012) (Katsikea et al., 2007)	Components Components	Yes	**Country-country** **Country-country**	Reflective Misspecified	1/1 4/6 Inflated coefficients
•Skarmeas et al. (2008) •Katsikeas et al. (2009) • Skarmeas et al. (2016) (Skarmeas et al., 2008)	Components Components Components	Yes Yes Yes	**Country-country** **Country-country** **Country-country**	Reflective Misspecified	1/1 1/2 1/1 Inflated coefficients
• Bianchi and Saleh (2010)	Not provided	Yes	**Firm-firm**	Reflective Misspecified	1/1 Inflated coefficients

(continued)

Table 1 (continued)

Authors[a] (*scale source unless their own*)	Conceptualization	Subjective Scale	Unit of analysis	Specification	Hypotheses: supported/proposed
• Sousa et al. (2010) (Sousa & Bradley, 2005)	Components	Yes	**Country-country**	Reflective Misspecified	0/3 Inflated coefficients
• Griffith et al. (2014) (Evans & Mavondo, 2002; Evans et al., 2008)	Components	No	**Country-country**	Index	1/2
• Nordman and Tolstoy (2014)	Not provided	Yes	**Country-country**	Reflective Misspecified	1/2 Inflated coefficients
• Sachdev and Bello (2014) (*adapted from* Bello & Gilliland, 1997)	Components	Yes	**Country-country**	Reflective Misspecified	1/4 Inflated coefficients
• Durand et al. (2016) (Sousa & Filipe Lages , 2011)	Concept	Yes	**Country-country**	Reflective Misspecified	1/1 Inflated coefficients

[*]Exporter (importer)–importing (exporting) country
[**]Exporting (importing) country–importing (exporting) country
[***]Exporter–importer
[a]Studies in Table 1 are grouped based on the source of the foreignness scale and chronological order

This factual approach does not assess the core substance of distance, and thus prevents researchers from accurately conceptualizing it.

On the other hand, the two studies that use Leonidou et al. (2006) "*Distance*" define their construct based on the work by Hallen and Wiedersheim-Paul's (1979) as follows: "The prevention, delay, or even distortion of the flow of information between sellers and buyers …" (Leonidou et al., 2006, p. 579; Leonidou et al., 2011). Moreover, Sachdev and Bello (2014) refer to psychic distance as the "difficulty of conducting business" (p. 444). We believe that these four studies conceptualize adequately their respective constructs. However, Leonidou et al. (2006) "*Distance*" conceptualization is not specific to foreignness.[4] Indeed, information problems (Leonidou, Barnes, & Talias, (2006) conceptualization) can be due to the physical distance between the partners or to an opportunistic partner, rather than to the issue of culture or foreignness. What is more, any market (not only a foreign one) can be challenging, such as when it is extremely competitive. It is also possible that the phenomena included in these authors' conceptualizations represent consequences of distance rather than the crux of the phenomenon itself. As Johanson and Wiedersheim-Paul (1975) indicate, information problems are a consequence of the factors composing psychic distance. Obadia (2013) contends that the cognitive issues associated with foreignness make the operations in the foreign market difficult. Finally, Table 1 reveals that six studies do not offer any conceptual definition at all, which may epitomize distance conceptualization problems in studies tackling export-import social relationships.

In the *friction paradigm* studies, the second major group of articles in our review (see Appendix), seven articles examine the effect of *cultural sensitivity* (LaBahn & Harich, 1997; Lohtia, Bello, & Porter, 2009; Lohtia, Bello, Yamada, & Gilliland, 2005; Pettersen & Rokkan, 2006; Skarmeas, 2006; Skarmeas et al., 2016; Styles et al., 2008) and two studies focus on *the cognitive issues linked to foreignness* (Chelariu et al., 2006; Obadia, 2013). Cultural sensitivity refers to the capacity of one party in the exchange to understand and manage the cultural and business practices differences with the other party (LaBahn & Harich, 1997; Lohtia et al., 2005). Chelariu et al. (2006) support their conceptualization of foreignness with the Institutional Theory (Scott, 2001) and build on the cognitive dimension of the institutional environment. They refer to the inconsistencies between trading partners' cognitive frameworks. Obadia (2013) calls the phenomenon he studies 'Foreignness Induced Cognitive Disorientation' (FICD) and uses neuropsychology and Categorization Theory (Hogg, 2001) to define it as an internal cognitive phenomenon.

The third (minor) group of articles in our review falls into the "other paradigm" based on the application of the focal foreignness concept. This group consists of merely two studies that simply use the origin of the foreign partner, i.e., UK versus

[4] It should be noted that we included these two studies using the Leonidou et al. (2006) scale while acknowledging that these studies' definition of distance did not refer specifically to foreignness per se, but rather to the distance between sellers and buyers.

non UK origin (Barnes et al., 2015) and the differences in Hofstede's national culture scores for Japan and the U.S. (Hoppner et al., 2015) to denote foreignness. Both studies examine the moderating effects of the foreignness phenomenon.

The conceptualization of foreignness in the reviewed export studies is highly problematic with almost half of the studies either not providing any definition, or failing to offer an overarching notion that constitutes an actual concept. Even when a conceptualization is proposed, it is mostly atheoretical, as only two studies (Chelariu et al., 2006; Obadia, 2013) specifically underlie their conceptual approach to foreignness with a supporting theory.

2.2.2 Operationalization Problems

Our analysis shows that the literature suffers from several problems due to the inadequate operationalization of the instruments used to measure foreignness. The main problems stem from the objective approach to foreignness used by some researchers, the relevance of the distance stimuli used to measure distance, and the choice of the unit of analysis for the scales (see Table 1).

Several studies in our review apply an objective approach to the measurement of foreignness that is not adapted to the study of interfirm or interpersonal relationships. Such an approach refers to the computation of scores obtained from secondary databases in order to measure distance or foreignness. For example, Nes, Solberg, and Silkoset (2007) and Zhang, Cavusgil, & Roath, (2003) adopt the Kogut and Singh (1988) index to measure cultural distance, and Hoppner et al., (2015) use Hofstede et al.'s (Hofstede, Hofstede, & Minkov, 2010) measures of various national culture components. Yet, in order to study the influence of foreignness on firms' relational attitudes, behaviors and their outcomes, researchers need to measure the actual foreignness experienced by firms and their staff– which requires the use of primary data scores supplied by the subjects of the study.

Moreover, our analysis reveals that other forms of measures' objectivization exist. For example, Ha et al., (2004) split their sample based on the country of their respondents' foreign partners, distinguishing between those that are culturally close and those that are distant without obtaining any input from the respondents themselves. In the same vein, Barnes et al. (2015) divide their sample of Chinese importers by the UK and non-U.K. origin of their suppliers, and use this split as a proxy for their familiarity with the Hong Kong culture. Shenkar (2001) criticized this objective approach as it measured phenomena not necessarily relevant to the focal firms in the studies. Indeed, exporting and importing firms can use multicultural staff or personnel with ample experiences in foreign markets. As a consequence, objective measures do not properly assess the phenomenon of foreignness for these firms and their staff. In the case of the study by Barnes et al. (2015), the authors assume that all the UK firms dealing with their respondents had ample experiences with Hong Kong culture because Hong Kong was a British colony until 1997, without checking whether this characteristic actually applies to the specific partnering firms in the sample. As a result, there is no way to ascertain to what extent the results of their analysis can be attributed to the actual familiarity of the British supplying firms with Hong Kong.

The managerial relevance of some indicators can also be questioned considering the focus of these studies on relational exchanges. For example, Sousa, Ruzo, and Losada (2010) include the differences of climatic conditions in their assessment of psychic distance. One can legitimately question the influence of such a factor in a variable affecting interfirm relationships. In fact, Prime et al. (2009) contend that including components of distance in scales without previously checking their relevance to the specific context of the exporter/importer studied, constitutes a form of objectivization of the measures which ultimately hampers their quality. Indeed, it would be interesting to check the actual relevance of the components of distance such as masculinity (e.g., Nes et al., 2007; Zhang et al., 2003) or foreign country per-capita income (Durand, Turkina, & Robson, 2016) with the participating exporters/importers respondents in these studies.

Another form of objectivization of the measures occurs when researchers adopt a country-country unit of analysis to measure distance. An examination of the unit of analysis applied in the distance methaphor studies releveals that 12 studies (i..e, more than half) use either secondary data bases scores, or instruct their respondents to evaluate differences between the home country of their firm and the country of their foreign partner.[5] In order to illustrate the problems caused by this unit of analysis, let us consider a hypothetical case where a respondent working in a Spanish firm is asked to measure the differences in languages between Spain and Japan. It is most likely that the respondent will answer with a very high score to such a question. However, this respondent and the staff of the firm he works for may speak fluent Japanese, or even be themselves Japanese citizens. Therefore, the considerable difference in language between Spain and Japan does not affect them and their firm in anyway. Moreover, most export managers do not manage operations in the home market. Hence, export managers commonly have no professional knowledge of how different the home market may be from the target market (Prime et al., 2009). As in most cases when the country-country unit of analysis is used, the subjects' responses do not reflect the actual situation of the focal firms or that of the respondents. Therefore, the scores provided are irrelevant in studies aimed at evaluating the relationship between foreigness and interfirm social phenomena.

2.2.3 Measurement Problems

Measurement issues particularly affect the 21 studies that use the distance metaphor analyzed in Table 1. The main problem, misspecification, refers to the inadequate use of reflective scales when a formative approach is needed. This issue is of

[5]Solberg (2006, 2008) includes two different units of analysis in its scale: country-country and firm-firm (see Table 1).

importance because it biases the regression coefficients of the models where the misspecified variables are included.

The 21 distance metaphor studies in our review measure the phenomenon with instruments that incorporate distance stimuli (Dow & Karunaratna, 2006). By definition, stimuli are elements that cause distance. Therefore, it is the differences in terms of environment and language that create (cause) the distance, not the opposite. Thus, causality flows from the indicators (the stimuli) to the construct, which prescribes a formative specification. Yet, out of the 21 studies that use the distance metaphor, 15 wrongfully adopt a reflective specification (where the construct causes the indicators).

With the distance variables frequently positioned as exogenous constructs, their misspecification leads to the inflation of the regression coefficients to the dependent variables. Diamantopoulos, Riefler, and Roth (2008, p. 8) explain the problems associated with construct misspecification:

> A reflective treatment of a formative construct reduces the variance of the construct because the variance of a reflectively-measured construct equals the common variance of its measures, whereas the variance of a formatively-measured construct encompasses the total variance of its measures. Consequently, if a misspecification reduces the variance of the exogenous variable while the level of the variance of the endogenous variable is maintained, the parameter estimate for their relationship increases.

This suggests that the coefficients of these 15 studies referring to the effect of distance are inflated, putting in doubt the results of the 17 hypotheses they could verify.

Moreover, three studies (Griffith, Lee, Seob Yeo, & Calantone, 2014; Nes, et al., 2007; Zhang et al., 2003) use summative indexes. Shenkar (2001; 2012) warns about the possible problematic effects of such indexes. Indeed, the diverse components of an index can have different or even opposite effects on the dependent variables. However, by summing up the components, the effects are averaged and regressions using those indexes produce non-significant coefficients or at best, results that do not reflect the complexity of the causal relationships investigated. The three studies mentioned above could verify only three out of six of the hypotheses they tested (see Table 1). Finally, Ha et al. (2004) measure psychic distance as a categorical variable and split their sample according to the location of the foreign partners of their South Korean respondents. Without any justification of how this method applies to the reality of their sample firms (and respondents), they create two groups: close countries (China, Japan, and South-East Asia) and far countries (the US, Europe, and Australia). These authors could not verify any of their four hypotheses concerning the effect of psychic distance.

On the other hand, the examination of the measures used in nine studies that adopt the friction metaphor of foreignness indicates the use of appropriately specified measures (see Appendix).

2.2.4 Nomological Network

The 31 studies included in our review examine the effects of foreignness on an extended nomological network, as indicated in the Appendix. Indeed, they include 45 hypotheses of links between foreignness and 21 different dependent variables, in addition to 29 moderation hypotheses each concerning a specific link between two other variables. In total, only 46 hypotheses are supported, indicating a 62% overall confirmation rate. The confirmation rate differs between the studies that adopt the distance metaphor (54%) and those that rely on the friction metaphor (72%). Within the friction group, the seven studies using the *cultural sensitivity* construct develop 16 hypotheses and confirm 73% of them. Finally, the two studies that use the *foreignness c*onstruct (Chelariu et al., 2006; Obadia, 2013) develop seven hypotheses and confirm five of them, indicating a 71% confirmation rate. From the above, we ascertain that in addition to a problem of dispersion, the literature based on the distance metaphor suffers from a low confirmation rate, with almost one in every two hypotheses being rejected (46%). What is more, among the hypotheses supported, many are affected by a cast of doubt due to the misspecification of several distance scales (see Table 1 and the Measurement paragraph).

Few dependent variables have been studied by multiple studies. Table 2 summarizes the results of the literature for the eight dependent variables that have been studied more than a single time.

The impact of foreignness on trust has been investigated eight times (five times with distance, twice with sensitivity, and once with foreignness induced cognitive disorientation). Four studies confirm the negative effect of distance and foreignness on trust, and two support the prediction of the positive effect of cultural sensitivity. As for another variable that composes relationship quality according to Leonidou et al. (2014), commitment has been studied three times with the negative influence

Table 2 Foreignness influence on main dependent variables in the literature

Dependent variable	# of hypotheses tested	# of hypotheses per metaphor	Confirmation rate
Trust	8	Distance 5 Friction 3	4/5 3/3
Commitment	3	Distance 1 Friction 2	1/1 2/2
Relational norms	4	Distance 4	1/4
Communication	5	Distance 2 Friction 3	1/2 3/3
Conflict	4*	Distance 4 Friction 2	3/4 0/2
Opportunism	3	Distance 2 Friction 1	2/2 1/1
Export performance	2	Friction 2	2/2
Satisfaction	2	Distance 2	2/2

*4 hypotheses tested on 6 samples

of distance verified once, and the positive influence of cultural sensitivity confirmed twice. Four studies assess the impact of distance on relational norms. Bello, Chelariu, and Zhang (2003), Durand et al. (2016) and Griffith et al. (2014) tested hypotheses on the negative effect of psychic distance on "relationalism" (Bello et al., 2003), relational exchange orientation (Durand et al., 2016), and adaptation of relational behaviors (Griffith et al., 2014). Only Durand et al. (2016) found support for their hypotheses. Zhang et al. (2003) developed an opposite hypothesis (i.e., a positive effect of cultural distance on the reliance on relational norms) and did not find a significant link. Finally, Skarmeas, Katsikeas, Spyropoulou, and Salehi-Sangari (2008) and Skarmeas et al., (2016) verified their hypotheses about a negative relationship between psychic distance and relationship quality and relationship value. The results for all the other dependent variables are detailed in the Appendix. As for the 29 moderation hypotheses, their extreme dispersion and the low rate of support (54%) renders any further analysis of the results hazardous.

Despite the problems described above, the analysis of the nomological network of foreignness in export-import social relationships seems to indicate that foreignness exerts a negative influence on firms' interactions, and that firms that overcome foreignness thanks to cultural sensitivity are able to mitigate this negative influence. Yet, given the problems that affect the conceptualization, operationalization, and measurement of distance, it is not surprising to find such a low rate of theory confirmation. Indeed, the "liability of psychic distance" has produced a literature that, with respect to the influence of foreignness on export relationships, is atheoretical, lacks rigor, and finally, is inconclusive.

3 Implications of Our Study Findings with Recommendations

3.1 Conceptualization and Future Theoretical Developments

Our analysis of export-import relational studies reveals the literature in the past two decades produced merely 31 publications that use a broad range of constructs, as well as research contexts to study foreignness. Based on conceptualization of the focal concept, we categorize studies into those that use the distance metaphor (over two-thirds of our sample), the friction metaphor, and two contributions (Barnes et al., 2015; Hoppner et al., 2015) that use either a researcher-based or secondary data-based categorization approach to study culture-related phenomena in exporting/importing relationships. We conclude that overall, conceptualization of foreignness in the literature suffers from absent or inadequate efforts to properly define the concept, particularly in the group of studies using distance metaphor, as many studies neglect the subjective (psychic) nature of foreignness in favor of factual approach.

With the exception of a few studies, the export literature that uses the distance metaphor seems too problematic to provide solutions for researchers that need to conceptualize foreignness. Therefore, we draw on international business literature where Baack, Dow, Parente, and Bacon (2015) use social psychology to define the nature of psychic distance as an individual's belief about the dissimilarity of cultures and business practices. They make their point by showing how this belief is subject to confirmation bias (Wason, 1960). Indeed, through an experiment involving Australian respondents, the authors show how managers process information in order to confirm their beliefs about the distance between Australia and other countries. The Baack et al., (2015) approach to psychic distance as a belief is particularly interesting to many studies of the social aspects in export relationships as it shares with them its theoretical base. Moreover, a construct such as a belief should be appropriate for conceptual models that include attitudes and behaviors of relationship partners in international exchanges.

On the other hand, the friction paradigm offers two interesting conceptualizations of foreignness. First, cultural sensitivity defined as a capacity of the firm to overcome the differences in culture and business practices between two foreign partners. Although this conceptualization is currently atheoretic, we believe that the Resource Based View (Barney, 1991) could offer adequate support to define cultural sensitivity as an ability of the firm to overcome foreignness. Hence, the cultural sensitivity construct could be particularly suited for studies that investigate the firms' resources and competences mobilized to improve relationships performance.

Finally, cognition offers a stimulating venue to understand foreignness and its impact on export relationships. Obadia (2013) proposes the concept of Foreignness induced Cognitive Disorientation (FICD). He shows how the basic processes of the human brain are the roots of most intercultural issues. FICD is particularly adapted to investigate the cognitive processes that build firms' attitudes. Because it draws on Categorization Theory, which itself provides the base to the sensemaking theory (Weick, Sutcliffe, & Obstfeld, 2005), the FICD construct is also particularly well suited to study the decision processes involved in improving the quality and performance of export relationships.

As we demonstrate in the previous section on nomological networks, the lack of explanatory power of the foreignness concept identified in this analysis does not lend support to an existing conceptual thinking on the subject. This is not surprising as a number of studies completely omit explicit conceptualization of the construct, and only two provide a theoretical platform for the inclusion of the foreignness construct (Chelariu et al., 2006; Obadia, 2013). However, the atheoretic nature of the exporting/importing field has been continually acknowledged in the literature (e.g., Leonidou and Katsikeas, 2010; Leonidou et al., 2014), and it seems that studies on the effects of foreignness on social relationships are no exception. Leonidou et al. (2014) contend in their meta-analysis that various theoretical platforms may serve as a foundation for anchoring hypothesized relationships, depending on the study objectives and the research context. While they refer specifically to the theoretical developments in relationship quality studies, we believe this applies equally when studying the foreignness phenomenon and addressing the issues related to inadequate constructs conceptualization.

3.2 Recommendations for Operationalization of Foreigness in Future Studies

Given the focus of the identified export-import studies on the social relationships between exporters and importers, it is essential that researchers refrain from any objectivization of the data about foreignness. First, scales using secondary databases about country differences (e.g., Kogut & Singh, 1988) should not be used considering that such broad generalizations obscure the reality of the participating firms or their respondents, as well as the actual impact of foreigness on social phenomena. Second, when a subjective approach to foreigness is applied, efforts should be invested to warrant that the components of distance incorporated in the measures are relevant to the specific context studied. Researcher generated items do not secure the relevance of these items to the sample firms and respondents. Given the problematic situation in the literature, we believe that exploratory qualitative studies could be extremely useful in order to determine the components/indicators of any formative construct/scale assessing foreignness (see Obadia, 2013). As for the study unit of analysis, we recommend avoiding the country-country unit that objectivizes the measure.

The literature we examined provides three alternative units of analysis: firm-country (e.g., Bello & Gillilland, 1997; Obadia, 2013), respondent-country (e.g., Pettersen & Rokkan, 2006), and firm-firm (e.g., Chelariu et al., 2006; LaBahn & Harich, 1997; Leonidou et al., 2006). The firm-country unit of analysis seems more adapted to the study of interfirm relationships as it assesses the impact of foreignness on one of the firms in the dyad. The respondent-country unit of analysis is better suited to the investigation of interpersonal relationships, as this type of study focuses on the relationships between individuals pertaining to the respective boundary staffs of the exporting and importing firms. As for the firm-firm unit of analysis, we believe that it may not capture all the facets of foreignness that affect exporting/importing firms. Indeed, in exporter-importer relationships, the foreign partner is the single most influential factor on the focal firm attitudes and behaviors. However, firms are also affected by issues concerning the foreign market, such as the legal and regulatory environment or the cultural characteristics of consumers.

In summary, we recommend a contingent approach in the choice of the study unit of analysis. Indeed, the construct operationalization should be adapted to the core subject of the study (i.e., to the relational variables under investigation) and the context of the study (type of the respodnents).

3.3 Recommendations for Measurement of Foreigness in Future Studies

Several possibilities are available for those researchers who wish to investigate the distance metaphor without incurring major measurement issues. The first recommendation derives from Dow and Karunaratna (2006), who contend that the distance stimuli (components) should be investigated individually. With this approach, researchers in export social relationships should select the stimuli that are relevant to their study and develop instruments for each of these stimuli. Unlike in the original Dow and Karunaratna study, which uses objective measures to predict trade patterns between countries, respondents should be asked to score the items of each instrument separately. Indeed, the measure should be subjective and the unit of analysis of these instruments should be contingent to the subject of the study.

Another possibility is offered by Baack et al., (2015) who provide respondents with the definition of psychic distance by Johanson and Wiedersheim-Paul (1975) and then ask for their personal perception of the distance between their country (Australia) and foreign markets (see details of the method in Baack et al., 2015, p. 945). Yet, as mentioned earlier, in export studies focusing on social phenomena, we do not recommend a country-country unit of analysis. Actually, the original Johanson and Wiedersheim-Paul psychic distance definition uses a firm-country unit of analysis when it refers to the "… the flow of information between firm and market" (p. 308), which is very well adapted to most international interorganizational studies.

Finally, Partial Least Square software offers the possibility to easily specify formative latent constructs that do not suffer from the drawbacks of summative indexes (for an example involving Psychic Distance, see Obadia et al., 2015). However, formative instruments require a demanding validation process and, most of all, researchers must comply with the obligation of exhaustiveness. Indeed, when using a formative specification, it is essential that the indicators used in the measure tap the entire domain of the construct (see Obadia, 2013).

4 Discussion and Conclusions

In this review, we systematically scrutinize the academic literature on foreignness in the context of exporter-importer social relationships published in the past two decades. We find that overall, the literature on foreignness in export/import relationships is relatively scarce (31 articles in total), dispersed with a broad range of constructs and contexts used to study the topic, and generally lacks solid theoretical guidance. While existing contributions offer various illuminating insights, the explanatory power of the focal concept, particularly in studies that apply the distance metaphor (21 studies) rather than the less represented group of friction metaphor of foreignness, is quite limited. Considering that the major stream of the literature using the distance metaphor has a confirmation rate that is only slightly better than chance (54%), it seems that much work remains to be done in the field to overcome problems identified in this review.

The intent of our analysis was not to isolate any one particular solution with respect to conceptualization, operationalization, and measurement of foreignness that fits all contexts of potential export/import relationship investigations. Rather, our goal was to enhance researchers' cognizance of the pitfalls that prevent us from moving the concept of foreignness forward and develop trustworthy insights related to export/import relational exchanges by applying a context-driven approach (Harzing & Pudelko, 2016). Our findings suggest that the extremely low explanatory power of foreignness-related constructs can be attributed to inadequate or even absent conceptualizations of the phenomenon, as well as the rationales underlying operationalization and measures employed in many studies. In addition to the general lack of theoretical grounding of foreignness in many research models, other acute aspects include various forms of objectivization of the measures, the managerial relevance of the indicators, the unit of analysis used, and the misspecification of the measurement instruments in studies using the distance metaphor.

We recognize that the identified problems related to conceptualization, operationalization, and measurement of foreignness in the literature may not be the only reasons behind such a low rate of theory confirmation. Indeed, other aspects of research design such as sampling (Harzing & Pudelko, 2016), temporal and/or dyadic nature of business relationships (Brock, Shenkar, Shoham, & Siscovick, 2008; Shenkar, 2012), and additional theoretical and analytical considerations may lie at the heart of trustworthiness of empirical findings in academic research (Cuervo-Cazurra et al., 2016). However, in an attempt to consolidate the scholarship, we identify key issues in the research design and offer some venues to resolve them. What remains is the discussion of the future extensions of foreignness research in the context of exporter/importer social relationships in the areas where prior research, based on our analysis of the literature, has been largely silent.

Unlike many other differences across national markets (e.g., geographic distance), the perception of foreignness is neither constant nor symmetric (Shenkar, 2001). Hence, future extensions aimed at enhancing the understanding of its role in the context of exporter-importer relationships should account for both temporal effects and dyadic nature of social relationships in the export-important context. We discuss these two issues next.

First, the effect of time on psychic distance is crucial to internationalization theory. Indeed, Johanson and Vahlne (1977) contend that distance shrinks with the length of exposure to a foreign environment, and that the resulting lower risk perceptions let managers move to higher involvement presence modes in foreign markets. Moreover, the seminal paper by Dwyer, Sure, and Oh (1987) indicates how interfirm social relationships evolve over time. Depending on the phase of the relationship, the prevailing social phenomena vary as they are linked through time by a causal chain. Hence, the study of social relationships between exporters and importers require the investigation of the effects of time. Only two studies use longitudinal data sets to investigate the effect of foreignness. Obadia (2013) finds partial support (p = .10) to his hypothesis of a negative effect of foreignness on the survival of export ventures. In a *post hoc* analysis, Hoppner et al. (2015) find that national culture moderates the link between reciprocity and satisfaction (measured six months apart).

We believe that it is important to determine *if and how* the exposure to a foreign environment actually reduces foreignness, as this is of high importance to firms confronted with these problems. Only Obadia (2013) formally tests the correlation between the number of years of presence in the foreign market and FICD, and finds no significant relationship. In addition, given the evolution of interfirm relationships, it is likely that foreignness affects them differently over time. For example, it would be illuminating to examine how foreignness works during the very early exploration phases of a relationship, i.e., in the context of new international ventures, and how subsequent phases transpire over time and differ for MNCs and SMEs (Ojala, 2015). Moreover, it would be of particular interest to investigate the moderating effects of foreignness on the temporal links between relational variables such as trust and commitment. This is in line with the recent call for research in international relationship marketing with Samiee et al. (2015) stating that "a more sustained analysis of foreignness must be examined in the context of development of trust and commitment with international channel partners" (p. 13). To this effect, researchers should try to gather longitudinal data for the study of foreignness.

The second omitted research area in the export-import literature relates to the issue of the asymmetry of distance previously highlighted in the international business (IB) literature (Shenkar 2001). The broader IB literature has largely considered the exporter's perspective, implicitly assuming that perceived foreignness challenges are symmetric between the partners in the dyad (Brock et al., 2008). In the context of exporter-importer relationships, the asymmetry refers to the differences in the perception of foreignness that exist between the exporter and the importer.

Our analysis of 31 empirical studies untangling foreignness in exporter-importer relationships both confirms this prevailing interest in studying exporters' views exclusively (18 studies in our review) relative to the importers' views (10 studies), and discloses the paucity of empirical evidence stemming from dyadic datasets. The situation in a dyad will be substantially different if the importer (exporter) is staunchly parochial, or if their export team includes nationals from the importing country. Therefore, without dyadic data, it is impossible to fully untangle the influence of foreignness on relationships at the importing/exporting level. Unfortunately, researchers are confronted with almost intractable difficulties when trying to collect international dyadic data. In our review, only Styles et al. (2008) were able to analyze such a data set, although Obadia (2013) analyzed a small dyadic data set in his *posthoc* analysis. Yet, we only can urge researchers to strive for dyadic data.

The asymmetry in foreignness perceptions between the exporter and the importer deserves further scrutiny in light of the recent evidence in IB research. For example, in his longitudinal analysis of psychic distance, Håkanson (2014) confirms the asymmetric nature of the phenomenon, and finds that exporters' distance perceptions are more influential for the trade in differentiated products than for the trade in homogeneous goods –which in turn are more substantial for importers. More recently, Håkanson, Ambos, Schuster, and Leicht-Deobald (2016) investigate factors underlying asymmetric distance between country pairs. They demonstrate that the distance perceptions are a function of individuals' exposure to other countries through emigrants and commercial activities, the size of the home country (subjects from small countries experience smaller distance than those from big ones), and the reputation of target countries relative to the home country. Hence, not only the country and the firm contexts, but also the type of the products exchanged and the subjective reality (i.e., individual experience) of the respondents may affect the nature and effects of foreignness, particularly as they relate to international exchange relationships. This only reaffirms our recommendation regarding the need for contingent approach in examining foreignness in export-import social relationships as the unit of analysis and the construct operationalization should be adapted to the core subject of the study (i.e., to the relational variables under investigation) and the context of the study (i.e., the type of firms, products and respodnents).

Finally, the issues analyzed herein are important not only for understanding the effects of foreignness on relational constructs and their outcomes at the theoretical level, but also for developing actionable guidelines for practicing managers who continually face this phenomenon in carrying out their exporting/importing activities. Indeed, the literature needs to move to the next level and provide exporters/importers with solutions how to overcome concerns related foreignness, and/or at times even capitalize on the differences in cross-national contexts in the process of initiating and nurturing social exchanges. It has been previously noted that differences across countries can be as much a liability as an asset in various IB contexts, even if IB literature has largely neglected the positive effects of differences and diversity (Edman, 2016; Stahl & Tung, 2015).

Evidence suggests practitioners are well aware of the double-edged sword nature of differences that can also help firms leverage benefits, such as when differences across countries foster creative thinking, synergy, learning, and offer opportunities for arbitrage and complementarity (Shenkar, 2001; Stahl & Tung, 2015; Zaheer et al., 2012). Our analysis shows that the studies categorized in the friction metaphor group use concepts such as cultural sensitivity, cultural knowledge and adaptation that take ability based view of foreignness. Indeed, as these concepts tap into firms' competencies needed in building and sustaining social relationships, they seem well suited for providing managerial solutions. Another promising construct not yet explored in the exporting/importing relational context is cultural intelligence, or 'CQ' (Ang & Van Dyne, 2008). This four dimensional construct has been applied mainly in the international human resource literature. Nonetheless, recently Magnusson et al. (2013) show that export managers' motivational and metacognitive aspects of CQ are significant resources influencing international marketing strategy and export performance that can yield valuable guidelines for exporting firms in the recruitment, training, and promotion of export staff.

In conclusion, accounting for temporal effects, the issue of asymmetry, along with the need for dyadic studies that foster not merely theoretical insights but also solutions for practicing managers, may not be easily accomplished in future studies. Incorporating these issues while aspiring to avoid the liability of foreignness in export/import social relationships may render the research process more complex, even burdensome. However, as indicated by Nebus and Chai (2014, p. 9): "… each trade-off toward simplicity is accompanied by assumptions that open the door for alternative explanations." Scholars of the foreignness phenomenon need to ensure that the insights gained from their analyses are not subject to alternative, unaccounted influences such as inadequate conceptualization, measurement, and negligence of the research context. As in other fields of international business (and marketing) research, the trustworthiness of empirical findings can be enhanced only through thoughtful (but not necessarily painless) consideration of the theoretical developments, research design, and data analysis (Cuervo-Cazurra et al., 2016).

Appendix 1: Chronological Overview of the Literature on the Impact of Foreignness on Exporter–Importer Social Relationships

Article references respondents	Name of construct and definition			
	Operationalization	Construct specification	Dependent Variables	Results
1. Bello and Gilliland (1997) ***JM*** U.S. exporters	***"PSYCHIC DISTANCE":*** *Manufacturer's perception of how different the culture of the target export country is from its home country*			
	– Customs and values of people – Culture of the country – Language of the country	Reflective	Output Controls (monitoring)	(–) Supported
2. LaBahn and Harich (1997) ***JIM*** US exporters Mexican exporters Mexican importers	***"SENSITIVITY TO NATIONAL BUSINESS CULTURE":*** *A firm's understanding of and adaptation to its exchange partner's domestic business practices as perceived by its partner*			
	– The distributor/supplier understands how distributors and manufacturers conduct business in the US/Mexico – This distributor/supplier is willing to adapt to the US/Mexican way of doing business – This distributor/manufacturer is sensitive to the difficulties we encounter when doing business in Mexico/US – This distributor/manufacturer is aware of how we conduct business outside Mexico/US	Reflective	Communication Conflict	(+) Supported in 3/3 samples (–) Supported in 2/3 samples
3. Lee (1998)	***"CULTURAL DISTANCE":*** *The perceived difference between the home country and the target country*			

IJRM Australian exporters	How similar or dissimilar do you think the importer's country is compared to Australia? – In terms of the language – In terms of the business practices in general – In terms of the political and legal systems – In terms of the marketing infrastructure	Reflective	Exporter opportunism	(+) Supported
4. Bello et al. (2003)	**"PSYCHIC DISTANCE":** *Fundamental differences between the home and foreign market that make it difficult or problematic for a firm to formulate and implement international business strategies*			
JBR U.S. Exporters	– Culture of the country – Language – Customs and values – Foreign business practices	Reflective	Relationalism (flexiblity, information exchange, solidarity)	(–) Not supported
5. Zhanget al. (2003)	**"CULTURAL DISTANCE":** *No definition provided*			
JIBS U.S. exporters	Differences in: – Power distance – Masculinity – Individualism – Uncertainty avoidance	Formative (Index) (Kogut & Singh, 1988)	Reliance on Relational Norms (flexibility, information exchange, solidarity) Trust	(+) Not supported (+) Not supported
6. Ha et al.	**"CULTURAL DISTANCE":** *The extent to which a culture is seen as being different from one's own*			

(2004) ***IMR*** Korean exporters and importers	Sample was divided in two groups according to the location of the foreign partner: Close: China, Japan, South East Asia Far: US, Europe, Australia	Categorical	Moderating effect on link between: Dependence and cooperation Cooperation and satisfaction Cooperation and trust Cooperation and commitment	 (–) Not supported (–) Not supported (–) Not supported (–) Not supported
7. Lohtia et al. (2005) ***JBR*** U.S. exporters	***"CULTURAL SENSITIVITY":*** *The firm's awareness of differences between domestic and foreign market business practices and its ability to address and manage these differences*			
	Our firm has achieved a: 1. Sensitivity to the difficulties of doing business in Japan that is... 2. Willingness to abide by Japanese business practices and customs that is … 3. Knowledge of Japanese culture that is … 4. Ability to adapt to the ways of conducting business in Japan that is … Below Japanese expectations … Above Japanese expectations	Reflective	– Exporter attitudinal commitment	(+) Supported
8. Chelariu et	***"PERCEIVED FOREIGNNESS":*** *Inconsistencies between the cognitive frameworks of trading partners.*			

al. (2006) ***JBR*** U.S. exporters	"One or more people from our firm who are involved in dealing with our Eastern European partner… 1. … understand and speak the language of our Partner (R) 2. … are familiar with day to day living in that country (R) 3. … understand the working style of people in that country (R)	Reflective	– Use of recommendations – Use of legalistic pleas – Economic performance	(–) Not supported (–) Supported (–) Supported
9. Leonidou et al. (2006) ***IMM*** U.S. exporters	***"DISTANCE":*** *The prevention, delay, or even distortion of the flow of information between sellers and buyers, which is responsible for keeping them apart*			
	– Distant social relations – Unfamiliarity with business environment – Unfamiliarity with organizational culture/values/attitudes – Unawareness of organizational structure – Unfamiliarity with working methods	Unclear	Relationship quality: – Adaptation – Commitment – Communication – Cooperation – Satisfaction – Trust – Understanding	 (–) Not supported (–) Not supported (–) Not supported (–) Supported (–) Supported (–) Not supported (–) Not supported
10. Pettersen and Rokkan (2006) ***AIM*** French	***"CULTURAL KNOWLEDGE":*** *Knowledge of the partner's society, culture, norms, customs and the ability to speak the language of the partner* ***"CULTURAL ADAPTATION":*** *The ability and willingness to adapt to the partner on a number of dimensions*			

importers	This supplier has good knowledge about French society and culture This supplier has a good understanding of French norms and customs This supplier speaks well French This supplier has put a lot of energy in understanding my way of thinking This supplier has put a lot of energy in adapting to my way of negotiating This supplier has made an effort to become accustomed to my way of handling disagreements	Reflective Reflective	Communication Tolerance of conflict Communication Tolerance of conflict Interaction of knowledge and adaptation on: Communication Tolerance of conflict	(+) Supported (+) Not Supported (+) Supported (+) Not Supported (+) Not Supported (+) Supported
11. Skarmeas (2006)	***"CULTURAL SENSITIVITY":*** *A firm's understanding of and adaptation to its exchange partner's domestic business practices as perceived by its partner*			
IMM Dun & Bradstreet importers	Same as LaBahn and Harich (1997)	Reflective	Opportunism Asset specificity Functional conflict	(–) Supported (+) Not Supported (+) Supported
12. Solberg (2006) ***AIM***	***"CULTURAL CLOSENESS":*** Definition not provided			
Norwegian exporters	– There is no cultural difference between ourselves and our agent – The cultural differences that might exist between the country of our agent and our country do not represent any problem in our relations with our agent – There are no language problems between ourselves and our agent	Reflective	Clan control	(+) Supported
13. Katsikea, Theodosiou,	***"PSYCHIC DISTANCE":*** *How remote a decision maker perceives a foreign market to be in relation to his or her domestic market and in terms of culture, language, values, economic development, and so forth*			

and Morgan (2007) ***JAMS*** British exporters	Differences in: – Culture (traditions, values, language, etc.) – Accepted business practice – Economic environment – Legal system – Communications infrastructure	Reflective	Satisfaction with export venture	(–) Supported
14. Nes et al. (2007) ***IBR*** Norwegian exporters	***"CULTURAL DISTANCE":*** Definition not provided			
	Same as Zhang et al. (2003)	Formative (Index) (Kogut & Singh, 1988)	Trust Communication	(–) Supported (–) Supported
15. Skarmeas et al. (2008) ***IMM*** U.K. importers	***"PSYCHIC DISTANCE":*** *The importers perceptions of differences between the operating environments of the two partners*			
	Differences in: – Culture (traditions, values, language, etc.) – Accepted business practice – Economic environment – Legal system – Communications infrastructure	Reflective	Relationship quality (trust, commitment, satisfaction)	(–) Supported
16. Solberg (2008) ***JIM*** Norwegian exporters	***"CULTURAL CLOSENESS":*** Definition not provided			
	Same as Solberg (2006)	Reflective	Moderating Effect on Link between: – Social Relationships and relationship quality – Introductory role of agent and relationship quality	(+) Supported (–) Supported
17. Styles et	***"CULTURAL SENSITIVITY":*** Definition not provided			

al. (2008) ***JIBS*** Dyads: Australian exporters and Thai importers	The importer – ...is aware of the difference in doing business in this country – ...always tries to show their willingness to adapt to our way of doing business – ...is aware that the norms for business and communication are different in our culture – ...has worked very hard to familiarize themselves with our legal and economic environment – ...appreciates the nature of our decision making and management techniques – ...has made an effort to understand some of the cultural values in our country – ...is fully aware and understands that, compared with them we need to have more lengthy and detailed discussions before committing to a course of action – ...seems to know a lot about our culture and our way of doing business	Reflective	Trust Commitment	(+) Supported (+) Supported

18. Lohtia et al. (2009) ***IMM*** U.S. exporters	***"CULTURAL SENSITIVITY":*** *Same as* Lohtia et al. (2005)			
	Same as Lothia et al. (2005)	Reflective	Trust	(+) Supported
19. Katsikeas et al. (2009) ***JIBS*** U.S. importers	***"INTERFIRM PSYCHIC DISTANCE":*** *Differences between trading partners in culture, language, legal and economic systems, business practices and other country-level factors*			
	Same as Skarmeas et al. (2008)	Reflective	Exporter Opportunism Trust	(+) Supported (–) Supported
20. Bianchi and Saleh (2010) ***IMR*** Chilean and BanglaDesh importers	***"CULTURAL SIMILARITY":*** Definition not provided			
	– The styles of our greeting/address/introductions are similar to those of the supplier – Our business practices (such as keeping appointments and meeting on time) are similar to those of the supplier – Our legal formalities that influence business negotiations are similar to those of the supplier – Our standards of ethics and morals in business are similar to that of the supplier – The uses of contracts and agreements in our business are similar to those of the supplier's business practice	Reflective	Trust	(+) Supported in both samples
21. Sousa et al. (2010) ***JIM*** Spanish exporters	***"PSYCHIC DISTANCE":*** *Individual's perception of the differences between the home country and the foreign country*			
	– Climatic conditions – Purchasing power of customers – Lifestyles – Customer preferences – Cultural values, beliefs, attitudes and traditions – Language – Level of literacy and education	Reflective	Export performance Moderating effect on the links between: – Resultant conservatism and export performance – Resultant self-enhancement and export performance	(–) Not supported[*] (–) Not[*] supported (–) Not supported * found positive significant link.

22. Lenidou, Palihawadana, Chari and Leonidou (2011) ***JWB*** British importers	***"DISTANCE":*** *Same as* Leonidou et al. (2006)			
	– We are not familiar with this exporter's business environment – We know very well the organizational culture, values and attitudes of this exporter (R) – We are not aware of many things about this exporter organization – We are familiar with the working methods and processes followed by this exporter	Reflective	Moderating effect on the positive links between: Commitment and relationship effectiveness Cooperation and relationship efficiency	(–) Supported (–) Supported
23. Johnston, Khalil, Jain	***"PSYCHIC DISTANCE":*** *"Buyers' perceptions of the differences between the operating environments of buyers and sellers in international exchange relationships"*			
and Cheng (2012) ***JIM*** Taiwanese importers	Same as Katsikea et al. (2007)	Reflective	Moderating effect on the positive links between: Communication frequency and trust Communication frequency and satisfaction Bi-directional communication and trust Bi-directional communication and satisfaction Trust and joint action Trust and satisfaction	(–) Supported (–) Supported (–) Supported (–) Supported (–) Not supported (–) Not supported
24. Obadia (2013)	***"FOREIGNNESS INDUCED COGNITIVE DISORIENTATION" (FICD):*** *Foreignness-induced cognitive disorientation is an internal cognitive phenomenon resulting from problems in a foreign market that impairs a firm's ability to understand and thus operate in this market*			

MIR French exporters Longitudinal data Post hoc dyadic study with importers from 25 countries	Formative indicators: To what extent are the following aspects of the market where your importer operates a problem for your company? – Behaviors of the people – Language – Way of thinking of the people – How business is organized – Personal relationships – Environment: economic, political, legal Reflective indicators: – It is difficult to understand this country and its inhabitants – It is difficult to work with this market	Formative (MIMIC)	Exporter trust Exporter economic performance Moderating effect on the positive link between: Trust and economic performance Survival of export relationship Importer trust	(–) Supported (–) Supported (–) Supported (–) Not supported (–) Significant indirect effect through exporter trust (post-hoc analysis)
25. Griffith et al. (2014)	***“PSYCHIC DISTANCE”:*** *“The manager’s perception of the similarities and differences between the manager’s country and their foreign buyer’s country”*			

IMR US exporters	59 items[7] scale including: • Cultural Distance – Power distance – Individualism/Collectivism – Masculinity/femininity – Uncertainty avoidance – Long term orientation • Business Distance – Legal and political environment – Market structure – Economic environment – Business practices – Language	Formative (index)	Adaptation of relational behavior Detailed contracting	(–) Not supported (–) Supported
26. Nordman and Tolstoy (2014)	***"RELATIONSHIP PSYCHIC DISTANCE":*** Definition not provided			
IBR Swedish exporting SMEs	The following factors have been obstacles in the foreign business relationship: – Language – Business culture	Reflective	Relationship inter-connectedness Relationship knowledge transfer	(+) Supported (–) Not supported* *positive significant link. found
27. Sachdev and Bello	***"PSYCHIC DISTANCE":*** *The difficulty of conducting business in the foreign market dialect and the generally accepted practices of the foreign market place*			

(2014) ***IBR*** US exporters	– Language of the country – Customs and values of the people – Ways of living and working	Reflective	Moderating effect on the positive links between: – Asset specificity and monitoring – Asset specificity and information sharing – Foreign environment diversity and monitoring – Foreign environment diversity and information sharing	 (+) Not supported (+) Not supported (+) Not supported (+) Supported
28. Barnes, Leonidou, Siu and Lenidou (2015) ***JIM*** Chinese importers	**FOREIGN SUPPLIER ORIGIN (UK/NON UK)**			
	Categorization: UK vs. NON UK suppliers	Categorical	Moderating effect of UK origin on positive link between: Sijiao on trust Xinyong on trust Ganquing on trust	 (+) Supported (+) Supported (+) Supported
29. Hoppner et al. (2015)	***"NATIONAL CULTURE":*** *A fundamental factor that distinguishes people from one country from those of another country*			

JIM US exporters Japanese exporters	US and Japan scores for national culture dimensions as measured by Hofstede (2001): – Uncertainty avoidance – Individualism – Long-term orientation	Categorical	Moderating effects: Uncertainty avoidance on positive link between equivalence reciprocity and relationship quality Individualism and short term orientation on negative link between immediacy reciprocity and relationship quality	(+) Supported (-) Supported (–) Supported
30. Durand et al. (2016) ***JIM*** Canadian importers	***"PSYCHIC DISTANCE":*** *Managers' perceived dissimilarity between home and foreign country environments*			
	– Economic and industrial development – Communication infrastructure – Marketing infrastructure – Administrative and technical procedures – Laws and regulations – Per-capita income – Purchasing power of consumers – Lifestyles – Consumer preferences – Level of literacy and education – Cultural values, beliefs, attitudes and traditions	Reflective	Relational exchange orientation	(–) Supported
31. Skarmeas	***"PSYCHIC DISTANCE":*** *Same as* Skarmeas et al. (2008)			

et al. (2016) ***JIM*** UK importers	Same as Skarmeas et al. 2008	Reflective	Relationship value	(−) Supported
	"CULTURAL SENSITIVITY": *Same as* LaBahn and Harich (1997)			
	Same as LaBahn and Harich (1997)	Reflective	Moderating effect on the negative link between psychic distance and relationship value	(+) Supported

[a]The items of the scale can be found in Evans and Mavondo (2008)

Shaded rows denote the 21 studies that apply the distance metaphor in our review

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International Franchising Relationships

Matthew J. Robson, Vita Kadile, Kathryn Watson and L. Jeremy Clegg

Abstract Franchising is an increasingly popular foreign-market entry and expansion strategy for retailers domiciled in slow-growth Western markets. Within the traditional model of franchising, the role of the franchisee is to implement the franchisor's brand values and operational standards. Yet, there is reason to expect that the rigid approach to franchisee management, based on a comprehensive franchise agreement document and monitoring routines, is not ideally suited for penetrating culturally distinct markets. Our qualitative study investigates the case of a large U.K. franchisor that has enjoyed considerable success through a marketing strategy of developing and managing international franchising relationships in emerging markets. Specifically, it sustains a set of area development franchising relationships on the basis of open relationships characterized by mutual trust and ongoing communication. Our findings show how the openness and willingness of the franchisor to listen to the franchisee allows the identification and discussion of problems facing the partnership and opportunities for adaptation, growth, and mutual profits.

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1 Introduction

In international marketing, franchising can be viewed as a Cinderella topic when compared to developed streams of work on other foreign-market entry modes involving interfirm business relationships, such as exporting (e.g., Hultman, Katsikeas, & Robson, 2011) and joint ventures (e.g., Christoffersen, Plenborg, & Robson, 2014). The lacuna in knowledge matters as franchising is increasingly used by firms—retailers, in particular—to reach new customers in promising overseas markets (e.g., high-growth emerging economies) (Doherty & Alexander, 2006). Franchising is to retail services what exporting or technology licensing is to manufactured goods—a relatively rapid and low risk mode of expansion abroad (Alon, 2006).

There is a sizeable literature on franchising, but this work is heavily focused on domestic franchising in the U.S. or on international growth of the model to other countries and regions "linguistically or culturally similar to the U.S." (e.g., Western Europe and Australia) (Dant & Grünhagen, 2014: 126). Moreover, the relatively underdeveloped stream of work on international franchising has often used domestic franchising as the locus of theory development. Recent reviews of the international franchising literature (Jell-Ojobor & Windsperger, 2014; Merrilees, 2014) suggest prior studies have, among other things, investigated: franchisor intentions to internationalize the domestic model; characteristics of international franchisors, compared to domestic ones; the similarity of host country conditions to those of the franchisor's country; and expansion overseas through dual distribution structures (company-owned together with franchise-owned operations) that are prevalent in domestic franchising. Extant franchising work offers insufficient guidance to scholarship on, and the formulation of, international marketing strategies for culturally distinct markets.

One aspect of international franchising that is in need of urgent theoretical attention is the franchisor–franchisee relationship (Merrilees, 2014). The predominant approach in the literature has been to treat franchising relationships as a uniform phenomenon, with little proposed difference between domestic and international contexts. We argue instead that theoretical approaches to the relationship must take account of specific cross-border franchising practices.

In domestic franchising, the franchisor is in the ascendency in the relationship (Dant & Grünhagen, 2014). Often the franchisees are individual entrepreneurs and there is a clear size disparity. Against this backdrop, scholars have applied agency and transaction costs theories in suggesting the franchisee will undermine the franchisor's brand and way of doing business unless it is incentivized to invest and actively monitored (Hendrikse & Jiang, 2011). It is assumed that the franchisor and the franchisee will each maximize its own outcomes, possibly at the expense of the partner. A franchisor will monitor franchisee contractual adherence in order to reduce costly noncompliance. As the franchisor's confidence in the franchisee grows, the latter may be afforded a degree of operational independence. Still, it is unlikely the agreement will change to the extent that the franchisee is contributing to marketing strategy formulation—its role is to implement brand values under the franchisor's control.

Prior work on cross-border, franchisor–franchisee relationships has featured franchise contract terms and the application of specific techniques for the effective monitoring of local franchisees (Dant & Grünhagen, 2014). However, economic theory explanations of international franchising do not address a fundamental dilemma facing Western retailers taking their franchising concepts to unfamiliar emerging markets. The franchisor has a deficit of local market information and may, therefore, need to trust the franchisee's judgment in building the brand overseas. Not only might the franchisor have an inferior understanding—compared to the franchisee—of how to position their brand for foreign customers, but also they could find it difficult to monitor the geographically remote franchisee's adherence to brand standards. Further, large-sized foreign franchisees are sometimes chosen as they possess knowledge and other resources necessary to rapidly expand the franchised network within their territory, which could be one or more countries. Such area development franchisees operate several units within the franchise system. Clearly, the franchisor would no longer serve as the sole power broker in the relationship.

The premise of our qualitative study is that there is insufficient evidence in the international marketing literature to provide a clear understanding of cross-border, franchisor–franchisee relationship in retailing. The study builds upon Merrilees (2014) in seeking to investigate the way the relationship is managed and developed in international franchising. Further, it attempts to determine factors contributing toward high-performing area development franchising relationships overseas, in line with the phenomenal increase in the number of multi-unit franchising arrangements observed by Dant and Grünhagen (2014), among others. To this end, the current chapter presents a case study that explores the relational challenges faced by a large U.K. retailer that successfully operates the area development franchising model in emerging markets.

2 Franchising Relationships Across Borders

Franchising is a contractual agreement of two legally independent entities. The franchisee pays the franchisor for the right to sell the franchisor's products and/or services using their brand and operating standards. Moreover, it is an investment-based relationship where the parties invest financial resources and strategic assets. There are two types of franchisor-owned strategic assets often emphasized in franchising research (Combs, Michael, & Castrogiovanni, 2004; Watson, Robson, Kadile, & Clegg, 2016): brand reputation and operational knowledge (Sorenson & Sørensen, 2001). Brand reputation reflects how well known and widely respected the firm is—based on its ability to consistently deliver quality products and services—compared to competitors (Gillis, Combs, & Ketchen, 2014). The other key strategic asset of the franchisor is the set of operating routines that all managers/units within the overall franchise system must follow. The franchisor depends on operating routines being precisely carried out by franchisees to deliver superior quality and service within a highly-standardized franchise system.

Consistency of the brand and operating standards matters in cross-border franchising, due to the fact that the modern day customer travels more widely than at any point in the past and is exposed to globally integrated media. Then again, cultural and regulatory differences across country markets militate against complete standardization of the brand and operating routines. Alongside the standard provision of financial capital and human resources, the foreign franchisee may be required to make telling strategic contributions of local market knowledge.

Due to gaps in knowledge of local market conditions, it may prove fruitful for the franchisor to cultivate product and service innovations linked to the franchisee's brand citizenship behavior—that is, their employees' extra-role behavior aimed at enhancing brand identity (Burmann & Zeplin, 2005). An important aspect to consider here is the flexibility or adaptability of a franchisor toward necessary adjustments proposed by franchisees—given that this is a potential route to superior sales and profits. Such localization of its business practices to the nuances of the franchisee's local market would, nevertheless, require cultural awareness and sensitivity on the part of the franchisor (Altinay & Brookes, 2012). The reality is that many franchisors are uncomfortable with moving away from the rigidities and consistencies of their overall branding strategy, even if adherence to this decreases the sales and profits of, and complicates the relationship with, a given overseas franchisee.

Despite an increasing trend of multidisciplinary research in the franchising field, and the importance of relationship theory in international marketing channels generally (Aykol, Leonidou, & Zeriti, 2012; Leonidou, Samiee, Aykol, & Talias, 2014), little research has examined dynamics that shape the nature of the franchisor–franchisee relationship (Meek, Davis-Sramek, Baucus, & Germain, 2011). A rare exception is Doherty and Alexander's (2004) application of the marriage metaphor to international retail franchising, which observed that chemistry between the partners is pivotal to franchisee selection and management over time. While these authors made the valuable observation that a stable relationship based largely on day-to-day communication makes knee-jerk responses to commercial problems less likely, they stop short of expanding on how relationships accommodate such problems.

Relational factors that can affect franchising performance form a complex web of explanatory concepts. Yet, two relationally focused, strategic assets appear important in developing and stabilizing cross-border franchising relationships: franchisor–franchisee trust (Alon, 2006) and communication (Sorenson & Sørensen, 2001). Indeed, the wider international marketing channels literature has considered trust and communication to be the starting point in building the interfirm adaptation phenomenon (e.g., Leonidou, Palihawadana, Chari, & Leonidou, 2011).

In franchise relationships characterized by mutual interdependence—as opposed to unilateral power and control—relationship commitment and success can be achieved through the presence of trust between the partners. In practical terms, the franchisor has to rely upon the franchisee to perform tasks at the expected level. A complication in overseas markets is that the franchisor may now be trading in institutional contexts where contractual enforcement is difficult (e.g., in unstable political and economic conditions) (Dant & Grünhagen, 2014). In such circumstances, it might be apposite to use deliberately incomplete contracts that allow scope for trust to govern the interfirm partnership. Rigid contracts would struggle to accommodate valuable adaptations—such as reciprocal sunk investments—the partners need to make in order to stabilize their franchising relationship (Hendrikse & Jiang, 2011).

Communication is ideally achieved on the basis of knowledge-sharing mechanisms, that is, regular patterns of interfirm communication and cooperation that permit the creation of specialized relationship assets with the franchise partner (cf. Dyer & Singh, 1998). The franchisor's knowledge-sharing routines create an effective support system for the overseas franchisee, serving as a means of controlling the retail brand offer (Watson et al., 2016). Diverse support activities contribute to a set of administrative control factors, including the franchise manual, the development plan, store opening guidelines, ongoing visits from franchisors to franchisees and vice versa, product/merchandise range reviews, and the training of franchisee staff; these, in turn, can facilitate relational outcomes of the franchise (Doherty & Alexander, 2006; Watson et al., 2016). Well supported, tailored communications are important in overcoming psychic distance in cross-cultural relationships between firms. Moreover, knowledge-sharing activities allow franchisors to take advantage of unique strategic assets that overseas franchisees bring to the relationship—such as product/service innovation and local market infrastructure expertise (cf. Sorenson & Sørensen, 2001).

3 Area Development Franchising in Retailing

Retailers lacking market knowledge and other resources required to go into foreign markets, often work through local partners. Due to certain advantages (e.g., speed and flexibility), the franchising mode of foreign-market entry naturally goes with psychically distant overseas markets that carry a medium-to-high level of uncertainty for the retailer. As such, emerging economies (e.g., China, Brazil, and Indonesia) that have demonstrated phenomenal growth in recent years, have been recognized as having the greatest potential for international franchising (Dant, Grünhagen, & Windsperger, 2011; Welsh, Alon, & Falbe, 2006). Globally oriented retailers need to move fast in order to occupy the best new store locations and, therefore, many of them often address the challenge of internationalizing and keeping up with the pace of retail mall development in these markets by franchising (Sashi & Karuppur, 2002).

What is more, in culturally distant, emerging markets multi-unit franchising is among the fastest growing routes to market (Alon, 2006). Here, we focus on the role of area development franchising as a specific form of multi-unit franchising. Contrary to multi-unit agreements in domestic franchising, which applies to operations of two or more retail stores, area development agreements in cross-border franchising commonly involve the granting of exclusive rights to develop franchise outlets within a specified territory (e.g., country or countries) (Jell-Ojobor & Windsperger, 2014). Area development franchisees have a different order of magnitude, which up-scales the benefits of the multi-unit franchising model.

Area development franchising allows for rapid market penetration in a selected geographical region in line with retailing infrastructure developments. It involves little financial risk despite potential gains from fast expansion within and across countries. Selecting a franchisee with its own resource base (e.g., an existing retailer that may have its own brands and/or be trading under other Western firms' brand names) and pooling resources with such a partner, represents the quickest way for the franchisor to spread its proven business concept (Alon, 2006; Zaid, 2010).

Sometimes researchers conflate area development franchising and master franchising (Doherty & Quinn, 1999). However, these are dissimilar models of franchising. In master franchising, "the franchisor grants the master franchisee the right to sub-franchise the franchisor's concept to others within an exclusive territory, creating a tripartite franchise relationship" (Doherty & Quinn, 1999: 7). In area development franchising, a sub-franchising right is not present and the development of the franchise system is undertaken by the same franchisee. As area development franchisees are often large, experienced firms dealing with various products and brands, the contract is likely to be less structured than in master franchising. The arrangement operates as more of a partnership or alliance, based on interdependence and mutual goals, not restrictive agreements. The give and take nature of area development franchising also makes it quite different to licensing, which is where one firm permits another to use its trademark and manufacture its products for specific payments.

Because the area development franchisee is native to the specific country or region, it can provide critical support to the franchise operation on the basis of local environmental and market knowledge (Gillis et al., 2014). Accordingly, the local partner is usually viewed not only as a source of financial investments for the franchised network's growth, but also as a main source of information. The managerial skills for working with local personnel and cultural knowledge of business practices and political aspects, that the franchisee has, can facilitate further franchise expansion. In addition, larger-scale, multi-unit franchisees have the lowest unit costs of production because knowledge transfer occurs more easily between many same-owner units, owing to more regular communication, meetings, and personal acquaintances (Darr, Argote, & Epple, 1995).

For the franchisor, the area development model adds the coordination efficiencies of dealing with one partner in a specific geographical area. In contrast to the issues associated with monitoring and managing numerous international franchisees, the franchisor in this case deals only with a limited number of area franchisees (Grewal, Iyer, Javalgi, & Radulovich, 2011). It is incumbent upon each franchisee's head office to implement the franchisor's brand values and operating standards within the branded store network in its territory.

The international franchising literature has placed little emphasis on revealing the downside of the area development model. Due to its additional responsibility and strategically important duties, an area development franchisee is able to claim a higher share of a franchised store's profits than a single-store franchisee could. More important, the power that an area development franchisee possesses may lead to protracted conflicts. In the course of our primary research, one franchisor manager suggested the case of an area development franchisee, operating more than one-hundred stores in a large emerging market, deciding unilaterally that it will "*no longer follow any clauses in the franchise agreement.*" This said, we assert that franchisors with long-standing approaches to working with area development franchisees, are able to manage tensions concerning the balance between the franchisor's control of the business concept and the overseas franchisee's autonomy to respond to unusual, local market demands (Altinay & Brookes, 2012; Weaven & Frazer, 2007).

4 Research Methodology

We conducted our study based on qualitative procedures in order to develop theory about the underlying aspects (i.e., what does and does not work) of international area development franchising. Although it would have been insightful to scrutinize the end-game of an unraveling area development franchising agreement, there are practical difficulties associated with doing so. We maintain it is important to look at issues causing tensions within a high-performing area development franchising relationship, as tensions are inevitable and it is how these are addressed within the relationship that is of focal interest. To this end, the study is conducted within the established franchise system of a U.K.-domiciled, international multi-channel retailer (i.e., general merchandise), operating in more than 30 countries with over 250 franchised stores. For confidentiality reasons, the focal franchisor will not be identified by name in the paper.

The retailer is particularly interesting as it has a complex network of international franchises based, largely, on use of the area development model. Its relationships with local retailers (i.e., the franchisees) can be described as high-performing relationships insofar as they provide a good level of profitability and growth in terms of sales as well as the number of franchised stores or units. Notwithstanding the generally positive characteristics of the focal retailer's cross-border franchising relationships, they are not without problems and are being subjected to processes of continuous improvement.

We sought to obtain in-depth data on the focal retailer's international franchising relationships following an exploratory approach to data collection, based on face-to-face interviews with all relevant decision-makers. Specifically, we conducted 46 interviews (23 with regional head office managers and 23 with store

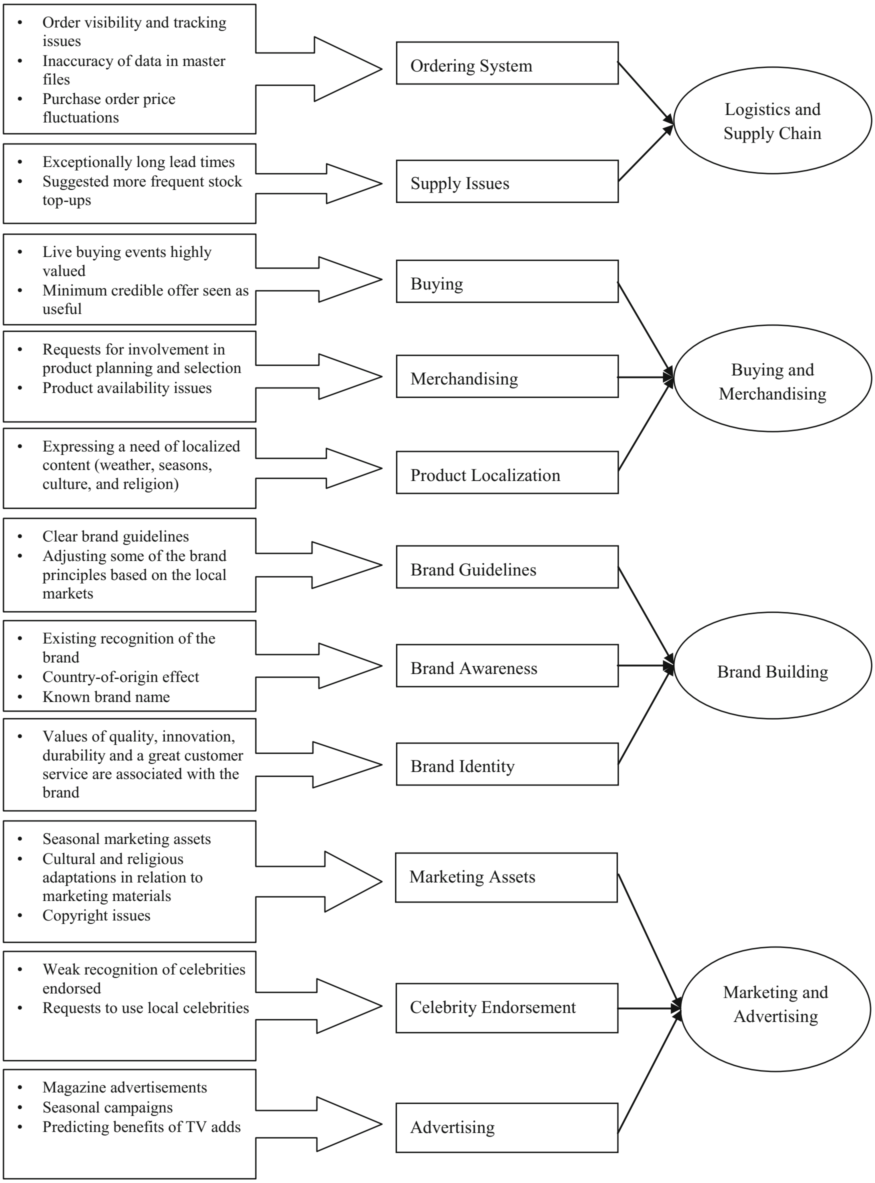

Fig. 1 Qualitative analysis process

managers) at the franchise partners in four emerging markets within Europe and the Middle East, as well as 12 interviews with head office managers of the franchisor in the U.K. The interview discussion guide we used, had been developed to reflect two considerations. First, questions needed to address a number of issues pointed out by

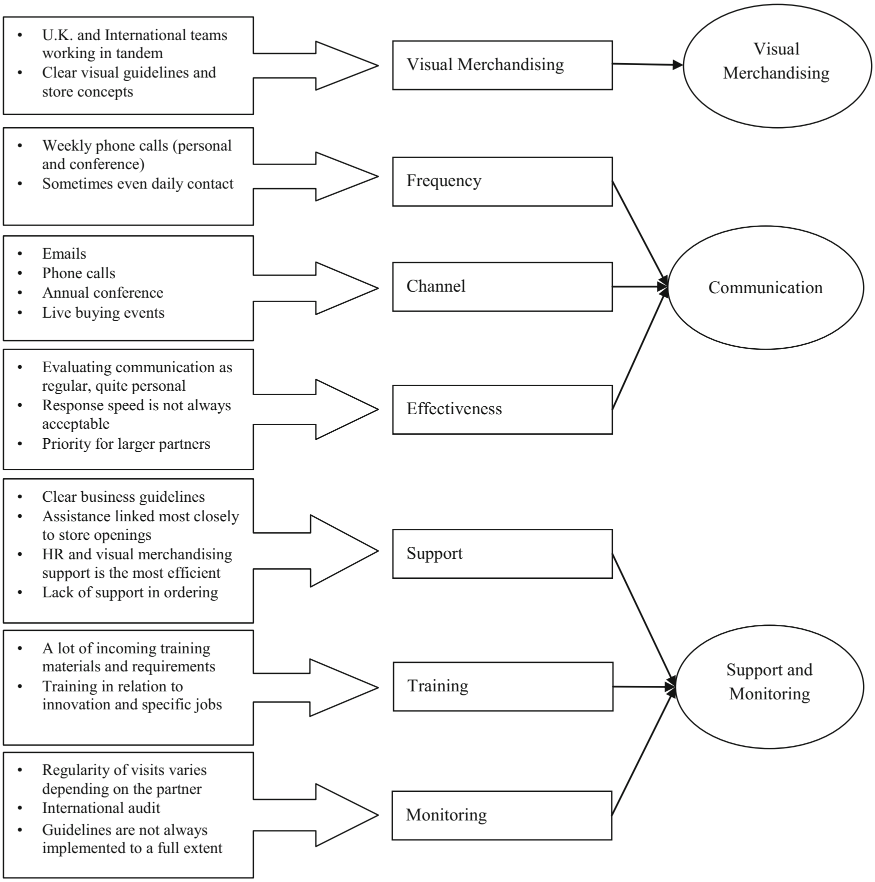

Fig. 1 (continued)

the franchisor's senior management in the planning stages of the research project. Second, questions should draw from literature-sourced organizing frameworks (e.g., Combs, Ketchen, & Short, 2011) in order to capture current streams and developments within (international) franchising research. The franchisor also provided franchise manuals, contracts, and other documentary evidence through which to triangulate the interview data.

A general advantage of case study research is that it illustrates actual experiences of managers and firms (Doherty & Alexander, 2006). The current application of the method is novel, for an international franchising study, insofar as we include: perspectives of decision-makers of retailers on both sides of the franchisor–franchisee divide; and retailers operating in diverse local market conditions with varying levels of experience in franchising. Commonly and understandably, given logistical difficulties, studies on international franchising collect primary data solely from one side (Baena & Cerviño, 2009).

For analysis purposes, we followed the procedures of Gioia, Corley, & Hamilton, (2013). The researchers first independently coded transcripts of the recorded interviews and, from this textual analysis, identified first-order categories. Next, we looked at the data to identify relationships between and among the categories to develop second-order categories or groups. Finally, we matched our second-order categories under aggregate dimensions comprising general themes. Figure 1 demonstrates the analytical process, which is based on a mix of home (franchisor head office), regional (franchisee head office), and store-level interviews.

5 Discussion of the Findings

In the following sections, we present results from the qualitative analysis addressing seven main themes that emerged in the interviews: logistics and supply chain; buying and merchandising; brand building; marketing and advertising; visual merchandising (VM); communication; and support and monitoring. The interview discussions suggested positive perceptions of the working relationship across these areas are instrumental in building and sustaining high-trust, franchisor–franchisee partnerships. Indeed, the franchisor was of the view that developing good practices and working relationships across these seven themes ultimately leads to better franchising performance.

5.1 Logistics and Supply Chain

Issues around logistics and supply chain management appeared pervasive across different franchisee locations. Commercial problems were identified by the franchisees in relation to the ordering system, pricing, and lead times. It was noted that very often stock data files (i.e., master files from the U.K.) were not accurate enough and had wrong information on availability, sizes, and pricing for some clothing items, requiring additional checking to be completed by franchisees before placing orders.

Some franchisees strongly believed that a lack of visibility or tracking options of the order that was placed is a serious problem, as they would prefer knowing when to expect the order's arrival on more precise, rather than approximate, terms. This would also help them to plan better future orders as well as to make the most of seasonal launches and sales periods. A typical comment capturing these sentiments is as follows: "*We'd love to be able to see when products come in, we'd like to be able to phase our orders, and we'd like to be able to place more than four orders a year.*"

A number of the interviewed franchisee managers pointed out that lead times were exceptionally long, since the orders need to be placed around nine months in advance to get them on time for launches. Although it was understood that geographical distances precluded short lead times, the current state of affairs was consistently viewed as a big problem for the sales performance of franchisees that are retailing businesses; because of the fast-moving nature of retailing in emerging markets. They believed that if the franchisor was able to provide additional top-ups of products when needed throughout the year, instead of having spikes of deliveries, this would secure higher sales and drive mutual profits.

Another concern, shared by many franchisee interviewees, was that the original price they saw when placing orders very often changed before the payment was due. The franchisor explained that a purchase order is not raised against the initial order, leading to frequent price changes, because at the time when the order is being placed some of the garments are not yet produced and adjustments in materials and time can cause price changes later on. The franchisees lacked complete knowledge of the causes of the price fluctuations described here.

5.2 Buying and Merchandising

The minimum credible offer (i.e., product lines all franchisees are expected to carry) developed by the franchisor was found to be very useful by most franchisees. It was seen as protecting brand values rather than as being too prescriptive. Similarly, live buying events were highly valued—they were viewed as providing great opportunities for franchise partners to familiarize themselves with the latest collections and plan their businesses accordingly. To determine whether certain products of the franchisor (e.g., clothing) are suitable for the franchisee's own customers, there is no substitute for seeing the product. One franchisee buying manager noted: "*Previously I have bought €50 dresses and the minute they arrive I know they will not sell as the fabric is inappropriate for my customers.*"

The fact that buyers—especially those who represent large regional retailers—were not involved in the initial product range planning was noted as an evident drawback. The process is that the franchisor provides the catalogue from which the franchisees purchase. Instead, buyers would have liked to apply their local market knowledge and convey to the franchisor their understanding of customer preferences in the market(s) they operate in.

Franchisees believed that for some territories it would be greatly beneficial in a commercial sense to provide more localized products in line with customers' cultural preferences, religious beliefs, and national holidays. The customer base in the interviewed regions is diverse, and even varies considerably within a single national market. Moreover, seasons vary dramatically compared to the U.K., which is why the franchisor's quarterly catalogue sometimes was deemed insufficient for foreign markets. One franchisee manager noted: "*It feels we are not embedded in the U.K. strategy, and when it comes to our regional requirements, how we want the stock delivered, our weather constraints and seasonality, they do not seem to be considered.*"

Other issues surfaced with regard to deliveries and product availability from the U.K. Many franchisees have experienced problems with late deliveries affecting their sales and seasonal launches. In addition, there are also cases of wrong deliveries that contain incorrect items or miss the right sizes, etc. The ability of the franchisor to replenish top-selling stock and provide additional top-ups for foreign markets was also described as weak. Where demand fluctuations existed across the franchisee's retail stores, merchandising managers would switch stock between them rather than replenish stock. Franchisees had an impression that the U.K. market is prioritized by the franchisor—indeed, many established retailers internationalize using variants of systems first developed to fit the domestic business. Hence, there was a perception that top selling products would first reach the shelves of U.K. stores, rather than international ones. One franchisee, which had had a particular order rebuffed, noted how it had then observed the product in a U.K. store. The franchisees thought that addressing this ethnocentrism is a big untapped opportunity for boosting international sales of the franchisor, which would again result in mutual profit.

5.3 Brand Building

Brand building was seen as an essential process for business and relationship growth, and franchisees were convinced that both sides are responsible for building the brand internationally. Generally, the franchisees were on the same page as the franchisor with respect to what they believed the brand stood for among their customers. A relevant quote is as follows: "*We see ourselves as the brand ambassadors. It is our responsibility to deliver the same customer experience (in terms of marketing, service and product, etc.) that one would experience when visiting a store in the U.K.*"

All franchisees emphasized that the franchisor's brand has great customer awareness and is well established; it is widely recognized for its quality, service, and innovation. These brand attributes were mentioned consistently in all interviews, suggesting that they are strengths of the brand irrespective of local market and cultural considerations. The brand is respected for quality even in comparison to some local market leaders, with franchisees often referring to food quality and clothing durability. Customer service is seen as very good, provided by loyal, committed, and professional staff. Innovation is perceived as something that no competing brands do as well in the franchise markets. Indeed, the role played by product innovation as a core brand value would seem to be stronger in overseas territories than in the franchisor's domestic market. Some franchisees believed that there were instances where level of control exhibited by the franchisor limited their ability to develop the brand and increase sales revenues internationally. Some franchisees thought that it is inevitable for them to adjust some branding recommendations of the franchisor, in order to become more market-oriented; as such, a form of co-brand development would transpire.

5.4 Marketing and Advertising

Although marketing and advertising activities were approached cooperatively by the partners' marketing teams, there were aspects causing dissatisfaction among certain franchisees. Some of the issues were in relation to marketing assets. Interviewees pointed out that advertising images sometimes do not increase sales revenues in their areas, because of celebrities endorsed not being easily recognizable. To this point, one said: "*So they either find a celebrity that is international, that is, someone customers here can relate to, or maybe develop something specifically for our region. We are quite a big business for them.*"

Franchisees emphasized that considerable media assets received from the franchisor required adaptation for local preferences, customs, and religious requirements. Some partners also thought that it would be more appropriate for them to be able to do their own photo shoots, albeit under the U.K. team's supervision, as they know certain local preferences and perceptions better and could account for that in the imagery. Moreover, at times franchisees would not be able to get the images they preferred and found suitable for their market due to copyright issues; some images are only allowed to be used in the U.K. market. Another critical aspect was identified in relation to the display of images in-store. Franchisee marketing managers found it difficult to select the promotional images they would actually use in stores, because some of the clothing items depicted were not available for their region, or the franchisee had not ordered them even if available. In other words, they would try to select the images in line with the clothes that are in stock. Finally, additional (i.e., as currently unsupported) advertising media channels such as catalogue and social media were mentioned as potentially useful for franchisees in customer acquisition.

5.5 Visual Merchandising

Based on the interviewees' comments, the area of VM appeared to be one of the strongest and most efficient areas. Overall, it was perceived that franchisee teams responsible for the way goods are displayed in-store (i.e., in order to highlight their features and benefits) are working collaboratively and communicate efficiently with the U.K. head office. The VM guidelines provided from the U.K.in the franchise manual—the latest version of which is readily available via the intranet—were referred to as "*sufficient, detailed and appropriate.*" It was also pointed out that those guidelines were quite global, in a sense trying to account for all the possible local needs of specific stores. The international store planning team of the franchisor was characterized as helpful and supportive.

Still, franchisees mentioned that sometimes they would deem it essential to change some of the recommended VM elements. In most cases they would seek initial confirmation from the franchisor's head office in order to preserve high levels of trust. One manager explained: “*There are times when we will tweak things in the guidelines, our seasons are much different here, we don’t have the same holidays, there are differences between markets too. So we have to adapt if we want to sell.*”

5.6 Communication

Communication emerged as a factor that is at the core of efficient and effective area development franchising relationships; wherein, the franchisee’s head office is the conduit for channeling franchisor communications through to the store level, and vice versa. Communication with franchise partners consisted of both formal and informal modes, mostly being based on e-mails and telephone calls. Other channels included meetings and marketing conferences, the live buying events, as well as visits from the U.K. international team to the franchisees. Some franchisees mentioned that the regularity of visits varies across different locations and is not consistent or changes over time. They were not always knowledgeable as to why this was—for instance, some store managers lacked awareness that visits coincided with new store launches. The franchisor interviewees suggested they had a strategic objective of increasing the number of stores overseas to increase the footprint of its brand. Yet organizing visits around new store openings is of little tangible benefit to the performance outcomes of existing stores that are already representing the brand to loyal customers.

The response speed of the franchisor in relation to e-mails was evaluated as not always adequate, especially considering some urgent issues. This evaluation, however, varied depending on the particular contact person’s function. For instance, the response speed of VM and marketing people in the U.K. was seen as very fast. Communications concerning non-routine matters had a much longer response time from the U.K.

In addition, some franchisees suggested that it would be really beneficial to have a dedicated country contact person in the U.K.—that is, someone who would deal particularly with their country or region—in order to increase understanding within the (large) franchisor of the needs and requirements of local business operations. In general, franchisees believed that localized and personalized communication is one of the most important aspects in building and maintaining trust. A typical comment raising this issue is as follows: “*I think it would be more successful if a relationship could be built based on a country brand manager in the U.K., who would know us well, our market and stores, my name, my people.*” In some cases, smaller franchisees felt they are not equally addressed in terms of regular communications via phone, e-mail, and visits, compared with larger ones. Such sensitivities are exacerbated when small franchisees are presented with information on their relative size versus others within the franchise system (e.g., spreadsheets with data by territory).

The cloud (i.e., intranet for the franchise system) was perceived as an undoubtedly useful platform to support communication. Some interviewees though thought this online platform should be modified to facilitate communications with other franchisees of the franchisor; with which there is little communication otherwise. Franchisee managers would see each other periodically at franchisor-organized events (e.g., conferences). Still, franchisees suggested that it would be highly advantageous for them to be able to communicate regularly with other franchisees, as this would optimize knowledge sharing and learning from best practices wherever they emerge in the network. A typical comment follows: "*It is very important to share best practices with other franchise partners. Some markets operate very differently and it is always interesting to know how they drive sales. We have very little chance to exchange views with other franchisees.*"

5.7 Support and Monitoring

All franchisees perceived that support is at a high level and ongoing, especially in relation to general principles, store design/merchandizing guidelines, and HR practices and training. On certain occasions franchisees would adjust guidelines depending on their store's layout, customers, and location. Some changes are discussed and agreed on with the franchisor, while others are put in place unilaterally by the franchisee. At the same time, this does not happen often since franchisor support around store openings is seen as very helpful and sufficient. Emphasizing the general point, one manager said: "*For example, we are opening a new store now and I'm starting to communicate with the U.K. on how we should advertise, what images we should use, that sort of thing. And I'll have that support no doubt.*"

Franchise partners had a very positive attitude toward all the training support that is provided by the franchisor via the intranet, e-mails, and in-person. It was observed that the provision of training by a large Western retailer has a certain cachet among franchisee staff; especially for the human capital within smaller overseas retailers that lack comparable in-house training. Franchisee managers believed that this type of support is crucial for the recruitment of suitable staff for stores and, hence, business development in the longer term.

Monitoring is perceived as being light, with low levels of involvement from the franchisor's side. It mostly consisted of international visits and the occasional checking of SWOTs and strategic statements sent by franchisees to the U.K. head office. International sales data monitoring has been put into practice fairly recently. Such a monitoring approach is suggestive of the high levels of trust the franchisor has in its franchisees. Almost certainly, this stems from the history of their franchising partnerships—decades of history in some cases that precludes even a trust but verify approach. The franchisees understood what this degree of trust means, as their own experiences usually included more prescriptive and inflexible franchising agreements with other Western franchisors.

Nonetheless, because monitoring is a natural part of franchising agreements, the franchisees believed that it would be commercially beneficial for the franchisor to become more proactive in monitoring the business performance of franchisees and providing necessary support to this end; rather than just checking operational compliance with respect to VM, marketing, and brand guidelines. Finally, it was clear from both the franchisor and franchisee interviewees that the level of monitoring varies across franchisees. The regularity of visits differs from one franchisee to another depending on their unique circumstances.

6 Discussion and Implications

Clearly, the traditional franchising approach of an unilaterally managed exchange through a stringent agreement document, together with attentive monitoring of franchisee compliance (Dant & Grünhagen, 2014), was not favored by our focal franchisor. On the one hand, it is surprising that details on, and uses of, the franchise agreement were largely absent from our interview discussions with senior management at the head offices of the franchisor and franchisees. On the other, limited previous research on the topic has suggested something similar. Doherty and Alexander (2004), for example, observed a de-emphasis of the legal contract in their case study conversations with international retail franchisors.

The focal franchisor is of view that cross-border franchising is optimally developed through openly communicating with and trusting a capable franchisee. An open relationship characterized by mutual trust and communication that is ongoing and collaborative in its nature (Merrilees, 2014), can substitute for the formal side of the relationship as the means of achieving and maintaining the highest level of performance. More specifically, the openness and willingness of the two sides to listen to one another allows the identification and discussion of problems facing the franchisor and/or franchisee. We observed that open communication helped to arrive at solutions to improve decision-making around the elements of the brand, advertising, selection of merchandise, and logistical aspects. Grievances were aired and ideas for improvement considered. Not all problems in the relationship are solvable, but they are not allowed to fester nevertheless. For instance, the negative impact of global logistics on ordering lead-times is set to continue, as the requirement that franchisees purchase their goods directly from the franchisor is immutable. Yet, a new ordering system is being put in place by the franchisor to alleviate problems with the tracking of orders.

Given the scope and scale of area development franchisees, and the damage they could inflict upon a franchisor's retail brand overseas (i.e., if a partnership went wrong), it is difficult to see an alternative to listening to franchisees' commercial issues and flexibly making some concessions. Indeed, enduring relationships with area development franchisees, based on the comprehensive pooling of resources and sharing of tasks, can take on aspects of strategic alliance management. Our findings imply that the mutual dependency that characterizes the franchisor–area development franchisee relationship creates natural concerns about, and sensitivity to, the continuance of the relationship (cf. Robson, Spyropoulou, & Al-Khalifa, 2006). These concerns drive the partners' efforts to be responsive to each other's requirements over time. The issue of cross-border franchising being a Cinderella topic in international marketing is potentially addressable via the careful transfer of theoretical insights from the sizeable literature on cross-border alliances and joint ventures (Christoffersen et al., 2014). It is important that future research examines areas of overlap of area development franchising and alliances, given that there are also disparities in these models of foreign-market expansion.

The cultural differences across country retail markets can be so extreme that it would be suboptimal for a franchisor, irrespective of its resource base and experience, to dictate all branding strategy and operational considerations overseas. We observed that the franchisor is reliant on the franchisee to make and implement decisions in the local marketplace and absorb risks. In area development franchising, large-sized and/or experienced franchisees typically contribute to adaptation decisions. This finding contrasts work on other low investment risk entry modes (e.g., exporting and licensing). The exporting literature, for example, mostly assumes that such decisions are made solely by exporters. In reality, the key to success involves finding the right balance between system-level standardization and localization in emerging markets (Katsikeas, Samiee, Theodosiou, 2006; Zeriti, Robson, Spyropoulou, & Leonidou, 2014). Growth in international markets is both facilitated and limited by a consistent brand image and uniform product and service standards (Hultman et al., 2011). Prima facie, the franchisor derives value from maintaining uniformity of their marketing strategy across territories, while individual franchisees benefit from enhancing local responsiveness to meet the demands of different markets they operate in (Weaven & Frazer, 2007). But establishing and sustaining a good relationship with franchisees is one of the key challenges facing franchisors, otherwise they become demotivated (Blut et al., 2011). Our results support not only that some localization needs to happen, but also that it could follow two different approaches.

First, balance can be achieved by permitting some flexibility through treating the franchising strategy as a *hierarchy* with the different levels and features (Watson et al., 2016). Following this approach, strategy at the highest level, which links to brand reputation, is fixed as it includes the guiding principles on which the business operation is based. At the same time, for strategy at the bottom of the hierarchy (e.g., related to the specific product offering, VM, pricing, etc., as our findings show) variations are allowed in response to local learning (Jonsson & Foss, 2011; Watson et al., 2016). Second, we observe that there are good marketing reasons for encouraging the franchisor–franchisee relationship to develop to the point where both sides feel responsible for the brand overseas (i.e., a level of *co-branding*). Branding adaptations to suit local market conditions and improve sales and mutual profits in the territory can be made in a way that does not jettison brand uniformity as far as customers are concerned. For instance, the focal franchisor's existing brand value of product innovation had been turned up by the franchisee in a particular emerging market that was characterized by a younger, more aspirational customer base than the U.K. In sum, it is important that scholars advance our knowledge of the formulation and implementation of both approaches to marketing strategy adaptation in area development and other forms of international franchising (Jell-Ojobor & Windsperger, 2014).

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Part IX
Special Issues in International Marketing

Intercultural Service Encounters (ICSEs): Challenges and Opportunities for International Services Marketers

Piyush Sharma, Jackie L.M. Tam, Namwoon Kim, Wu Zhan and Yong Su

Abstract Intercultural service encounters (ICSEs) involve interactions between customers and employees from diverse cultures and these are growing in importance due to the increase in the number of immigrants, migrant workers, students, tourists and businesspeople traveling to other countries, with the rapid rise in globalization in recent years. Prior research on ICSEs has used diverse theoretical perspectives to study this phenomenon, exploring the effects of perceived cultural distance, interaction comfort, inter-role congruence, service outcomes and roles on customer evaluations such as perceive service quality and customer satisfaction. A few studies also explore the role of consumer ethnocentrism and intercultural competence as moderators. However, due to the nascent nature of this field of research, there are still many unanswered questions and research gaps. This book chapter reviews the extant literature on intercultural service encounters to identify a few important research gaps and proposes many useful directions for future research to address those gaps in a meaningful manner.

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1 Introduction

With a rapid rise in the globalization of the world economy in the last few decades, the number of people traveling to other countries for business, education, employment, migration and tourism has grown exponentially (Sharma, Zhan, & Su, 2016; Tam, Sharma, & Kim, 2016). For example, by the middle of 2015, there were 243.7 million international migrants around the world, accounting for 3.3% of the World's population (United Nations, 2015), with more than half of these (140.5 million) in the developed countries (11.2% of their population). United States leads with 46.6 million migrants, followed by Germany (12.0), UK (8.5), Canada (7.8), Australia (6.8), Italy and Spain (5.8 each). Saudi Arabia (10.2) and UAE (8.1) also account for a sizeable number of migrants who are mostly workers from South Asian countries. At the same time, the number of international tourists reached a record 1.2 billion in 2015, to generate about US$1.4 trillion in receipts and contribute 10% of global GDP and 6% of the world's total exports (UNWTO, 2016).

Although the above numbers are quite large on their own, if we add the number of people traveling overseas for education, employment and business, it is quite possible that at any given point of time, almost 2 billion people are present in a country different from the one they were born in, which accounts for more than one-fourth of world's population. This is a staggering figure and it clearly indicates an unprecedented increase in the number of interactions among people from different cultures (Etgar & Fuchs, 2011; Teng, 2011, Wang & Mattila, 2010). Prior research shows that such intercultural interactions help people experience other cultures but it also poses a big challenge for them if they are not aware of other cultures, willing to learn and accept their cultural differences and adapt their own behavior through acculturation if they are permanent migrants such as immigrants (Berry, 1974, 2005) or cross-cultural adjustment if they are only temporary visitors such as students, expatriate workers, tourists or business travelers (Ward & Kennedy, 2001; Ward & Rana-Deuba, 2000).

International services marketing research shows that intercultural interactions may lead to ethno-cultural identity conflict (Leong & Ward, 2000; Ward, 2008), misattributions, communication gaps, stereotyping, ethnocentrism, prejudice and discrimination (Stening, 1979), intolerance, confrontation and even violence ethnic minorities (Johnson, Meyers, & Williams, 2013). Intercultural service encounters also lead to greater emotional labor, need for surface acting and inter-group anxiety by frontline service people (Chuapetcharasopon, 2014). Therefore, it is not surprising to see a growing research interest on intercultural service encounters (ICSEs) in which customers and employees from different cultures interact with each other (Sharma, Tam and Kim, 2009, 2012, 2015; Sharma & Zhan, 2015; Sharma et al., 2016; Tam, Sharma, & Kim, 2014; Tam et al., 2016).

In this context, both marketing academics and practitioners now recognize intercultural service encounter as inevitable outcomes of globalization and necessary elements of an increasingly diverse global Servicescape (Demangeot, Broderick, & Craig, 2015; Tam et al., 2014). There has also been an increasing recognition of the need to study and learn from the challenges posed by differences in the way customers and employees from diverse ethnic, cultural, national and socio-economic profiles expect, perceive and evaluate their experiences in intercultural service encounters (Chuapetcharasopon, 2014; Sharma et al., 2015; Sharma & Zhan, 2015). *In this book chapter, the authors review and synthesize extant research on intercultural service encounters, discuss their implications for international services marketers as well as academic researchers, identify several important research gaps and open questions, and offer some useful directions for future research.*

2 Literature Review

2.1 Cross-Cultural Differences in Service Encounters

Culture has been defined as the "collective programming of the mind, which distinguishes the members of one group or category from another" (Hofstede, 1980). Culture is also described as the lens through which customers perceive and evaluate their service experiences, hence it is not surprising to see that people in different cultures have significantly different perceptions about themselves and between people from their own and other cultures (Markus & Kitayama, 1991). These differences have a major role in shaping people's expectations, perceptions, cognitions, emotions, motivations and indeed their experiences in general.

Prior research in the services context documents culture's influence and a wide range of cross-cultural differences in almost every facet of customers' service experience (Zhang, Beatty, & Walsh, 2005, 2008), which includes their expectations from service encounters (Donthu & Yoo, 1998; Furrer, Liu, & Sudharshan, 2000; Laroche, Kalamas, & Cleveland, 2005), perceptions like perceived service quality (Herbig & Genestre, 1996; Laroche, Ueltschy, Abe, Cleveland, & Yannopoulos, 2004; Voss, Roth, Rosenzweig, Blackmon, & Chase, 2004; Witkowski & Wolfinbarger, 2002), evaluations such as satisfaction (Imrie, 2005; Mattila, 1999b; Ueltschy, Laroche, Tamilia, & Yannopoulos, 2004; Winsted, 1997) and behavioral intentions (Furrer et al., 2000; Liu, Furrer, & Sudharshan, 2001; Poon, Hui, & Au, 2004).

Most studies in this context use Hofstede's (1980, 1991, 2001) individualism-collectivism dimension while a few use his other dimensions, such as power distance, masculinity-femininity uncertainty avoidance and long-term orientation. For example, customers from individualistic cultures (e.g., USA) are more likely to complain against service failure than those from collectivist cultures such as China, Singapore and Korea, which may be due to the differences in who do they attribute for the service failure (Liu et al., 2001; Liu & McClure, 2001). Similarly, individualistic customers (e.g., Canadians) experience lower levels of perceived control in service failures compared to the provider, than collectivistic customers (e.g., Chinese) (Poon et al., 2004). Customers from individualistic cultures are also more independent, self-oriented, and competitive; and they focus more on goal completion. Moreover, due to their individual drive and self-responsibility ethic, they expect others also to be efficient and prefer efficient service delivery even if it is delivered in an impersonal manner (Riddle, 1992).

Customers from individualistic cultures have higher levels of service expectations than those from collectivistic cultures (Donthu & Yoo, 1998; Furrer et al., 2000; Laroche et al., 2005). Individualists expect more empathy and assurance from the service providers; are more likely to focus on their own needs and are more intolerant of poor service performance, than collectivists (Donthu & Yoo, 1998). Customers from long-term orientation cultures put less emphasis on the information about the present and are more tolerant of poor service in the short-term, which is similar to customers from low uncertainty avoidance with higher tolerance for ambiguity and are more likely to accept service failure (Donthu & Yoo, 1998).

Customers in different cultures evaluate and perceive service quality differently, possibly due to the differences in their expectations based on service levels in their home cultures. For example, Mexican respondents rate service quality higher than Americans (Herbig & Genestre, 1996), while German respondents have lower service expectations than Americans (Witkowski & Wolfinbarger, 2002). Similarly, customers in UK are more tolerant of poor service quality than Americans possibly due to their conservative and "stiff upper lip" culture (Voss et al., 2004) and Japanese customers express lower ratings of quality perceptions (Laroche et al., 2004).

Customers from diverse cultures also use different factors to evaluate their service experiences. For example, Japanese respondents emphasize "caring for the customer", which may be due to their unique oriental cultural values (Winsted, 1997), while Taiwanese respondents stress the importance of "generosity", which could be due to their strong Confucian cultural ethics (Imrie, 2005). Asian cultures generally emphasize interpersonal relationships, which makes the quality of interactions between the service employee and the customers a vital factor in the process by which customers evaluate their service experience (Riddle, 1992). Collectivistic cultures follow social hierarchies that leads to higher power distance than in individualistic cultures (Hofstede, 1991), hence customers in collectivistic cultures expect to be treated with respect by service employees whom they regard to be of a lower social status. Customers from Western cultures (low context) are also more likely than their Eastern counterparts (high context) to rely on tangible rather than intangible elements in their service evaluations (Mattila, 1999b).

Notwithstanding their invaluable contribution, most of these studies measured and compared customer expectations, perceptions and evaluations in two or more different cultural contexts and in this process, they only covered intracultural service encounters in which the customer and employee share the same cultural background and values. As a result, there was hardly any research on intercultural service encounters (ICSEs) in which the customer and employee have significantly different cultural background and values (Barker & Härtel, 2004; Hopkins, Hopkins, & Hoffman, 2005; Keillor, Lewison, Hult, & Hauser, 2007; Paswan &

Ganesh, 2005; Sharma et al., 2009; Stauss & Mang, 1999; Warden, Liu, & Huang, 2003; Weiermair, 2000). We next review the growing stream of research on ICSEs that has evolved over the last couple of decades.

2.2 Intercultural Service Encounters (ICSEs)

As discussed above, customers from different cultures have significantly different attitudes towards service employees and expectations from them, which affects how they interact with service employees from other cultures and evaluate their performance (Mattila, 1999a; Raajpoot, 2004; Stauss & Mang, 1999). Customers also indulge in cultural or national stereotyping when choosing a service provider (Hopkins et al., 2005; Javalgi & Martin, 2007; Ueltschy, Laroche, Eggert, & Bindl, 2007). In contrast, customers from minority cultures may also perceive a degree of discrimination in the behavior of service employees from the dominant culture, which may lead to lower perceived service quality and satisfaction (Barker & Härtel, 2004). Others argue that some ethnic customers may be less experienced and have communication difficulties in dealing with the service employees from other cultures, which may prompt them to blame the service employee for poor service (Bendapudi & Berry, 1997).

Recent research on intercultural service encounters explores the roles of a wide variety of variables with early studies focusing on the behavioral biases in the employees' responses (Martin & Adams, 1999; McCormick & Kinloch, 1986), culture shock (Stauss & Mang, 1999), perceived discrimination (Barker & Härtel, 2004) and cross-cultural interaction comfort (Paswan & Ganesh, 2005). Subsequent studies explore the roles of consumer ethnocentrism (Javalgi & Martin, 2007; Sharma, Sivakumaran, & Marshall, 2005; Sharma & Zhan, 2015; Ueltschy et al., 2007), cultural and ethnic dissimilarity (Etgar & Fuchs, 2011) and perceived cultural distance, intercultural competence and inter-role congruence (Sharma et al., 2009, 2012).

More recently, researchers have explored customer reactions to service failure and subsequent recovery in intercultural service encounters (de Matos, Fernandes, Leis, & Trez, 2011; Wang & Mattila, 2011) and the role of ethnic accents (Tombs & Rao Hill, 2014), cultural attributions (Tam et al., 2014), personal cultural orientations (Sharma et al., 2016; Tam et al., 2016) and service roles and outcomes (Sharma et al., 2012, 2015) as well as employee's acculturation behaviors (Poulis, Poulis, & Yamin, 2013; Gaur, Sharma, Herjanto, & Kingshott, 2017). However, despite growing research interest in this important area in services marketing, there are still many research gaps and unanswered questions, which we address in this chapter. In the next section, we review past literature on intercultural service encounters to identify some meaningful research gaps and to recommend directions for future research based on these gaps.

2.3 Intercultural Interaction

Prior research on intercultural interactions has focused on ethnic minorities, immigrants and sojourners using several important concepts, including acculturation (Berry, 1974, 2005), cross-cultural adjustment (Ward & Kennedy, 2001; Ward & Rana-Deuba, 2000), and ethno-cultural identity conflict (Leong & Ward, 2000; Ward, 2008). Cross-cultural contact is generally associated with problems such as communication gaps, stereotyping, ethnocentrism, misattributions, prejudice, discrimination and cultural distance (Stening, 1979). Cultural identity and cultural distance also have a strong influence on the process of psychological and socio-cultural adjustment (Searle & Ward, 1990; Ward, 2008) and acculturation (Poulis et al., 2013).

In this context, Bennett's (1986) six-stage developmental model of intercultural sensitivity provides useful insights by showing that people move through six different stages with an increase in their experience of cultural differences and intercultural competence: (1) denial of difference (isolation); (2) defense (perceiving cultural differences as a threat to their worldview); (3) minimization (accepting superficial differences while maintaining the assumption that people are basically the same); (4) acceptance (recognizing the viability of different cultural norms); (5) adaptation (knowing enough about another culture to intentionally shift frame of reference and modify behavior to fit its norms); and (6) integration (reconciling cultural differences and forging a multicultural identity). According to this model, when faced with cultural differences, people can develop intercultural sensitivity by actively engaging with those from other cultures and by going through the processes of cultural adaptation and integration. However, a failure to engage with other cultures could lead to intolerance, confrontation and even violence towards culturally distant service providers especially those from ethnic minorities (Johnson et al., 2013).

Sharma et al. (2009) argue that while intercultural service encounters may give new immigrants an opportunity to learn about their host culture so that they can adapt and integrate in their new environment, short-term visitors such as tourists may not need to integrate due to their limited interactions with the host culture, hence they may stay in a stage of denial or defense. On the other hand, expatriate workers, international students and business travelers may try to learn about other cultures because of their greater exposure to the other cultures; hence they may first minimize the cultural differences before learning to accept them. Thus, Bennett's Six-stage Model helps understand the differences in the attitudes and behaviors of these broad categories of people who could be involved in intercultural service encounters as customers or employees.

Sharma et al. (2009) also argue that Bennett's model may not help explain the attitudes and behaviors of customers and employees belonging to the dominant or minority host cultures. For example, majority of population in Hong Kong is ethnically Chinese but it has a sizeable population of foreigners who live and work there. Hence, at any given time, Hong Kong is likely to have a greater representation of ethnic Chinese in workforce (except for domestic helpers who are mainly from Philippines or Indonesia), whereas the foreigners are more likely to be customers rather than service providers in typical service industries. Moreover, the members of the dominant host culture may not be able to develop intercultural sensitivity unless they interact with people from other cultures in their daily lives or travel overseas to experience other cultures.

To address these limitations, Sharma et al. (2009) introduce a comprehensive conceptual framework to study the perceptions and behaviors of both customers and employees (Fig. 1), using the similarity-attraction paradigm as the theoretical basis for the dyadic exchange process involved in intercultural service encounters (Keillor et al., 2007). In this context, similarity is the extent to which people are similar to each other in terms of their attitudes, attributes or values (Smith, 1998). Prior research shows a positive effect of similarity in social interactions (Byrne, 1971), interpersonal friendships (Morry, 2007), marriages (Houts, Robins, & Huston, 1996), voluntary interactions (McPherson & Smith-Lovin, 1987), buyer-seller relationships (Smith, 1998) and even formal organizational settings (Tsui & O'Reilly, 1989).

Similarity facilitates information exchange, leads to liking and helps promote positive attitudes (Dellande, Gilly, & Graham, 2004), resulting in easier interactions (Smith, 1998), greater comfort, open communication, mutual understanding and stronger interpersonal bonds (Spake et al., 2003). In contrast, individuals with dissimilar interpersonal norms, morals and values may experience more conflict (Lin & Guan, 2002). Sharma et al. (2009) use these findings as the basis to explore the role of 'lack of similarity', which they call as 'perceived cultural distance', in intercultural service encounters.

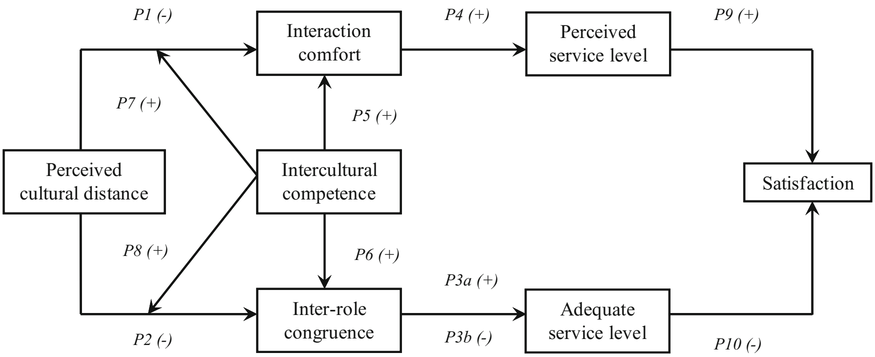

Fig. 1 Original ICSE conceptual framework (Sharma et al., 2009)

2.4 Perceived Cultural Distance (PCD)

Sharma et al. (2009, p. 229) define perceived cultural distance as the "extent to which people from one culture perceive those from other cultures to be different in terms of their ethnicity, nationality, language, values and customs". According to them, lower PCD should facilitate interpersonal communication between service customers and employees from different cultures and improve their awareness and understanding of each other's expectations; whereas higher PCD should have exactly the opposite effect. However, Sharma et al. (2009) demonstrate mixed evidence about the role of PCD in intercultural service encounters in prior research, with some showing a negative effect on customer preferences (Ali-Sulaiti & Baker, 1998; Harrison-Walker, 1995; Hopkins et al., 2005; Kulik & Holbrook, 2000), and others showing a positive impact on customer expectations (Weiermair, 2000), interaction comfort (Sharma et al., 2012) and satisfaction (Stauss & Mang, 1999; Warden et al., 2003).

Sharma et al. (2009) argue that one of the reasons for these mixed findings could be that most prior studies operationalized PCD at a national or group-level rather than at an individual-level, and they address this including PCD at an individual-level in their framework. They propose negative effects of PCD on interaction comfort (IC), a psychological state experienced by customers during a service encounter (Spake et al., 2003) and on inter-role congruence (IRC), the degree of agreement between the customers and employees on each other's roles in an intercultural service encounters (Solomon et al., 1985). Sharma et al. (2009) also propose effects of inter-role congruence on adequate service level (ASL), minimum level of service that customer are willing to accept, and interaction comfort on perceived service level (PSL), the level of service that customers think they received.

2.5 Intercultural Competence

Sharma et al. (2009) also introduce intercultural competence (ICC), the ability to think and act in appropriate ways with people from other cultures (Friedman & Antal, 2005), as a focal variable in intercultural service encounters. ICC is similar to other constructs, such as intercultural sensitivity, the ability to discriminate and experience relevant cultural differences (Bhawuk & Brislin, 1992; Hammer, Bennett, & Wiseman, 2003); intercultural effectiveness, the ability to have effective intercultural communication (Cui & Awa, 1992; Hammer, Gudykunst, & Wiseman, 1978); and cultural intelligence, the ability to gather, interpret, and act upon different cues to function effectively across different cultural settings (Earley & Ang, 2003). Based on these, Sharma et al. (2009) propose a positive effect of ICC on inter-role congruence and interaction comfort as well as a positive moderating effect on the negative impact of PCD on these two constructs and a negative (positive) effect of adequate (perceived) service level on satisfaction. Sharma et al. (2009) provide preliminary support for all their propositions with a qualitative study in Hong Kong using 50 in-depth interviews with customers and employees from diverse cultures in five service categories (Food and Beverages, Retailing, Entertainment, Hospitality and Transportation). However, they assume most relationships in their model to be similar in strength for both customers and employees, which may not necessarily be true due to significant differences in the expectations, perceptions and evaluations between these two roles.

2.6 Service Role (Customer Vs. Employee)

Sharma et al. (2012) use role theory (Solomon et al., 1985) to extend their original framework (Sharma et al., 2009) by hypothesizing differences in the strengths of various relationships based on service roles (customers vs. employees). Specifically, they argue that there are significant differences between customers and employees, in terms of perceived alternatives (ability to choose who they wish to serve or be served by), information availability (about the environment and circumstances behind service delivery), role expectations (professionalism, objectivity and standardization versus relationships, subjectivity and customization) and pressures (need for loyalty and commitment to their employer couple with an emphasis on efficiency, quality, and punctuality), which affect their attitudes and behaviors in intercultural service encounters.

Based on the above, Sharma et al. (2012) offer an extended ICSE framework (Fig. 2) and test it empirically using a field-experiment with 241 restaurant customers and 204 restaurant employees in Hong Kong. They use a service failure scenario and manipulate perceived cultural distance using photographs of Western vs. Asian customers. This study shows a stronger negative effect of perceived

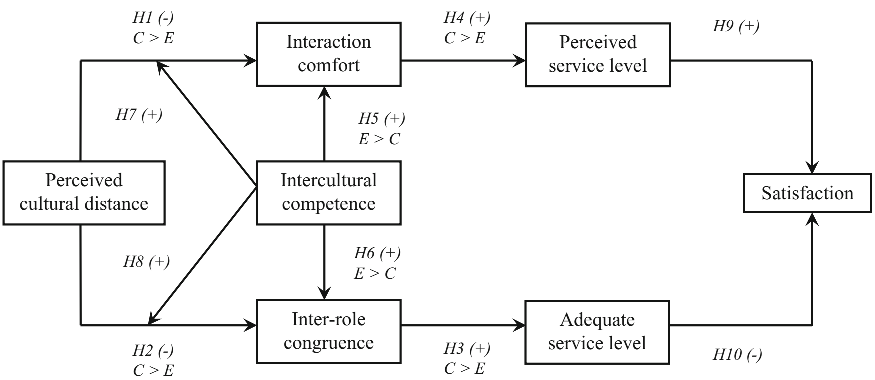

Fig. 2 Extended ICSE conceptual Framework (Sharma et al., 2012)

cultural distance on inter-role congruence and a stronger positive effect of interaction comfort on perceived service level and of inter-role congruence on adequate service level, for customers. In contrast, intercultural competence has a stronger positive effect on inter-role congruence for employees and it also seems to moderates the negative effect of perceived cultural distance on interaction comfort and inter-role congruence.

2.7 Cultural Attributions

Tam et al. (2014) extend the work by Sharma et al. (2009, 2012) by exploring the process underlying customer satisfaction process in intercultural service encounters using a model based on attribution theory (Fig. 3) to explain the relationship between perceived cultural distance and customer satisfaction and to empirically assess the hypothesized relationships using a quasi-experiment with 236 real customers (Tam et al., 2014). In-depth interviews with thirty customers also provide useful insights into their experience and evaluations in intercultural service encounters. Specifically, this study shows that cultural attributions mediate the influence of perceived cultural distance on customer satisfaction in intercultural service encounters and intercultural competence moderates this mediating role of cultural attributions, such that the relationship between cultural attribution and customer satisfaction is stronger for people with high intercultural competence (ICC) than those with low intercultural competence (ICC).

2.8 Service Outcome (Success Vs. Failure)

Sharma et al. (2015) further extend their prior research on intercultural service encounters by introducing a comprehensive conceptual framework (Fig. 4), which incorporates service roles (customer vs. employee) and outcomes (failure vs.

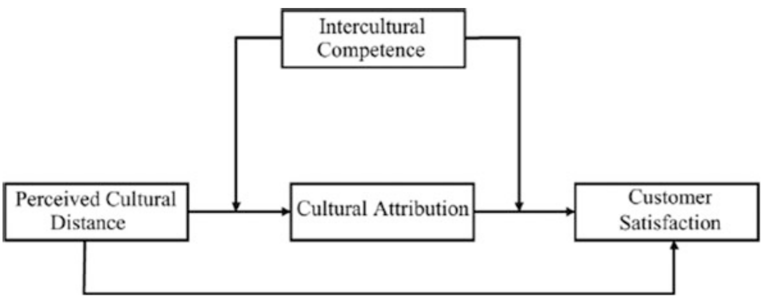

Fig. 3 Cultural attributions framework (Tam et al., 2014)

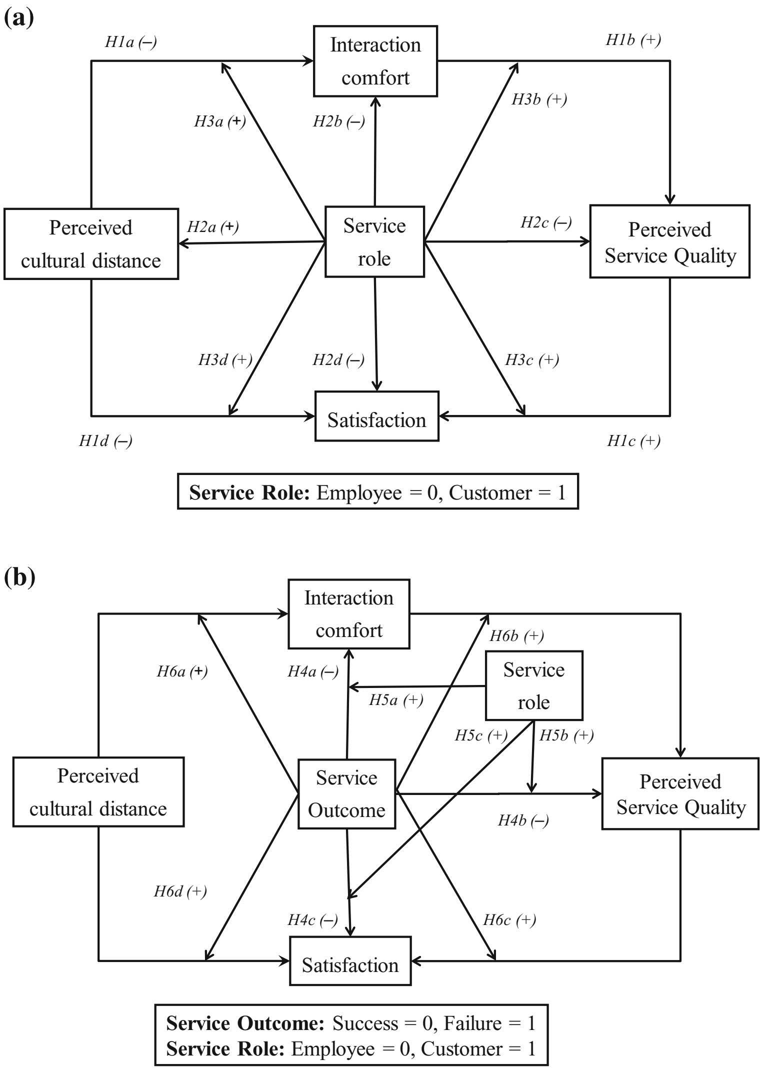

Fig. 4 **a** Service role framework (Sharma et al., 2015). **b** Service outcome framework (Sharma et al., 2015)

success) as moderators, of the negative effect that perceived cultural distance has on the customers and employees involved in intercultural service encounters. Sharma et al. (2015) use an experimental study with undergraduate students, using a 2 × 2 × 3 between-subjects design, to manipulate service role (customer vs. employee), outcome (failure vs. success) and target person ethnicity (Chinese vs. South-Asian vs. Caucasian) to study their effects on perceived service quality and satisfaction. They find that customers perceive higher cultural distance and lower interaction comfort, service quality and satisfaction, and stronger negative moderating effect of perceived cultural distance in intercultural service encounters, compared to employees. In addition, service failure (vs. success) leads to lower levels of interaction comfort, perceived service quality and satisfaction, and these effects are particularly stronger for the customers, compared to those for the employees.

2.9 Consumer Ethnocentrism

Sharma and Zhan (2015) further expand the ICSE framework by incorporating the direct and indirect effects of consumer ethnocentrism in addition to those of intercultural competence on the impact of service outcome and perceived cultural distance respectively on interaction comfort and perceived service quality in intercultural service encounters (Fig. 5). Sharma and Zhan (2015) use lab experiments with university students in Australia with a 2 × 2 between-subjects design and use service encounter scenarios to manipulate service outcome (failure or success) and photos of service employees to manipulate perceived cultural distance

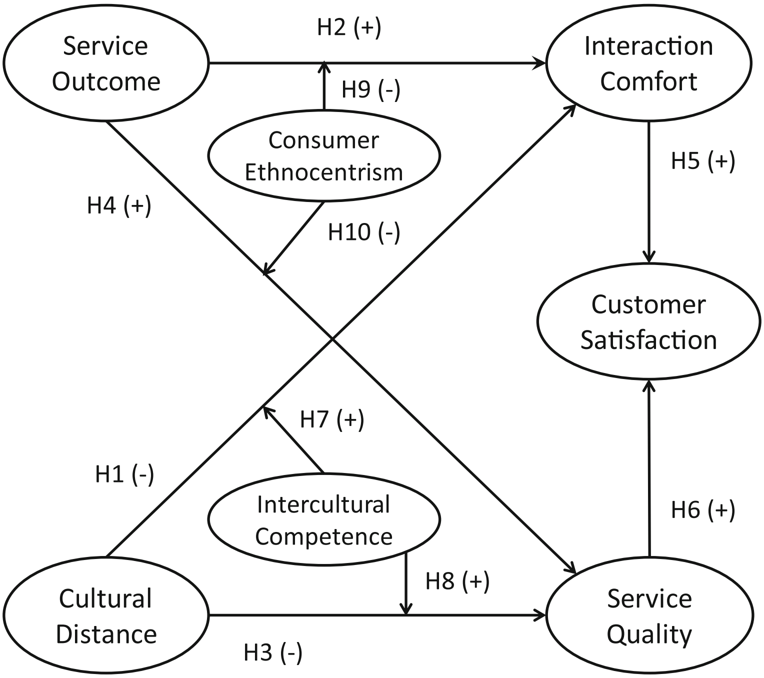

Fig. 5 Conceptual framework (Sharma & Wu, 2015)

(low vs. high). They find that consumer ethnocentrism and intercultural competence negatively (positively) moderate the effects of service outcome on interaction comfort and perceived service quality.

2.10 Non-cultural Attributions

Tam et al. (2016) combine attribution theory with social psychology theories and prior research on cross-cultural psychology and services marketing, to investigate the mediating roles of four types of attributions (employee, firm, self and cultural differences) and the moderating roles of four personal cultural orientations (independence, interdependence, power and social inequality) in an intercultural service encounter using a new comprehensive conceptual model (Fig. 6). Using a scenario-based quasi-experiment to manipulate service outcome (success vs. failure) and to measure the customer attributions and personal cultural orientations, Tam et al. (2016) show that the four personal cultural orientations partially moderate the mediating influence of the four customer attributions in the process by which service outcome affects customer satisfaction. These findings extend prior work by Tam et al. (2014) on the role of cultural attributions in intercultural service encounters by showing that non-cultural attributions towards the employee, firm and self, also play an important role in this process, and personal cultural orientations moderate the influence of many cultural and non-cultural attributions.

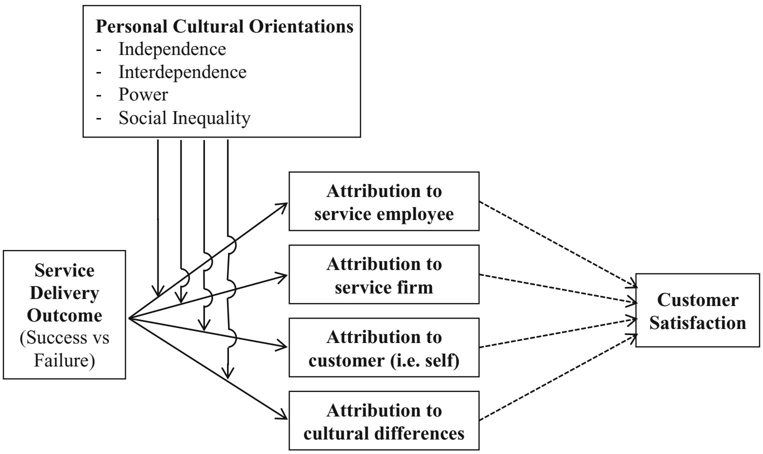

Fig. 6 ICSE attributions framework (Tam et al., 2016)

2.11 *Personal Cultural Orientations*

Finally, in their most recent paper, Sharma et al. (2016) explore the direct and indirect effects of four personal cultural orientations (independence, interdependence, risk aversion and ambiguity intolerance) in intercultural service encounters. Using a 2 × 2 between-subjects experimental design with customers in two countries (Australia and China) they employ imaginary scenarios to manipulate service outcome (failure or success) with photos of foreigners as customer or employee to prime perceived cultural distance. Their findings show that customers with higher (vs. lower) independence perceive greater interaction comfort, service quality and satisfaction, and are affected to a lesser extent by perceived cultural distance and service outcome. In contrast, customers with higher (vs. lower) risk aversion or ambiguity intolerance perceive lower interaction comfort, service quality and satisfaction, and are affected more strongly by perceived cultural distance and service outcome. These results extend our knowledge about the impact of customers' individual-level cultural factors on their experience in intercultural service encounters (Fig. 7).

3 Research Gaps and Future Directions

The above literature review reveals several gaps in the past research on intercultural service encounters that future research may be able to address in a meaningful manner. First of all, most studies in this area have been conducted in the Asia-pacific region (e.g., Australia, China and Hong Kong), which represent significantly different cultural values as well as stages of socio-economic development.

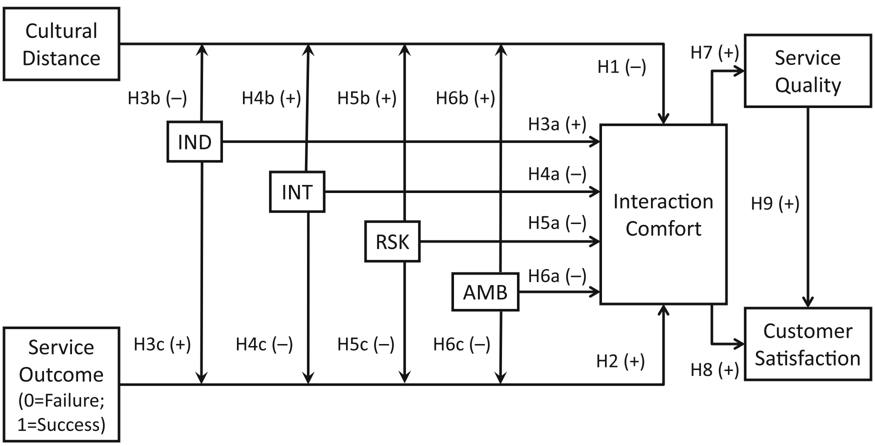

Fig. 7 PCO framework (Sharma et al., 2016)

However, for *greater generalizability*, it would be useful to conduct studies in other countries with a wider range of economic development and cultural orientations (e.g., in Europe, North and South America, Africa and other parts of Asia). Second, prior research on the role of individual-level cultural factors in intercultural service encounters has used either a few of Hofstede's (1980) national cultural dimensions or Sharma's (2010) personal cultural orientations, which are clearly not adequate to map such a complex phenomenon. Hence, future research could use *other cultural factors as potential moderators*, such as social inequality and gender equality (Sharma, 2010), power distance and masculinity/femininity (Hofstede, 1991), competence (Bond, 1988), achievement (Trompenaars, 1993), self-direction (Schwartz, 1994), autonomy (Steenkamp, 2001) and stereotypes (Hilton & Von Hippel, 1996) to provide additional insights into this complex socio-psychological phenomenon.

Third, most studies in this field use the customers' perspective (See Sharma et al., 2012 for exceptions, 2015), hence it would be useful to further explore the *differences and similarities between the customers and employees* in intercultural service encounters. Fourth, past research uses either scenario-based lab experiments or survey-based studies, hence future research should use other methods closer to the *real-life experiences* of customers and employees (e.g., critical incident technique and field experiments) with different types of services. Fifth, most prior studies have used relatively younger participants representing very few ethnicities (e.g., Chinese and Caucasian) without accounting for multiple cultural identities; hence future research with *more diverse samples* (older, diverse ethnicities and with more than one cultural identity) would help provide deeper insights into this interesting phenomenon.

Finally, recent studies explore the influence of employee characteristics, such as ethnicity (Baumann & Setogawa, 2014; Rizal, Jeng, & Chang, 2015), accents (Tombs & Rao Hill, 2014), gender (Khan, Ro, Gregory, & Hara, 2015), attentiveness (Lee, 2015), intercultural communication competence (Ihtiyar & Ahmad, 2015) and intercultural competency (Demangeot et al., 2013), on their performance and experiences in intercultural service encounters. However, there is no single comprehensive framework that combines customer and employee characteristics (e.g. personality and other traits) with situational factors (e.g., time pressure, involvement level and the interaction context—B2B vs. B2C, offline vs. online, face-to-face vs. remote etc.) in the context of intercultural service encounters. Efforts to develop such comprehensive frameworks would help future researchers investigate this research area of growing importance.

4 Research Questions

Based on the above discussion, we also put forth some specific research questions that future research may attempt to find answers to:

- How does culture shape customer and employee expectations, perceptions and evaluations in mono-cultural and multi-cultural service encounters?
- What are the differences in the impact of personal cultural values and national cultural dimensions on customers and employees in intercultural service encounters?
- What are the implications for services marketers in terms of service design and delivery mechanisms to improve the quality of interactions between their customers and employees involved in intercultural service encounters?
- How do various cultural, socio-economic and demographic variables interact with each other in order to influence culturally diverse groups of customers and employees?
- What are the roles played by various socio-psychological processes such as attributions, stereotypes, cross-cultural adjustment and adaptation in intercultural service encounters?
- What are the differences in the influence of intercultural competence, intercultural sensitivity and cultural intelligence in intercultural service encounters?
- How do different stages of cross-cultural adjustment (denial, defense, minimization, acceptance, adaptation and integration) affect the attitudes and behaviors of culturally diverse customers and employees involved in intercultural service encounters?
- What are the differences in the marketing strategies adopted by local and global services marketers to understand and address the cultural differences among their customers and employees (e.g., standardization vs. customization, localization vs. globalization)?
- How should service firms identify and address intercultural friction and conflict between their employees and customers? What are the resolution strategies that they can deploy to recover from service failure in intercultural service encounters?
- How can service firms and employees foster trust and relationship-building with culturally diverse customers in an intercultural service encounter setting?
- Can internal marketing play a role in creating a service culture among service employees in a firm to help them deal more effectively with culturally diverse customers?
- What are the implications of culturally diverse customers and employees for all the marketing mix elements, such as the core product or service, packaging, features, delivery process, employee selection and training, service scape design etc.?
- What role can human resources management (HRM) strategies and leadership play in recruitment, training, and promotion of culturally competent service employees?
- How do firms identify and develop new services to cater to culturally diverse customers—role of market research, service innovation and co-creation in new service design?

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Ethics, Sustainability, and Culture: A Review and Directions for Research

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Abstract Rising fuel prices, concerns over global warming, and increased consumer demands for more ethical business operations have prompted scholars to look into ethics and sustainability issues from a research angle. Thousands of articles have been published on the subject since the 1960s. However, despite the global nature and importance of ethics and sustainability issues, less attention has been paid to such issues within the international business domain. In addition, while a number of reviews were conducted in this area, these are too generic in focus to provide in-depth assessments of particular thematic areas of importance. Our work focuses on a specific international business area, namely the intersection between ethics and sustainability with culture. It identifies, reviews, and synthesizes previously published work in this area. The study uncovers inconsistencies, reveals critical knowledge gaps, and presents fruitful opportunities for researchers investigating the role of culture within the ethics and sustainability domains.

1 Introduction

During the last three decades, ethical, environmental, and social issues have received unprecedented attention in business research and specifically in disciplines such as management (e.g., Russo & Fouts, 1997; Sharma, 2000), operations (e.g., Linton, Klassen, & Jayaraman, 2007; Wu & Pagell, 2011), and marketing (e.g.,

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Leonidou, Katsikeas, & Morgan, 2013a, Leonidou, Kvasova, Leonidou, & Chari 2013b, Leonidou, Leonidou, & Kvasova 2013c; Menon & Menon, 1997). Though interest in such issues is heightened today because of rising fuel prices, concerns over global warming, and increased consumer demands for more ethical business operations, this research area is not new. Scholarly attention in ethical and sustainability issues dates back to the 1960s (e.g., Bartels, 1967; Baumhart, 1961; Kotler & Levy, 1969), with a particular focus on concepts such as 'societal marketing', 'marketing and businessethics' and 'social responsibility' (for detailed reviews see Chabowski, Mena, & Gonzalez-Padron, 2011; Leonidou & Leonidou, 2011; Schlegelmilch & Öberseder, 2010).

Ethics and sustainability can be considered as two separate research domains. Ethics can be defined as the "*inquiry into the nature and grounds of morality*" with morality meaning "*moral judgments, standards, and rule of conduct*" (Taylor, 1975, p. 1). In the ethics domain researchers focus on themes such as ethical issues related to sales, products, vulnerable consumers, and marketing research (Schlegelmilch & Öberseder, 2010). Sustainability has its roots in sustainable development which can be defined as the "*the development that meets the needs of the present without compromising the ability of future generations to meet their own needs*" (Brundtland, 1987, p. 43).[1] In the sustainability domain researchers investigate issues related to environmental management, green product development, and social responsibility (Leonidou & Leonidou, 2011). However, there is an overlap between the ethics and sustainability domains as areas of common interest exist such as ethical issues in green marketing, ethical issues related to social marketing, green advertising ethics, and environmental ethics.

Since the 1960s, the ethics and sustainability research domains have increased exponentially reaching a state of maturity (Leonidou & Leonidou, 2011; Schlegelmilch & Öberseder, 2010). At the same time, scholars have conducted insightful literature reviews to take stock of current knowledge and move forward in addressing important, yet under-researched, research questions (e.g., Eteokleous, Leonidou, & Katsikeas, 2016; Leonidou & Leonidou, 2011; O'Fallon & Butterfield, 2005). These earlier works reveal interesting issues that need to be addressed: (1) despite the global nature and growing importance of ethics and sustainability worldwide (Schlegelmilch & Öberseder, 2010), less attention has been placed to these issues within the international business domain (Eteokleous et al., 2016); (2) cultural-related issues, though important in understanding international marketing phenomena (Armstrong, 1996), have been largely ignored by scholars in the field (Leonidou & Leonidou, 2011); (3) despite their overlap, researchers treated ethics and sustainability issues in isolation; and (4) reviews on the subject are too generic in focus to provide in-depth assessments of particular thematic areas of importance.

[1]At the country level, these concepts focus on improving quality of life within the planet's capacity limits to supply natural resources indefinitely (Weybrecht, 2010). At the firm level, sustainability has been frequently associated with the Triple Bottom Line (TBL) framework introduced by Elkington (1998) stressing the need to balance three important dimensions namely economic prosperity, social equity, and ecological quality.

In contrast to previously published reviews, our work focuses on two related domains (i.e., ethics and sustainability) within a specific international business area, namely culture. Such a focus can help bring out the unique characteristics and idiosyncrasies of research findings in the ethics and sustainability domains (e.g., Etzion, 2007), consider the multiple levels of analysis to bridge the micro-macro divide in the area (e.g., Aguinis & Glavas, 2012), and provide a critical analysis of what has been and what needs to be done to advance knowledge on the subject.

In light of the above, our study identifies, reviews, and synthesizes previously published work in the ethics and sustainability interchange with culture. The purpose is to uncover inconsistencies, critical knowledge gaps, and fruitful opportunities for researchers investigating the role of culture within the ethics and sustainability domains. The rest of this study is organized in four parts. First, the structure and thematic silos of ethics and sustainability literatures are discussed. Then a discussion of the concept of national culture and its unique dimensions and perspectives follows. The literature on national culture and sustainability is subsequently reviewed, followed by identification of shortcomings in the literature and discussion of some interesting research avenues for future work in the field.

2 Ethics and Sustainability

The evolutionary path in the sustainability area saw the emergence of a number of research streams such as external sustainability influences, organizational sustainability strategies, and sustainability-related consumer concerns, behavior, and patterns (e.g., McDonagh & Prothero, 2014). Though the concept of sustainability is intertwined with green, societal, and economic issues, it is not easy to make a clear distinction between such issues, and other ostensibly related topics such as business ethics, responsibility, and health and safety. This is not surprising and explains the fragmented and widely diverse nature of the literature in this area (Etzion, 2007; Leonidou & Leonidou, 2011). Research examining ethics and sustainability issues can be intuitively classified into four broad streams: (1) environmental (e.g., Laroche, Bergeron, & Barbaro-Forleo, 2001; Luchs, Naylor, Irwin, & Raghunathan, 2010); (2) social (e.g., Koschate-Fischer, Stefan, & Hoyer, 2012; Skarmeas & Leonidou, 2013); (3) economic (e.g., Baker & Sinkula, 2005; Ferrell, Gonzalez-Padron, Hult, & Maignan, 2010); and (4) ethical/moral (e.g., Cullen, Parboteeah, & Hoegl, 2004; Husted, 2000).

Given the global nature of sustainability issues, researchers sought to examine environmental, social, and economic sustainability issues in the context of international business and marketing. The body of research in this area covered a wide range of areas such as international marketing strategy, consumer-related aspects, internal company influences, and public policy implications (e.g.,Riley, Kohlbacher, & Hofmeister, 2012; Varadarajan 2014; Zeriti, Robson, Spyropoulou, & Leonidou, 2014). However, a key aspect in this area is the examination of culture in the sustainability and ethics contexts (Eteokleous et al., 2016). For instance, a number of studies focused on the role of cultural factors in explaining diversity in the worldwide diffusion of codes of good governance (e.g., Haxhi and Van Ees 2010), while some other studies explored the role of culture in determining consumer attitudes and behavior toward socially responsible brands (e.g., Eisingerich & Rubera, 2010). Further, several studies (e.g., Husted, 2005; Park, Russell, & Lee, 2007; Vachon, 2010) have looked at the impact of national culture on national environmental sustainability levels and corporate sustainable operations in international markets.

When doing business in a foreign country, managers encounter different rules and regulations, cultural beliefs and traditions, and business guidelines. As a result, they might face moral and ethical dilemmas on a daily basis (Kolk & Van Tulder, 2004). The internationalization of companies and the globalization of trade accelerated the need to deal with important ethical issues from a global and international perspective. Noting this trend, researchers in the international ethical domain have looked at the unethical conduct of multinational corporations, and engaged in cross-national comparisons of issues such as corporate and consumer ethical decision making (Schlegelmilch & Öberseder, 2010). Findings seem to suggest that people from separate countries can have divergent ethical perceptions when their local cultures drive them to assign different moral significance on specific actions (Ho, 2010). As a result, what is ethical or not changes according to the national and cultural background. A number of studies in this area compared ethical perceptions using different country samples and extracted conclusions based on the cultural profile of each country.[2] A smaller number of studies focused specifically on cultural differences to explain business ethics issues. For example, researchers looked at the level of corruption and rate of software piracy in particular countries (Husted, 1999, 2000), ethical behavior of firms (Karaibrahimoglou & Cangarli, 2016), managerial willingness to justify unethical behaviors (Cullen et al., 2004), and consumer perceptions on ethical matters (Armstrong, 1996).

3 Culture

Culture generally refers to the way of life, especially the customs and beliefs, of a particular group of people at a particular time. It is a complex concept and several definitions of culture have been proposed in the literature. For example, in a critical review of definitions and a general discussion of culture theory Kroeber and Kluckhohn (1952, p. 181) conclude that: "*culture consists of patterns, explicit and implicit, of and for behavior acquired and transmitted by symbols constituting the distinctive achievements of human groups, including their embodiments in*

[2]For instance, Jackson and Apostolakou (2010) presented a comparison of sustainability practices across 16 countries and Rao (2000) across four countries. However, neither study specifically included cultural dimensions in the analysis and comparison of sustainability practices across different countries.

artifacts; the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and specially their attached values; culture systems may, on the one hand, be considered as products of action, and on the other as conditioning elements of further action." In a similar vein, Kluckhohn and Kluckhohn (1962, p. 25) view culture as a defining aspect of what it means to be human and defines it as the part of human makeup that "*is learned by people as the result of belonging to a particular group, and is that part of learned behavior that is shared by others. It is our social legacy as contrasted to our organic heredity*." Further, Hofstede (2001) views culture as the "mental software", the "collective programming of the mind", through which members of one human group perceive their physical and social environment and infer shared meanings and beliefs. Likewise, Northouse (2007, p. 302) defines culture as "*the learned beliefs, values, rules, norms, symbols, and traditions that are common to a group of people*."

Culture is commonly examined at the national level because there are forces at the country level (e.g., national boundaries) pushing to a meaningful degree of within-country commonality (Steenkamp, 2001) and people within a country possess a distinct "national character" that represents a pattern of behavior that is relatively stable over time (Clark, 1990). Accordingly, most scholars adopt Hofstede's (2001) cultural approach that defines national culture as the homogeneity of characteristics that separates one human group from another and represents a society's characteristic profile with respect to norms, values, and institutions. Hofstede's national culture framework identifies six dimensions of culture along which countries can be classified: individualism versus collectivism, power distance, masculinity versus femininity, uncertainty avoidance, long-term versus short-term orientation, and indulgence versus restraint (Hofstede, 2001; Hofstede, Hofstede, & Minkov, 2010). We briefly discuss each of Hofstede's six cultural dimensions below.

Individualism versus Collectivism. Individualism refers to a preference for a loosely-knit social framework in which individuals tend to look after only themselves and their immediate families. On the contrary, collectivism pertains to a tightly-knit social framework in which people from birth onwards are integrated into strong, cohesive in-groups that look after and protect their members in exchange for unquestioning loyalty (Hofstede, 1991). People in individualistic cultures place emphasis on personal responsibility, make decisions based on personal preferences and inner drives, strive for social differentiation, and prefer to act as individuals separating them from others (De Mooij, 2013). In contrast, people in cultures with strong collectivistic values view themselves as part of a group and give priority to group interests, treasure social harmony and consensus, and are primarily concerned with preserving long-term ties and personal relationships (Triandis, 2004). Thus, a country's position on this cultural dimension is reflected in whether people's self-image is defined in terms of "I" or "we". North America and Western Europe are typically high in individualism, whereas Latin American countries are examples of high collectivism.

Power Distance. This dimension represents the extent to which the less powerful members of a society expect and accept power to be distributed unequally

(Hofstede, 1991). Cultures with high power distance have a hierarchical and normative system that supports inequalities among people; differences in power, prestige, and wealth are viewed as legitimate and appropriate. Organizations and policies emphasize social status and people desire symbolic behaviors (e.g., separate/better dining rooms and parking places) that make them look powerful (Hofstede et al., 2010). In contrast, people in cultures with low power distance are less accepting of privileges, view status symbols as less important, demand justification for differentials in power, and place importance on equality. Austria, Israel, and the Scandinavian countries are examples of low power distance cultures, whereas Malaysia, Guatemala, Panama, and Philippines are characterized with high power distance.

Masculinity versus Femininity. Masculinity refers to a preference in society for achievement, heroism, assertiveness, competitiveness, and success; these dominant values are associated with the role of men in nearly all societies. The other end of this dimension, femininity, represents a preference for cooperation, consensus, helping others, caring for the weak, modesty, solidarity, and quality of life; in nearly all societies these values are more associated with the role of women (Hofstede, 1994). Thus, this dimension expresses the degree to which tough (i.e., masculine) values prevail over tender (i.e., feminine) values in a society (Doney, Cannon, & Mullen, 1998). Masculinity is extremely low in Sweden and Norway and very high in Japan, Hungary, and Austria.

Uncertainty Avoidance. This cultural dimension reflects the extent to which people feel threatened by uncertainty and ambiguity (Hofstede et al., 2010). Cultures high in uncertainty avoidance exhibit a strong need for structure and formality. They formulate rigid rules and regulations, do not easily accept changes, are risk averse, and try to increase stability and predictability. People in cultures scoring low in uncertainty avoidance tend to feel comfortable in unstructured situations, are more tolerant of ambiguity, accept change more readily, take more risks, and value flexibility over the use of formal rules and explicit guidelines (Hofstede, 2001). Uncertainty avoidance scores are high in Greece, Portugal, and Japan and low in Denmark, Sweden, Singapore, and Hong Kong.

Long Term versus Short Term Orientation. Long-term orientation emphasizes values such as persistence, the ordering of relationships by status and observing this order, and thrift. Its opposite, short-term orientation, stands for values such as personal steadiness, stability of the current situation, protecting one's "face", respect for time-honored traditions, and the reciprocation of greetings, favors, and gifts (Hofstede, 1991). The key difference between these two orientations pertains to how a culture can maintain some links with its own past while addressing the challenges of the present and the future and is based on Confucianism (i.e., virtue versus truth, dynamic versus static). Cultures with long-term orientation take a more pragmatic approach and try to prepare for the future, whereas those with shorter-term orientations tend to focus more on past and present actions (Minkov & Hofstede, 2012). Although there is less data about this dimension, high long term orientation scores typically appear in East Asia (i.e., China, Hong Kong, Taiwan, and Japan), whereas short term orientation scores are commonly found in Africa and in the Anglo countries.

Indulgence versus Restraint. Indulgence captures the extent to which a society allows for gratification of basic and natural human drives related to enjoying life and having fun. The opposite end of this dimension, restraint, reflects a society that suppresses gratification of needs and regulates it by means of strict social norms (Hofstede et al., 2010). Thus, indulgent societies have a tendency toward desire gratification, whereas societies with more restraint tend to curb such gratifications. There is not enough data available to conclude about the role of this dimension. Indulgence scores are high in Mexico, Nigeria, and Sweden and low for Egypt, Russia, China, and India.

Except for Hofstede's dimensions of culture that provide the most prominent and widely tested way to measure cultural differences at the national level (Samaha, Beck, & Palmatier, 2014; Thompson & Chmura, 2015), an alternative framework that has also been employed to study culture is the GLOBE project (House, Javidan, Hanges, & Dorfman, 2002). The GLOBE study focuses on the cultural dimensions of leadership and identifies nine cultural competencies: performance orientation, assertiveness orientation, future orientation, humane orientation, collectivism I, collectivism II, gender egalitarianism, power distance, and uncertainty avoidance. Although some of these cultural dimensions overlap with Hofstede's cultural framework, the GLOBE project is gaining prominence lately. Thus, the definitions of the nine cultural competencies identified in GLOBE are provide below.

Performance Orientation is "*the extent to which an organization or society encourages and rewards group members for performance improvement and excellence*" (House et al., 2002, p. 6).

Assertiveness Orientation is "*the degree to which individuals in organizations or societies are assertive, confrontational, and aggressive in social relationships*" (House et al., 2002, p. 6).

Future Orientation is "*the degree to which individuals in organizations or societies engage in future-oriented behaviors*" (House et al., 2002, p. 6). Examples of such behavior include delaying gratification, planning, and investing.

Humane Orientation is "*the degree to which individuals in organizations or societies encourage and reward individuals for being fair, altruistic, friendly, generous, caring, and kind to others*" (House et al., 2002, p. 6).

Collectivism I (*Institutional Collectivism*) is "*the degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action*" (House et al., 2002, p. 5).

Collectivism II (*In-group Collectivism*) is "*the degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families*" (House et al., 2002, p. 5).

Gender Egalitarianism is "*the extent to which an organization or a society minimizes gender role differences and gender discrimination*" (House et al., 2002, p. 5).

Power Distance is "*the degree to which members of an organization or society expect and agree that power should be unequally shared*" (House et al., 2002, p. 5).

Uncertainty Avoidance is "*the extent to which members of an organization or society strive to avoid uncertainty by reliance on social norms, rituals, and bureaucratic practices and alleviate the unpredictability of future events*" (House et al., 2002, p. 5).

4 Literature on National Culture, Ethics, and Sustainability

As noted earlier, ethics and sustainability are important for businesses today. In response to that, more and more firms adopt and implement ethics and sustainability initiatives as part of their corporate strategies. However, interpreting ethics and implementing sustainability activities across countries and cultures is not an easy process. Organizations should take into consideration cross-country heterogeneity, since variation in socio-cultural values is expected to affect the interpretation and evaluation of initiatives across different geographic regions.

The literature has long recognized how socio-cultural values influence the way in which individuals and firms utilize social and natural resources and the extent to which they are willing to pursue ethical and sustainable practices (see Cohen & Nelson, 1994). For instance, Park et al. (2007) suggests that countries which are more culturally conscious of social and environmental conditions are more likely to engage in sustainability activities. As such, national culture plays a significant role in how a society interprets ethical practices and sustainability initiatives (Ringov & Zollo, 2007). It follows that organizations need to tailor their sustainability activities to fit the cultural values, beliefs, and biases of the countries they do business in.

Table 1 lists the studies (47 in total) that investigate the role of cultural dimensions within the ethics and sustainability domains. For each study, the type of research approach followed (empirical vs. conceptual), the size of the sample used, the unit of analysis (country-, firm-, manager- and consumer-level) employed, the cultural dimensions examined, and type of effects considered (direct, indirect and moderating effects) are provided. Also, the dependent variables examined and the specific domain (e.g., ethics or sustainability) within which cultural dimensions effects have been investigated, along with the key findings, are outlined.

An assessment of Table 1 from a methodological perspective provides several interesting insights. First, research interest in the examination of the culture—sustainability (and Corporate Social Responsibility—CSR) link initiated in late 90s—with three studies published until 2000, and radically increased since then. Twenty-three studies have been published from 2001 until 2010, and twenty-one studies have been published within the last six years, since 2011. Evidently, researchers are showing burgeoning attention on this topic.

Second, the vast majority of the 47 studies published in this area of research are empirical, with only three conceptual studies and one meta-analysis. This trend is very similar to the one revealed by Leonidou and Leonidou (2011). It seems that

Table 1 Studies investigating cultural dimensions in the ethics and sustainability domains

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Armstrong (1996)	196 students from Australia, Malaysia, and Singapore	Empirical	PDI, IDV, MAS, UAI	Direct	Ethics	Consumer	• IDV and UAI are significantly positively correlated with ethical perceptions
Husted (1999)	36 and 44 countries	Empirical	PDI, IDV, MAS, UAI	Direct	Ethics	Country	• IDV was not related to corruption perceptions • PDI, MAS, and UAI are positively related to corruption perceptions
Husted (2000)	39 countries	Empirical	PDI, IDV, MAS, UAI	Direct	Ethics	Country	• IDV was related to software piracy • PDI, MAS, and UAI unrelated to software piracy
McCarty and Shrum (2001)	727 US consumers	Empirical	IND, COL	Direct	Sustainability	Consumer	• IND is positively related to inconvenience of recycling • COL is positively associated with the importance of recycling • IND and COL unrelated to recycling behaviors
Laroche et al. (2001)	907 US consumers	Empirical	IND, COL	Direct	Sustainability	Consumer	• COL positively influences willingness to pay higher prices for green products • IND has no effect on willingness to pay higher prices for green products

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Chan (2001)	549 Chinese consumers	Empirical	COL	Direct	Sustainability	Consumer	• COL has a positive effect on attitude toward green purchases
Christie et al. (2003)	345 Executive MBA students from India, Korea, and USA	Empirical	PDI, IDV, MAS, UAI, LTO	Direct	Ethics	Manager	• National culture has a strong influence on business managers' ethical attitudes • A strong relationship exists between IDV and PDI and respondents' ethical attitudes toward certain questionable practices but mixed results were revealed with other dimensions
Cullen et al. (2004)	3450 managers from 28 countries	Empirical	Achievement, IDV, Universalism, Pecuniary materialism	Direct	Ethics	Manager	• Universalism and pecuniary materialism were positively related to willingness to justify ethically suspect behaviors • Achievement and individualism were negatively related to willingness to justify ethically suspect behaviors

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Parboteeah et al. (2005)	27,459 in 21 countries	Empirical	PDI, HUM_O, PERF_O, INST_C, ASSER, UAI	Direct	Ethics	Country	• PERF_O, UAI, and ASSER are positively related to willingness to justify ethically suspect behaviors • INST_C, PDI, and HUM_O negatively affect willingness to justify ethically suspect behaviors
Kim and Choi (2005)	304 US-based undergraduate students	Empirical	COL	Direct	Sustainability	Consumer	• COL had no effect on environmental concerns and green purchase behavior • COL had a positive effect on perceived consumer effectiveness
Husted (2005)	52 countries	Empirical	PDI, IDV, MAS, UAI	Direct and moderating	Sustainability	Country	• IDV is positively and MAS and PDI are negatively related with social and institutional capacity for environmental sustainability • UAI has no effect on social and institutional capacity for environmental sustainability • PDI negatively and MAS positively moderate the economic development-environmental sustainability link

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Waldman et al. (2006)	561 firms in 15 countries	Empirical	INST_C, INGR_C, PDI	Direct	Sustainability	Firm	• INST_C had a positive effect on shareholder/owner CSR values, stakeholder CSR values, and community/state welfare CSR values • INGR-C had no effect on shareholder/owner CSR values, stakeholder CSR values, and community/state welfare CSR values • PDI had a negative effect on shareholder/owner CSR values, stakeholder CSR values, and community/state welfare CSR values
Paul et al. (2006)	188 Indian and 110 USA students	Empirical	UAI, PDI, COL, MAS, LTO	Direct	Ethics	Consumer	• Price and distribution is influenced by COL in the Indian sample and UAI in the US sample • General honesty and integrity is driven by COL, MAS, and LTO in both samples • Information and contract is linked with PDI and UAI in the India and US samples

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
							respectively, and COL and LTO in both samples • Obligation and disclosure is linked with MAS and LTO in the India and US samples respectively, and COL in both samples • Product and promotion is influenced by COL and LTO in both samples and MAS and PDI in the India sample
Scholtens and Dam (2007)	2700 firms in 24 countries	Empirical	UAI, PDI, IDV, MAS	Direct	Ethics	Firm	• UAI positively influences human rights and ethics systems but not ethics communication, ethics implementation, and corruption • IDV has a positive effect on ethics systems, ethics communication, ethics implementation, and corruption but not on human rights • PDI and MAS negatively impact human rights but no effect was revealed for ethics systems, ethics communication, ethics implementation, and corruption

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Ringov and Zollo (2007)	457–463 firms from 23 countries	Empirical	UAI, PDI, IDV, MAS, (Hofstede) and PDI, COL, GEN_E, UAI	Direct	Sustainability	Firm	• PDI and MAS were negatively linked with IVA • IND and UAI were unrelated to IVA • PDI and GEN_E were negatively linked with IVA • No direct effect on IVA was revealed for COL and UAI
Park et al. (2007)	43 countries	Empirical	UAI, PDI, IDV, MAS (Hofstede)	Direct	Sustainability	Country	• PDI and MAS were negatively linked with ESI • UAI and IDV have no relationship with ESI
Auger et al. (2007)	605 citizens from six countries	Empirical	PDI, IDV, MAS, UAI	Direct	Ethics	Consumer	• Respondents from collectivistic countries tend to concentrate in fewer ethical clusters • IDV is negatively related with environmentalism • IDV and MAS are positively related with individual rights • PDI and IDV negatively related with labor rights
Arnold et al. (2007)	294 employees from eight countries	Empirical	PDI, IDV, MAS, UAI	Direct	Ethics	Employee	• IDV and MAS increase perceptions of unethical actions as more acceptable

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Husted and Allen (2008)	–	Conceptual	Horizontal COL, Vertical COL, IND		Ethics	Employee	–
Franke and Nadler (2008)	64,769 responses from 44 countries	Empirical	PDI, IDV, MAS, UAI	Direct	Ethics	Consumers	• PDI and UAI negatively influence ethical attitudes • IDV and MAS have no significant effect on ethical attitudes
Forsyth et al. (2008)	30,230 respondents from 29 countries	Meta-analysis	PDI, IDV, MAS, UAI, LTO, TSV, SSV	Direct and moderating	Ethics	Consume, manager, and employee	• The TSV and MAS scores for idealistic countries were lower than those for less idealistic countries • The relativism main effects indicated that high relativist nations were more traditional (TSV) and lower in IDV and UAI • The strength of the relationship between idealism and cultural values is moderated by relativism
Beekun et al. (2008)	283 executives from Egypt and USA	Empirical	PDI, IDV, MAS, UAI	Direct	Ethics	Employee	• The assessment of the ethical content of business decisions is strongly affected by national culture • High in IDV and low in PDI executives are more likely to the view decision making outcome as more unethical

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Vachon (2010)	8729 responses from 55 countries	Empirical	UAI, PDI, IDV, MAS	Direct	Ethics	Country	• Green corporatism, environmental innovation, fair labor, and corporate social involvement were negatively related with UAI but not with IND, PDI, and MAS
Ng and Burke (2010)	284 US business students	Empirical	IND, COL	Direct	Sustainability	Consumer	• COL positively related to sustainability attitudes • IND positively correlated with sustainability attitudes
Leonidou et al. (2010)	500 Cypriot consumers	Empirical	COL, LTO	Direct	Sustainability	Consumer	• COL positively affects inward and outward green attitude • LTO negatively influences inward green attitude and positively affects outward green attitude
Haxhi and Van Ees (2010)	67 countries	Empirical	PDI, IDV, MAS, UAI	Direct and moderating	Ethics	Country	• Countries higher in IDV and lower in PDI and UAI will issue more codes of good governance • Countries with low PDI will have first code of good governance issued by a coercive group • Countries with high PDI will have first code of good governance issued by a normative group

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Parboteeah et al. (2012)	42,346 from 33 countries	Empirical	HUM_O, FUT_O, PERF_O, SOC_C, ASSER, UAI	Direct	Sustainability	Country	• UAI has not effect on propensity to support sustainability initiatives • FUT_O, HUM_O, SOC_C have positive effects on propensity to support sustainability initiatives • PERF_O and ASSER have negative effects on propensity to support sustainability initiatives
Ho et al. (2012)	3680 companies from 49 countries	Empirical	PDI, IDV, MAS, UAI	Direct	Sustainability	Firm	• Higher CSP is related to higher COL, UAI, MAS, and lower PDI
Caprar and Neville (2012)	–	Conceptual	–	–	Sustainability	Firm	–
Leonidou et al. (2013c)	387 Cypriot consumers	Empirical	PDI, IDV, MAS, UAI	Direct	Ethics	Consumer	• PDI has a positive effect on idealism • UAI has a negative effect on idealism • IND has a positive effect on egoism • MAS has a positive effect on egoism

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Leonidou et al. (2013b)	387 Cypriot consumers	Empirical	PDI, IDV, MAS, UAI	Moderating	Ethics	Consumer	• UAI has a positive and IND a negative moderating effect on the Perceived Business Unethicality (PBU)-Trust (TRU) relationship • PDI and MAS were not moderators in the PBU-TRU link
Pérez and Rodríguez del Bosque (2013)	1124 Spanish customers	Empirical	COL	Moderating	Sustainability	Customer	• COL positively moderates the effect of corporate credibility on CSR perceptions
Cho et al. (2013)	726 students from South Korea and USA	Empirical	Horizontal IDV, Vertical IDV, Horizontal COL, Vertical COL, Confucian COL	Direct	Sustainability	Consumer	• Horizontal IDV positively relates to environmental attitudes but vertical IDV does not • Horizontal and Confucian COL positively related to environmental attitude while vertical COL was negatively related to environmental attitude

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Roy and Goll (2014)	57 countries	Empirical	PBC, SSC, GEC	Direct and moderating	Sustainability	Country	• PBC, SS and GEC were found to be unrelated to environmental performance index (EPI) • Index of Economic Freedom (IEF) positively moderates the GEC-EPI relationship • GEC was positively related to Human Development Index (HDI) • Economic growth negatively moderates the effects of PBC and GEC on HDI • PBC negatively influences Corruption Perceptions Index (CPI)
Peng et al. (2014)	1189 firms from 29 countries	Empirical	UAI, PDI, IDV, MAS	Direct	Sustainability	Firm	• PDI and MAS were found to have negative effects on CSR engagement • IND and UAI had positive effects on CSR engagement

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Onel and Mukherjee (2014)	67 countries	Empirical	PDI, IDV, MAS, UAI	Direct	Sustainability	Country	• IND and UAI positively related to environmental health • PDI and MAS were not linked with environmental health • None of the cultural dimensions showed a significant effect on environmental health in the presence of human development dimensions
Hofman and Newman (2014)	280 employees from five Chinese firms	Empirical	COL, MAS	Direct and moderating	Sustainability	Employee	• COL did not influence employee perceptions of CSR toward external stakeholders • MAS did not impact on employee perceptions of CSR toward government and customers • MAS positively moderated the employee CSR perceptions effect on both affective and normative commitment • COL and low MAS had positive moderating roles on the employee CSR perceptions−normative commitment link

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Farooq et al. (2014)	378 employees from Pakistan	Empirical	COL	Moderating	Sustainability	Employee	• COL had a positive moderating effect in the CSR to employees-organizational identification relationship • COL had a negative moderating effect in the relationships of CSR to community and CSR to environment with organizational identification relationship • COL had no moderating effect on the CSR to consumer-organizational identification link
Chen (2014)	22,359 employees from 28 countries	Empirical	PDI, IDV, MAS, UAI	Direct and moderating	Ethics	Employee	• PDI has a positive while UAI and MAS a negative effect on willingness to justify ethically suspect behaviors • PDI and UAI negatively moderate the individual-level association between job position and an individual's ethical reasoning • MAS positively moderates the individual-level association between job position and an individual's ethical reasoning

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Thanetsunthorn (2015)	3055 firms from 28 countries	Empirical	UAI, PDI, IDV, MAS	Direct	Sustainability	Firm	• PDI, IDV, and MAS have a negative effect on employee performance • PDI, IDV, and MAS have a negative while UAI a positive effect on community performance • PDI and IDV have a negative while UAI a positive effect on environment performance
Tata and Prasad (2015)	–	Conceptual	UAI, PDI, IDV, MAS, LTO	Direct (Propositions)	Sustainability	Employee	–
Lu et al. (2015)	545 Taiwanese consumers	Empirical	IND	Direct	Sustainability	Consumer	• IND is positively related to consumer ethical beliefs • IND is negatively linked with green buying intention
Karaibrahimoglu and Cangarli (2015)	324 society-year observations for 54 countries	Empirical	PDI, FUTR_O, HUM_O, PERF_O, IGC, INST-C, ASSER, UAI	Moderating	Ethics	Country	• FUTR_O, INST_C, and UAI have a positive moderating effect on the SARS-EBF relationship • PDI and IGC have a negative moderating effect on the SARS-EBF relationship • HUM_O, PERF_O, and ASSER had no moderating effect

(continued)

Table 1 (continued)

Study	Sample and context	Research type and design	Cultural dimensions considered	Type of effects examined	Domain	Unit of analysis	Main findings
Antonicelli et al. (2015)	496 firms from 62 countries	Empirical	PDI, IDV, MAS, UAI	Direct	Sustainability	Firm	• PDI and IDV negatively affect number of reports • UAI positively affects number of reports
Yin et al. (2016)	755 Chinese consumers	Empirical	COL	Direct and indirect	Ethics	Consumer	• COL has positive direct relationship with teleological and deontological evaluation • COL has an indirect positive effect on the intention to adopt public bicycle-sharing scheme
Garcia-Sanchez et al. (2016)	1598 international companies from 20 countries	Empirical	PDI, IDV, MAS, UAI, LTO	Direct	Sustainability	Firm	• COL positively and MAS negatively influence CSR disclosure • UAI and PDI have a negative effect on CSR disclosure • LTO has a positive effect on CSR disclosure
Gallego-Álvarez and Ortas (2016)	3917 companies from 59 countries	Empirical	PDI, IDV, MAS, UAI, PRA, IDU	Direct	Sustainability	Firm	• PDI, IDV, MAS, UAI, NOR, IDU have no overall effect on CESR practices • PDI, MAS, UAI, PRA, IDU have specific effects in companies located in higher CESR quartiles

1. Only studies that directly measured cultural variables at the consumer, employee, firm, or country level were included in the table
2. *PDI* power distance, *IDV* individualism, *MAS* masculinity, *UAI* uncertainty avoidance, *COL* collectivism, *LTO* long term orientation, *PRA* pragmatism, *IDU* indulgence, *FUTR_O* future orientation, *HUM_O* humane orientation, *PERF_O* performance orientation, *IGC* in-group collectivism, *INST_C* institutional collectivism, *ASSER* assertiveness, *TSV* traditional/secular values, *SSV* survival/self-expression values; *PBC* performance based culture, *SSC* socially supportive culture, *GEC* gender egalitarianism

researchers in both domains tend to use 'hands-on' information obtained from various stakeholders or using secondary data available to them.

Third, in terms of the unit of analysis, sixteen studies have examined sustainability, ethical and/or CSR issues, by collecting data at the consumer-level, twenty studies at the firm/employee/manager-level, and eleven studies at the country-level. Research in the ethics domain seems to be conducted at the country-level and less at the firm- and consumer-levels. In contrast, firm- and consumer-level investigations seem to be more prevalent in the sustainability domain with less emphasis paid to studies at the country level.

Fourth, most consumer studies have collected samples from one or two countries, mainly USA, China, Cyprus, India, and South Korea (sample sizes in these studies range from 200 to 900 consumers). The only exception is the work of Franke and Nadler (2008), which collected data from a sample of 64,769 consumers across 44 countries. On the contrary, studies focusing on the firm- or country-level have, in general, a much broader coverage and utilise cross-cultural data, which may range from eight countries (in the firm-level study of Arnold, Bernardi, Neidermeyer, and Schmee 2007) to 67 countries (in the country-level study of Onel and Mukherjee 2014).

Fifth, as expected, Hofstede's cultural dimensions and the GLOBE project are by far the most widely employed frameworks to study culture. Some of the studies have covered the full spectrum of dimensions considered in those frameworks (e.g., Armstrong, 1996; Husted, 2005; Parboteeah, Addae, & Cullen, 2012; Ringov & Zollo, 2007), while others have examined the role of certain dimensions as antecedents or moderators. For example, Ng and Burke (2010) examined the direct influence of individualism and collectivism on sustainability attitudes, while Farooq, Farooq, & Jasimuddin, (2014) investigated the moderating role of collectivism on the CSR to employees—organizational identification link.

Further, all empirical studies so far have implemented correlational methods to examine the proposed relationships, such as hierarchical regression analysis (e.g., Husted, 2005; Ng & Burke, 2010; Parboteeah et al., 2012), structural equation modeling (e.g., Farooq et al., 2014; Leonidou, Leonidou, & Kvasova, 2010; Lu, Chang, & Chang, 2015; Yin, Qian, & Singhapakdi, 2016), and path analysis (e.g., Paul, Roy, & Mukhopadhyay, 2006).

One of the main problems in this area is that studies use different approaches and measures of cultural variables, which in some cases results in conflicting insights. For instance, Karaibrahimoglou and Cangarli (2016) reported a positive effect of uncertainty avoidance on the ethical behavior of firms using data from Hofstede, and a negative effect using data from GLOBE. This makes comparisons difficult, hampers academic progress, and diminishes the managerial relevance of the findings. In addition, there is no consistency in the selection of dependent variables making it difficult to track and compare results. For instance, Ho, Wang, & Vitell, (2012) focus on CSR performance while Peng, Dashdeleg, & Chih, (2014) examine CSR engagement. Appendices 1 and 2 provide a holistic picture of the effects of individual cultural dimensions on ethics- and sustainability-related outcomes.

5 Limitations and Future Research Directions

Interesting conclusions can be drawn from an inspection of Table 1 and the Appendices. First, the studies that considered the effects of cultural dimensions on ethics and sustainability show rather inconsistent findings. With respect to individualism, which has been the subject of more research than any other cultural dimension, several studies found that it positively influences sustainability and ethics-related issues (e.g., Armstrong, 1996; Husted, 2005; Peng et al., 2014; Scholtens & Dam, 2007), whereas others reported that individualism plays a negative role (e.g., Antonicelli, Calace, Russo, Morrone, & Vastola, 2015; Arnold et al. 2007; Husted, 2000) or has no influence at all here (e.g., Park et al., 2007). The positive effects of individualism may be partly explained by the emphasis placed in individualistic cultures on personal responsibility, whereas the negative ones by the priority given to individual, rather than group interests. Interestingly, research findings on collectivism, which represents the opposite end of individualism, conclude that this dimension plays a positive role in sustainability- and ethics-related issues (e.g., Chan, 2001; Garcia-Sanchez, Cuadrado-Ballesteros, & Frias-Aceituno, 2016; Kim & Choi, 2005; McCarty & Shrum, 2001; Ng & Burke, 2010; Yin et al., 2016). This should come as no surprise, given that collectivistic cultures place a high value on common goals and objectives and on maintaining social harmony and consensus.

Uncertainty avoidance is another dimension of culture that has attracted a considerable number of studies that report contradictory research findings. More specifically, some studies have shown that the extent to which people feel threatened by uncertainty and ambiguity is negatively related to ethical attitudes (Franke & Nadler, 2008), idealism (Leonidou et al., 2013c), corporate social involvement (Vachon, 2010) and CSR disclosure (Garcia-Sanchez et al., 2016), whereas other studies have reported that uncertainty avoidance positively relates to ethical perceptions and conduct (Armstrong, 1996; Scholtens & Dam, 2007), environmental health (Onel & Mukherjee, 2014), sustainability reporting (Antonicelli et al., 2015), and CSR engagement (Peng et al., 2014). It seems that uncertainty avoidance does not have a clear theoretical implication for sustainability. On the one hand, individuals in high uncertainty avoidance societies seem to put in place systems and procedures that ensure sustainability. On the other hand, because uncertainty avoiding societies are rule- and routine-oriented, they may generally find it more difficult to overcome inertia and adapt to novel social and environmental demands and practices. Clearly, more research is needed here to distinguish between uncertainty avoidance at the national and organizational level and decompose their effects on ethics and social and environmental sustainability.

As far as masculinity and power distance are concerned, the research findings reported in Table 1 and the Appendices converge to the conclusion that both play a negative role in ethical, societal and environmental issues. For example, there is evidence to suggest that both cultural dimensions are negatively related to human rights (Scholtens & Dam, 2007), codes of good governance (Haxhi & Van Ees, 2010), social and environmental performance (Park et al., 2007; Ringov and Zollo 2007), and CSR engagement and disclosure (Garcia-Sanchez et al., 2016; Peng et al., 2014). It appears that the extent to which a society has a hierarchical and normative system that supports inequalities among people is not conducive to the resolution of societal and environmental issues.

Finally, an inspection of the Appendices reveals that there is a dearth of published information about the role of long/short term orientation and indulgence/restraint in ethical, societal and environmental issues. This lacuna of evidence is understandable considering that there is less data available about both of these dimensions. However, given that societies with long-term orientation take a more practical approach and try to better prepare for and address the challenges of the future, one may suggest that this dimension of culture relates to social and environmental sustainability. Likewise, given the focus of indulgence on gratification, one may suggest that this cultural dimension is associated with ethics-related attitudes and behaviors. In addition, there is a need to understand better the effect of other important but under-researched dimensions such as vertical and horizontal collectivism/individualism, gender egalitarianism, and pragmatism.

To sum up, it is clear that more research on the role of the various dimensions of culture in the ethics and sustainability domains is needed to help clarify the inconsistencies found in the extant literature. Notably, meaningful conclusions can be drawn when comparing countries with extreme points on a dimension, rather than selecting and comparing countries out of convenience. It is also clear that from all studies investigating the role of culture within this area, very few attempts have considered specifically the effects of cultural dimensions on sustainability practices (8 out of the 47 studies presented in Table 1). More importantly, as explained earlier, those few attempts show inconsistent findings. Although it is logical to expect that the different sets of values, beliefs, ideas, attitudes, and morals, which are ingrained in a given national culture will guide individuals on what are acceptable behaviors, such as sustainability practices, more research in the particular area is needed to help clarify inconsistencies of existing literature.

Furthermore, the diverging trends in the two domains pertaining to the unit of analysis employed presents some interesting implications. Evidently, further research is needed to understand how national culture can influence sustainability at all levels, but more importantly at the country-level to which limited attention has been given so far.[3] Given the dominance of country-level studies at the ethical domain, there is more urgency in conducting more investigations at the consumer- and firm-levels. Additional insights into these neglected areas of research will be extremely helpful for multinational corporations operating in different countries and geographic regions since such firms must pay attention to the environmental and

[3]Relatedly, studies at the country-level seem to focus on a narrow set of countries on which data from the Hofstede and Globe projects can be obtained and combined with sustainability-related data. However, there are many other regions and countries not covered, in which future research can expand the data collection scope for more comprehensive and accurate analysis.

social impact of their operations and ensure the ethicality of their strategic decision-making process.

Also, many studies viewed national cultural values as competing and in isolation with each other and applied correlational techniques. More research is needed to provide additional insights into the existing net-effect estimations and offer a more nuanced coverage of the examined relationships. In this direction, configurational approaches that examine the synergistic effects of combinations of national cultural values on sustainability and ethics should be employed. For example, it would be interesting to test the existence of combinatorial complexities assuming asymmetrical/non-linear relationships between various culture dimensions with sustainability and ethics. It is expected that alternative combinations of national cultural values may lead to high levels of sustainability or ethics, whereas the positive or negative effect of a specific cultural value will depend on the additional cultural dimensions that co-exist in a given nation. In other words, novel research is needed that will not treat the various cultural dimensions separately and in isolation with each other, but view them as co-existing and investigate how they collectively influence sustainability- and ethics-related outcomes. Although the lack of ethics and sustainability studies examining alternative configurations and possible multiple interactions among national culture variables has already been emphasized in recent literature (e.g., Parboteeah et al., 2012), no research so far has attempted to fill this important gap.

Further, it seems that there is not even one reported application that approaches cultural dimensions as combinations that collectively affect a nation’s sustainability initiatives, despite the fact that such an application would significantly increase researchers’ and managers’ understanding of the role of the different cultural antecedents in sustainable development across countries and cultures.

To effectively bridge the aforementioned gap of the existing literature, researchers should also control for economic development, while testing the collective effects of national-level cultural variables, because levels of economic development are strongly related to national culture (Hofstede, 2001). The literature has emphasized that this should be common practice in any study applying Hofstede’s indexes as predictor variables (e.g., Chui & Kwok, 2008; Franke & Nadler, 2008).

Although Hofstede’s model and the GLOBE project are generally more widely used as frameworks of national cultural values in the literature (see Appendices), they both have certain limitations. For instance, the validity Hofstede’s model has been criticized by Ailon (2008) who finds inconsistencies at the level of both theory and methodology and cautions against an uncritical reading of Hofstede’s cultural dimensions. Also, the GLOBE project has received criticism for failing to provide a clear single theory about the way culture relates to the phenomena under investigation.

As countries enter into free-trade agreements, ethics and sustainability is often a core issue of contention among different countries. At the same time, as multinationals attempt to implement sustainable and ethical initiatives across countries and cultures, they lack a prescriptive model guiding them across the world. Ethics and sustainability policies and programs are most likely to be effective if they are tailored to the national culture. Hence, it is necessary to take into consideration the appropriate cultural context when examining and/or developing ethical and sustainability initiatives.

From the foregoing discussion, it is clear that more research is needed to add to the emerging literature on the role of socio-cultural heterogeneity in ethics and sustainability. Culture encompasses a set of values, beliefs, morals, and attitudes that guide individuals on what is expected and accepted behavior and what is not (Vitell, Nwachukwu, & Barnes, 1993). Thus, culture shapes ethical perceptions and influences sustainability attitudes and behaviors. Although it has been argued that some cultural dimensions, such as collectivism, are more likely to support ethical norms (Paul et al., 2006) and sustainability values (e.g., Ng & Burke, 2010), whereas others such as power distance are more likely to be negatively related to ethics and sustainability (e.g., Husted, 1999; 2005), the current literature does not provide a clear and holistic picture of the relationship between national culture, ethics, and sustainability. Most studies have not yet investigated the specific impact of culture on ethical consumer perceptions or sustainability practices, nor have they identified multiple interaction and configurations that can explain how national cultural values may collectively influence sustainability initiatives. There is a need for research that will be testing collectively the effects of national cultural dimensions on sustainability, while simultaneously controlling for a country's economic development, as it can be logically argued that sustainability is to a large extent economics-driven. Research is needed that will bridge this gap in the literature by developing a conceptual model that will explain the relationships between national culture, ethical practices, and sustainability initiatives and provide a more nuanced coverage of the examined inter-relationships. Given the absence of conceptual investigations in both the ethical and sustainability domains, such a model will add to the emerging literature on sustainability, ethics, and culture in several ways, help researchers and organizations understand how different combinations of socio-cultural values can impact ethical perceptions and sustainability, and guide management in multinational companies in the implementation of their initiatives across the world in an ethical and sustainable way.

Appendix 1: Effects of Individual Cultural Dimensions on Ethics-Related Outcomes

Cultural dimension examined	Findings	Verdict
Achievement	*Managerial level*: • Negative effect on willingness to justify	Positive effect on ethics-related outcomes at the managerial level

(continued)

(continued)

Cultural dimension examined	Findings	Verdict
	ethically suspect behaviors (Cullen et al., 2004)	
Assertiveness	*Country level*: • Positive effect on willingness to justify ethically suspect behaviors (G) (Parboteeah, Cullen, Victor, & Sakano, 2005) • Negative effect on ethical behavior of firms (G) (Karaibrahimoglou and Cangarli 2016)	Positive effects on ethics-related outcomes at the country level
Collectivism	*Consumer level:* • Overall positive effect on marketing ethical norms (Paul et al., 2006) • Positive effect on teleological and deontological evaluation and no effect on intention to adopt a public bicycle-sharing scheme (Yin et al., 2016)	Positive effects on ethics-related outcomes at the consumer level
Collectivism (confucian)	–	–
Collectivism (horizontal)	–	–
Collectivism (in-group)	*Country level*: • Negative effect on ethical behavior of firms (G) (Karaibrahimoglou and Cangarli 2016)	Negative effects on ethics-related outcomes at the country level
Collectivism (institutional)	*Country level*: • Negative effect on willingness to justify ethically suspect behaviors (G) (Parboteeah et al., 2005) • Positive effect on ethical behavior of firms (G) (Karaibrahimoglou and Cangarli 2016)	Positive effects on ethics-related outcomes at country level
Collectivism (vertical)	–	–
Future orientation	*Country level*: • Positive effect on ethical behavior of firms (G) (Karaibrahimoglou and Cangarli 2016)	Positive effects on ethics-related outcomes at the country level

(continued)

(continued)

Cultural dimension examined	Findings	Verdict
Gender egalitarianism	*Country level*: • No effect on corruption perception index (Roy & Goll, 2014)	No effect on ethics-related outcomes
Humane orientation	*Country level*: • Negative effect on willingness to justify ethically suspect behaviors (G) (Parboteeah et al., 2005) • Positive effect on ethical behavior of firms (G) (Karaibrahimoglou and Cangarli 2016)	Positive effects on ethics-related outcomes at the country level
Individualism	*Country level*: • Negative correlation with level of corruption (Husted, 1999) • Negative effect on software piracy (Husted, 2000) • No effect on ethical attitude (Franke & Nadler, 2008) • Positive effect on issuance of good governance codes (Haxhi & Van Ees, 2010) • Positive effect on ethical behavior of firms (Karaibrahimoglou and Cangarli 2016) *Firm level*: • Positive effects on ethics systems, ethics communication, ethics implementation, and corruption but no effect on human rights (Scholtens & Dam, 2007). *Managerial level*: • Negative effect on willingness to justify ethically suspect behaviors (Cullen et al., 2004) • Positive effect on unethical actions perceptions (Arnold et al., 2007)	Positive effects on ethics-related outcomes at country and firm levels. Mixed and inconclusive results at the managerial and consumer levels

(continued)

(continued)

Cultural dimension examined	Findings	Verdict
	• No effect on willingness to justify ethically suspect behaviors (Chen, 2014) *Consumer level*: • Positive correlation with ethical perceptions (Armstrong, 1996) • Positive effect on egoism (Leonidou et al., 2013c) • Positive effect on questionable consumer practices (Lu et al., 2015)	
Individualism (horizontal)	–	–
Individualism (vertical)	–	–
Indulgence	–	–
Long-term orientation	*Consumer level*: • Overall positive effect on marketing ethical norms (Paul et al., 2006)	Positive effects on ethics-related outcomes at the consumer level
Masculinity	*Country level*: • Positive effect on level of corruption (Husted, 1999) • No effect on software piracy (Husted, 2000) • No effect on ethical attitude (Franke & Nadler, 2008) • No effect on issuance of good governance codes (Haxhi & Van Ees, 2010) • Negative effect on ethical behavior of firms (Karaibrahimoglou and Cangarli 2016) *Firm level*: • Negative effect on human rights, but no effect on ethics systems, ethics communication, ethics implementation, and corruption (Scholtens & Dam, 2007) *Managerial level*: • Negative effect on unethical actions perceptions (Arnold et al., 2007)	Inconclusive results on ethics-related outcomes at the country level. Positive effects at managerial level and overall negative effect at consumer level

(continued)

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Cultural dimension examined	Findings	Verdict
	• Positive effect on willingness to justify ethically suspect behaviors (Chen, 2014) *Consumer level*: • No correlation with ethical perceptions (Armstrong, 1996) • Overall negative effect on marketing ethical norms (Paul et al.. 2006) • Positive effect on egoism (Leonidou et al., 2013c)	
Pecuniary materialism	*Managerial level*: • Positive effect on willingness to justify ethically suspect behaviors (Cullen et al., 2004)	Negative effect on ethics-related outcomes at the managerial level
Performance based culture	*Country level*: • Positive effect on corruption perception index (Roy & Goll, 2014)	Negative effect on ethics-related outcomes at country level
Performance orientation	*Country level*: • Positive effect on willingness to justify ethically suspect behaviors (G) (Parboteeah et al., 2005) • Positive effect on ethical behavior of firms (G) (Karaibrahimoglou and Cangarli 2016)	Mixed and inconclusive results ethics-related outcomes at the country level
Power distance	*Country level*: • Positive effect on level of corruption (Husted, 1999) • No effect on software piracy (Husted, 2000) • Negative effect on willingness to justify ethically suspect behaviors (Parboteeah et al., 2005) • Negative effect on ethical attitude (Franke & Nadler, 2008) • No effect on issuance of good governance codes (Haxhi & Van Ees, 2010)	Negative effects on ethics-related outcomes at the country and firm levels. Mixed and inconclusive results at the managerial and consumer levels. Globe measures provide identical results to Hofstede measures

(continued)

(continued)

Cultural dimension examined	Findings	Verdict
	• Negative effect on ethical behavior of firms (Karaibrahimoglou and Cangarli 2016) • Negative effect on ethical behavior of firms (G) (Karaibrahimoglou and Cangarli 2016) *Firm level*: • Negative effect on human rights but no effects on ethics systems, ethics communication, ethics implementation, and corruption. (Scholtens & Dam, 2007) *Managerial level*: • No effect on unethical actions perceptions (Arnold et al., 2007) • Negative effect on willingness to justify ethically suspect behaviors (Chen, 2014) *Consumer level*: • No correlation with ethical perceptions (Armstrong, 1996) • Overall no effect on marketing ethical norms (Paul et al., 2006) • Positive effect on idealism (Leonidou et al., 2013c)	
Pragmatism	–	–
Socially supportive culture	*Country level*: • No effect on corruption perception index (Roy & Goll, 2014)	No effect on ethics-related outcomes
Traditional/Secular-rational values	–	–
Uncertainty avoidance	*Country level*: • Positive effect on level of corruption (Husted, 1999) • No effect on software piracy (Husted, 2000)	Inconclusive results on ethics-related outcomes at the country level but the relationship seems to be negative. Positive and non-significant effects at the

(continued)

(continued)

Cultural dimension examined	Findings	Verdict
	• Positive effect on willingness to justify ethically suspect behaviors (G) (Parboteeah et al., 2005) • Overall no effect on marketing ethical norms (Paul et al., 2006) • Negative effect on ethical attitude (Franke & Nadler, 2008) • No effect on issuance of good governance codes (Haxhi & Van Ees, 2010) • Negative effect on ethical behavior of firms (Karaibrahimoglou and Cangarli 2016) • Positive effect on ethical behavior of firms (G) (Karaibrahimoglou and Cangarli 2016) *Firm level*: • Positive effects on human rights and ethics systems but no effects on ethics communication, ethics implementation, and corruption (Scholtens & Dam, 2007) *Managerial level*: • No effect on unethical actions perceptions (Arnold et al., 2007) • Negative effect on willingness to justify ethically suspect behaviors (Chen, 2014) *Consumer level*: • Positive correlation with ethical perceptions (Armstrong, 1996) • Negative effect on idealism (Leonidou et al., 2013c)	firm level. Mixed results at the managerial and consumer levels. Globe measures provide contradicting results to Hofstede measures
Universalism	*Managerial level*:	Negative effect on ethics-related outcomes at

(continued)

(continued)

Cultural dimension examined	Findings	Verdict
	• Positive effect on willingness to justify ethically suspect behaviors (Cullen et al., 2004)	the managerial level

Note (G) = Measures based on GLOBE study (House et al., 2002)

Appendix 2: Effects of Individual Cultural Dimensions on Sustainability-Related Outcomes

Cultural dimension examined	Findings	Verdict
Achievement	–	–
Assertiveness	*Country level*: • Negative effect on propensity to support sustainability initiatives (Parboteeah et al., 2012)	Negative effect on sustainability-related outcomes at the country level
Collectivism	*Consumer level*: • Positive effect on importance of recycling (McCarty & Shrum, 2001) • Positive effect on willingness to pay more for environmentally friendly products (Laroche et al., 2001) • Positive effect on attitude toward green purchases (Chan, 2001) • Positive effect on sustainability attitudes (Ng & Burke, 2010) • Positive effect on inward and outward environmental attitude (Leonidou et al., 2010)	Positive effects on sustainability-related outcomes at the consumer level
Collectivism (confucian)	*Consumer level*: • Positive effect on environmental attitude (Cho, Thyroff, Rapert, Park, & Lee, 2013)	Positive effect on sustainability-related outcomes at the consumer level

(continued)

(continued)

Cultural dimension examined	Findings	Verdict
Collectivism (horizontal)	*Consumer level*: • Positive effect on environmental attitude (Cho et al., 2013)	Positive effects on sustainability-related outcomes at the consumer level
Collectivism (in-group)	*Country level*: • Positive effect on propensity to support sustainability initiatives (Parboteeah et al., 2012) *Firm level*: • No effect on shareholder, stakeholder, and community CSR values (Waldman, de Luque, Washburn, House, & Adetoun, 2006)	Positive effects on sustainability-related outcomes at the country level but no effects at the firm level
Collectivism (institutional)	*Firm level*: • Positive effect on shareholder, stakeholder, and community CSR values (Waldman et al., 2006)	Positive effects on sustainability-related outcomes at the firm level
Collectivism (vertical)	*Consumer level*: • Negative effect on environmental attitude (Cho et al., 2013)	Negative effects on sustainability-related outcomes at the consumer level
Future orientation	*Country level*: • Positive effect on propensity to support sustainability initiatives (Parboteeah et al., 2012)	Positive effects on sustainability-related outcomes at the country level
Gender egalitarianism	*Country level*: • No effect on environmental performance index and positive effect on human development index (Roy & Goll, 2014)	No effects on sustainability-related outcomes at the country level
Humane orientation	*Country level*: • Positive effect on propensity to support sustainability initiatives (Parboteeah et al., 2012)	Positive effects on sustainability-related outcomes at the country level
Individualism	*Country level*: • Positive effect on social and institutional capacity for environmental sustainability (Husted, 2005)	Mixed and inconclusive results on sustainability-related outcomes at the country, firm, and consumer levels

(continued)

(continued)

Cultural dimension examined	Findings	Verdict
	• No effect on environmental sustainability index (Park et al., 2007) • Positive effect on environmental health (Onel & Mukherjee, 2014) *Firm level*: • No effect on firm social and environmental performance (Ringov & Zollo, 2007) • No effect on green corporatism, green innovation, fair labor, and corporate social involvement (Vachon, 2010) • Negative effect on corporate social performance (Ho et al., 2012) • Positive effect on CSR engagement (Peng et al., 2014) • Negative effect on employee, community, and environment performance (Thanetsunthorn, 2015) • Negative effect on sustainability reporting (Antonicelli et al., 2015) • Negative effect on the level of firm's CSR disclosure (Garcia-Sanchez et al., 2016) • No effect on corporate environmental sustainability reporting (Gallego-Álvarez & Ortas, 2016) *Consumer level*: • Positive effect on inconvenience of recycling (McCarty & Shrum, 2001) • No effect on willingness to pay more for environmentally friendly products (Laroche et al., 2001) • No effects on environmental concerns and green purchase	

(continued)

(continued)

Cultural dimension examined	Findings	Verdict
	behavior (Kim & Choi, 2005) • Positive correlation with sustainability attitudes (Ng & Burke, 2010) • Negative effect on good consumer practices (recycling, do good) and no effect on green buying (Lu et al., 2015)	
Individualism (horizontal)	*Consumer level*: • Positive effect on environmental attitude (Cho et al., 2013)	Positive effects on sustainability-related outcomes at the consumer level
Individualism (vertical)	*Consumer level*: • No effect on environmental attitude (Cho et al., 2013)	No effects on sustainability-related outcomes at the consumer level
Indulgence	*Firm level*: • Negative effect on corporate environmental sustainability reporting in higher quartiles (Gallego-Álvarez & Ortas, 2016)	Negative effects on sustainability-related outcomes at the firm level
Long-term orientation	*Firm level*: • Positive effect on the level of firm's CSR disclosure (Garcia-Sanchez et al., 2016) *Consumer level*: • Positive effect on inward and outward environmental attitude (Leonidou et al., 2010)	Positive effects on sustainability-related outcomes at the firm and consumer levels
Masculinity	*Country level*: • Negative effect on social and institutional capacity for environmental sustainability (Husted, 2005) • Negative effect on environmental sustainability index (Park et al., 2007) • No effect on environmental health (Onel & Mukherjee, 2014) *Firm level*: • Negative effect on firm social and environmental	Overall, negative results on sustainability-related outcomes at the country and firm levels. But some studies revealed neutral or positive effects also

(continued)

(continued)

Cultural dimension examined	Findings	Verdict
	performance (Ringov & Zollo, 2007) • No effect on green corporatism, environmental innovation, fair labor, and corporate social involvement (Vachon, 2010) • Positive effect on corporate social performance (Ho et al., 2012) • Negative effect on CSR engagement (Peng et al., 2014) • Negative effect on employee and community performance and no effect on environment performance (Thanetsunthorn, 2015) • No effect on sustainability reporting (Antonicelli et al., 2015) • Negative effect on the level of firm's CSR disclosure (Garcia-Sanchez et al., 2016) • Negative effect on corporate environmental sustainability in higher quartiles (Gallego-Álvarez & Ortas, 2016)	
Pecuniary materialism	–	–
Performance based culture	*Country level*: • No effect on environmental performance and human development indices and negative effect (Roy & Goll, 2014)	No effects on sustainability-related outcomes at the country level
Performance orientation	*Country level*: • Negative effect on propensity to support sustainability initiatives (Parboteeah et al., 2012)	Negative effects on sustainability-related outcomes at the country level
Power distance	*Country level*: • Negative effect on social and institutional capacity for environmental sustainability (Husted, 2005)	Overall, negative results on sustainability-related outcomes at the country and firm levels. But some studies revealed neutral or positive effects also. Globe measures provide

(continued)

(continued)

Cultural dimension examined	Findings	Verdict
	• Negative effect on environmental sustainability index (Park et al., 2007) • No effect on environmental health (Onel & Mukherjee, 2014) *Firm level*: • Negative effect on shareholder, stakeholder, and community CSR values (G) (Waldman et al., 2006) • Negative effect on firm social and environmental performance (Ringov & Zollo, 2007) • No effect on green corporatism, environmental innovation, fair labor, and corporate social involvement (Vachon, 2010) • Positive effect on corporate social performance (Ho et al., 2012) • Negative effect on CSR engagement (Peng et al., 2014) • Negative effect on employee, community, and environment performance (Thanetsunthorn, 2015) • Negative effect on sustainability reporting (Antonicelli et al., 2015) • Negative effect on the level of firm's CSR disclosure (Garcia-Sanchez et al., 2016) • Negative effect on corporate environmental sustainability in higher quartiles (Gallego-Álvarez & Ortas, 2016)	similar results to Hofstede measures
Pragmatism	*Firm level*: • Positive effect on corporate environmental sustainability reporting in higher quartiles (Gallego-Álvarez & Ortas, 2016)	Positive effects on sustainability-related outcomes at the firm level
	Country level:	

(continued)

(continued)

Cultural dimension examined	Findings	Verdict
Socially supportive culture	• No effect on environmental performance and human development indices (Roy & Goll, 2014)	No effects on sustainability-related outcomes at the country level
Survival/self-expression values	–	–
Uncertainty avoidance	*Country level*: • No effect on social and institutional capacity for environmental sustainability (Husted, 2005) • No effect on environmental sustainability index (Park et al., 2007) • No effect on propensity to support sustainability initiatives (G) (Parboteeah et al., 2012) • Positive effect on environmental health (Onel & Mukherjee, 2014) *Firm level*: • No effect on firm social and environmental performance (Ringov & Zollo, 2007) • Negative effect on green corporatism, environmental innovation, fair labor, and corporate social involvement (Vachon, 2010) • Positive effect on corporate social performance (Ho et al., 2012) • Negative effect on CSR engagement (Peng et al., 2014) • No effect on employee performance and positive effect on community and environment performance (Thanetsunthorn, 2015)	No effect on sustainability-related outcomes at the country level. One study found a positive effect. Mixed and inconclusive results at the firm level. Globe measures provide similar results to Hofstede measures

(continued)

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Cultural dimension examined	Findings	Verdict
	• Positive effect on sustainability reporting (Antonicelli et al., 2015) • Negative effect on the level of firm's CSR disclosure (Garcia-Sanchez et al., 2016) • Positive effect on corporate environmental sustainability in higher quartiles (Gallego-Álvarez & Ortas, 2016)	
Universalism	–	–

Note (G) = Measures based on GLOBE study (House et al., 2002)

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