Export Performance: A Focus on Discretionary Adaptation

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ABSTRACT

Marketing adaptation strategy has been characterized as a strategic imperative in markets with protectionist and nationalist sentiments, which underscores the need to better understand the effects of adaptation strategy. However, empirical investigations of international marketing strategy have considered mandatory and discretionary adaptations as equivalent. Discretionary adaptations, unlike mandatory adaptations, involve choice; thus, they are more relevant to the selection of an international marketing strategy. This article focuses on the direct and conditional effects of discretionary adaptation on export performance. Analyzing data from 203 U.S. small and medium-sized enterprises, the authors find a positive effect of discretionary adaptation on export performance as well as moderating effects of (1) a market characteristic (psychic distance), (2) a firm characteristic (international experience), and (3) a product characteristic (product positional advantage). The implications suggest that adaptation strategy may be more advantageous than previously thought, and that researchers should focus on discretionary adaptations when investigating the choice of a relatively standardized versus adapted international marketing strategy.

Keywords: discretionary adaptation, international marketing strategy, export performance, small and medium-sized enterprises

The objective of this study is to present and test a conceptual model that expands our understanding of international marketing strategy by shifting focus from a conceptualization of adaptations that conflates mandatory and discretionary adaptations into one construct to a conceptualization that focuses exclusively on discretionary adaptations. Mandatory adaptations include compliance with local laws and regulations (e.g., package labeling, advertising restrictions, safety features), whereas discretionary adaptations are modifications to the firm's marketing mix to better appeal to customer tastes and preferences of the local market (e.g., product features, positioning, distribution outlets). Discretionary adaptations are important because international marketers can control their implementation and because their optional nature enables marketers to create an advantage through localization.

Our focus on discretionary adaptation contrasts with most extant international marketing strategy research. Although this stream of research is well established, dating back to the 1960s and 1970s (e.g., Buzzell 1968; Kacker 1972; Sorenson and Wiechmann 1975), inappropriate conceptualizations and research designs have led to contradictory findings and the lack of a clear relationship between the standardization/adaptation decision and export performance (Theodosiou and Leonidou 2003). We suggest that one such problematic conceptualization has been the generalized concept of adaptation.

Early researchers in the field (e.g., Hill and Still 1984; Kacker 1975; Sorenson and Wiechmann 1975) distinguished between adaptations that were mandatory (e.g., safety features compelled through regulation) and adaptations that were discretionary (e.g., product modifications that enable the

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Journal of International Marketing

Vol. 25, No. 4, 2017, pp. 70–88
DOI: 10.1509/jim.16.0114
ISSN 1069-031X (print) 1547-7215 (electronic)

firm to better fit with host-market conditions). Yet the subsequent empirical literature largely ignored this distinction as the focus turned to global standardization (e.g., Jain 1989; Samiee and Roth 1992) and then to strategic fit (e.g., Hultman, Robson, and Katsikeas 2009; Katsikeas, Samiee, and Theodosiou 2006). However, mandatory and discretionary adaptations are significantly different, and conflating both types of adaptation into one adaptation construct may be responsible for some of the ambiguity in the literature.

We adopt strategic fit theory as our model's overarching theoretical perspective (Venkatraman 1989). The importance of strategic fit is highlighted by its increasing use in international marketing strategy and exporting research (e.g., Bahadir, Bharadwaj, and Srivastava 2015; Chen, Sousa, and He 2016; Hultman, Robson, and Katsikeas 2009; Katsikeas, Samiee, and Theodosiou 2006). We posit that strategic fit theory can be used to predict a positive relationship between discretionary adaptation and export performance. In effect, we suggest that a better understanding of international marketing adaptations may be gained by explicitly focusing on discretionary adaptations because doing so allows for a more precise measurement of marketing-mix adaptations. Moreover, discretionary adaptations are, in themselves, a strategic choice and thus an attempt at strategic fit.

In addition to the main effect, we explore three boundary conditions to the relationship between discretionary adaptation and export performance. Inspired by extant comprehensive export marketing strategy frameworks (e.g., Cavusgil and Zou 1994; Leonidou, Katsikeas, and Samiee 2002), we examine the moderating effects of (1) a market characteristic (psychic distance), (2) a firm characteristic (international experience), and (3) a product characteristic (product positional advantage). In a sample of small and medium-sized U.S. exporters, we examine how the positive relationship between discretionary marketing adaptations and export performance is stronger when there is a fit between these factors and the firm's strategy.

With this study, we make the following contributions to the international marketing strategy literature. First, we contribute to the literature by demonstrating the positive effect of discretionary adaptations on export performance. Mandatory adaptations are more likely to affect whether a firm enters a market, whereas discretionary adaptations are driven by strategic considerations about how to compete in the market. By examining only discretionary adaptations, we effectively parcel out potential confounding effects related to mandatory adaptation and offer a more precise understanding of the role of strategic marketing adaptation on export performance.

We also contribute to the literature by identifying three contextual factors that moderate the discretionary adaptation/export performance relationship. The identification of these moderators establishes conditions under which discretionary adaptations are more advantageous. International experience has been investigated as a predictor of international marketing strategy (e.g., Cavusgil and Zou 1994) but only rarely as a moderator of the strategy–performance relationship (e.g., Hultman, Katsikeas, and Robson 2011). Similarly, product positional advantage has been investigated as being directly related to adaptation strategy (e.g., Navarro et al. 2010); however, we suggest that it is better suited as a moderator of the strategy–performance relationship.

Our research provides guidance to export managers. A muddled conceptualization that conflates mandatory and discretionary adaptations has provided ambiguous recommendations to managers. The more precise conceptualization offered in this study more clearly evidences a positive relationship between discretionary adaptation and export performance. This is particularly important in geopolitical environments characterized by nationalist and protectionist sentiments, where firms are responding with an increased focus on localization strategies (Cuervo-Cazurrra, Mudambi, and Pedersen 2017; Ghemawat 2017). Furthermore, the moderating effects examined in this study help us understand the conditions under which discretionary adaptations create stronger advantages and benefit the firm.

In the next section, we begin by reviewing the international marketing adaptation/standardization literature to highlight the research gaps this study addresses. Next, we introduce discretionary adaptation and distinguish it from mandatory adaptations. We then discuss how discretionary adaptation, as an attempt at fit, is expected to be positively related to export performance and explore the moderating roles of psychic distance, positional advantage, and international experience in achieving strategic fit. We then describe the research method and results. In the final section, we discuss the theoretical and managerial implications of the findings and conclude with avenues for future research.

LITERATURE REVIEW

Research on marketing standardization/adaptation has a rich history spanning more than 50 years. Schmid and Kotulla (2011) and Tan and Sousa (2013) provide relatively recent comprehensive reviews of this literature. However, to best understand how our investigation of discretionary adaptation fits within the literature, we must discuss the broad shifts in focus that have occurred since the earliest

research on international marketing strategy. Table 1 displays representative publications and illustrates that change in focus.

Beginning in the late 1960s, researchers recognized differences in international markets that required, or invited, marketing adaptation. These researchers explicitly recognized that some adaptations were mandatory and some were discretionary (e.g., Hill and Still 1984; Kacker 1972, 1975; Keegan 1969; Sorenson and Wiechmann 1975). Kacker (1975, p. 64) distinguishes between "mandatory or externally-imposed adaptation and voluntary or self-imposed adaptation." Similarly, Sorenson and Wiechmann (1975, p. 44) use the terms "obligatory custom-tailoring" versus "discretionary custom-tailoring" in which "management is not compelled to make changes but chooses to make them in

Table 1. View of Adaptation and Use of Strategic Fit Perspective over Time

Representative Publications	Different Types of Adaptation	Strategic Fit Perspective	Relation to Performance	Sample/Context
Bahadir, Bharadwaj, and Srivastava (2015)	—	✓	Strategic fit (+)	104 Brands in 14 developed and emerging markets
Hultman, Robson, and Katsikeas (2009)	—	✓	Strategic fit (+)	341 Swedish exporters—multiple industries
Schilke, Reimann, and Thomas (2009)	—	✓	Standardization (+)[a] Strategic fit (+)	489 U.S. business units—multiple industries
Katsikeas, Samiee, and Theodosiou (2006)	—	✓	Strategic fit (+)	171 U.S., Japanese, and German exporters—multiple industries
Özsomer and Simonin (2004)	—	✓	Standardization (+)[a] Strategic fit (+)	171 Japanese and 180 Turkish business units of U.S. and European Union MNCs—multiple industries
Theodosiou and Leonidou (2003)	—	✓	Strategic fit (+)	Varied (literature analysis)
Zou and Cavusgil (2002)	—	✓	Standardization (+)	126 U.S. business units—multiple industries
Shoham (1999)	—	—	Standardization (+/–)[b]	98 Israeli exporters—multiple industries
Samiee and Roth (1992)	—	—	Standardization (n.s.)	147 U.S. business units—multiple industries
Jain (1989)	—	—	Not addressed	Conceptual article
Hill and Still (1984)	—	—	Adaptation (+)	61 subsidiaries of U.S. MNCs operating in 22 least developed countries in food, drink, pharmaceutical, and cosmetics industries
Levitt (1983)	—	—	Standardization (+)	Case study
Sorenson and Wiechmann (1975)	✓	—	Adaptation (+)	100 executives from 27 U.S. and European Union MNCs in food, drink, toiletries, and cosmetics industries
Kacker (1972)	✓	—	Adaptation (+)	26 Indian subsidiaries of U.S. MNCs—multiple industries
Keegan (1969)	✓	✓	Strategic fit (+)	Conceptual article

[a]Standardization found to have both a direct and conditional effect on performance.
[b]Valence varies by marketing-mix element.
Notes: Publications listed are intended as representative only, not comprehensive. MNCs = multinational corporations.

response to subtle differences in local market conditions." Hill and Still (1984) refer to the two types of adaptation as "mandatory" and "optional." Although the labels may have differed slightly, it is clear that the earliest researchers in the field thought it important to distinguish between adaptations made to meet legal requirements versus adaptations made to meet culture-specific tastes and preferences.

Following Levitt's (1983) influential and oft-cited article on the globalization of markets, the literature seemed to suggest that global markets were homogenizing and firms could reap tremendous benefits from a more standardized marketing strategy. Thus, in the 1980s, the focus shifted from defining the types of adaptation to understanding globally standardized marketing strategy (e.g., Samiee and Roth 1992). However, empirical findings did not always substantiate the notion that increased standardization would lead to improved performance. The review by Theodosiou and Leonidou (2003) highlighted the numerous conflicting and contradictory results, which led the majority of the literature since the 2000s to investigate the strategic fit between international marketing strategy and the context in which this strategy is implemented. Notable recent examples of research using the strategic fit perspective include Katsikeas, Samiee, and Theodosiou (2006) and Hultman, Robson, and Katsikeas (2009), who found that performance was enhanced when the firm's marketing strategy fit the external environment, as did more recent examples such as Gabrielsson, Gabrielsson, and Seppälä (2012), Chung, Wang, and Huang (2012), and Magnusson et al. (2013).

Notably, in one of the earliest publications, Keegan (1969) recognized both the distinction between types of adaptation and the necessity of "product-market fit." The immediate subsequent literature distinguished between types of adaptations while ignoring the concept of strategic fit; in contrast, more recent literature has focused on the role of strategic fit while ignoring differing types of adaptation. Thus, except for the earliest investigations, the aforementioned studies conflate mandatory and discretionary adaptations, despite the conceptual distinction suggested by early researchers (e.g., Hill and Still 1984; Kacker 1972, 1975; Sorenson and Wiechmann 1975) and despite our assertion that mandatory adaptations have little to do with strategic decisions regarding how to compete in a market.

There have been calls to abandon generalized standardized/adapted marketing strategy constructs and instead improve the specificity of the conceptualization and measurement of standardization/adaptation (e.g., conceptualizing standardization/adaptation more precisely as a multidimensional construct (Ryans, Griffith, and White 2003). We answer this call by suggesting that measuring adaptation more precisely and focusing on discretionary adaptation can offer more accurate and nuanced insights to strategy research.

Following early conceptualizations, we define discretionary adaptations as adaptations that are not required by law or regulation but, rather, are voluntary adaptations made to appeal to customers. For example, Mondelez International adapted the recipe of its famous Oreo cookie in China, where consumers generally found the American version too sweet. The adapted version in China is labeled as "lightly sweet," while the American version remains unchanged. The corollary of our definition of discretionary adaptations is that mandatory adaptations are those required by law or regulation. An example of a mandatory adaptation might be redesigning an electric-powered product to accept voltage levels based on the regulatory standard of the target markets, or adapting a promotion strategy that involves comparative advertising, which is welcomed in the United States but strongly restricted in Germany. This is a critical distinction to make with respect to investigating strategy, because strategy is defined as "*deliberately choosing* a different set of activities to deliver a unique mix of value" (Porter 1996, p. 64; emphasis added). Mandatory adaptations offer no real choice with respect to how to compete in the market, leaving discretionary adaptations the only type that matters in the context of international marketing strategy.

Discretionary adaptations are uniquely important with respect to strategy and are an important focus of inquiry because they represent a managerial tool with which a firm's competitive positioning can be adjusted. Discretionary adaptations are based on managerial research as well as observation and interpretation of the host-market environment, which can be difficult for international marketers to interpret (Kostova and Zaheer 1999). In contrast, mandatory adaptations are the result of complying with codified regulatory requirements.

As a result, the goal of mandatory adaptations is the same for all firms (i.e., regulatory compliance to operate in a market), and the strategies by different firms for achieving compliance should be relatively similar. However, the goal of discretionary adaptations is not regulatory compliance, nor are there explicitly codified guidelines to satisfy. Rather, the goal is a strategic fit with the local environment to improve the firm's competitiveness and performance in the market. Cavusgil, Zou, and Naidu (1993) likewise suggest that product adaptation at the time of market entry generally reflects mandatory adaptations, whereas adaptations following entry are likely to be discretionary. In this sense,

mandatory adaptations pertain to whether to operate in a market, whereas discretionary adaptations pertain to how to compete in that market.

In summary, the variance in interpretation of the environment, the variety of possible solutions for addressing those differences, and the potential to influence competitiveness makes discretionary adaptations, not mandatory adaptations, the key type of adaptation to investigate in international marketing strategy and performance research.

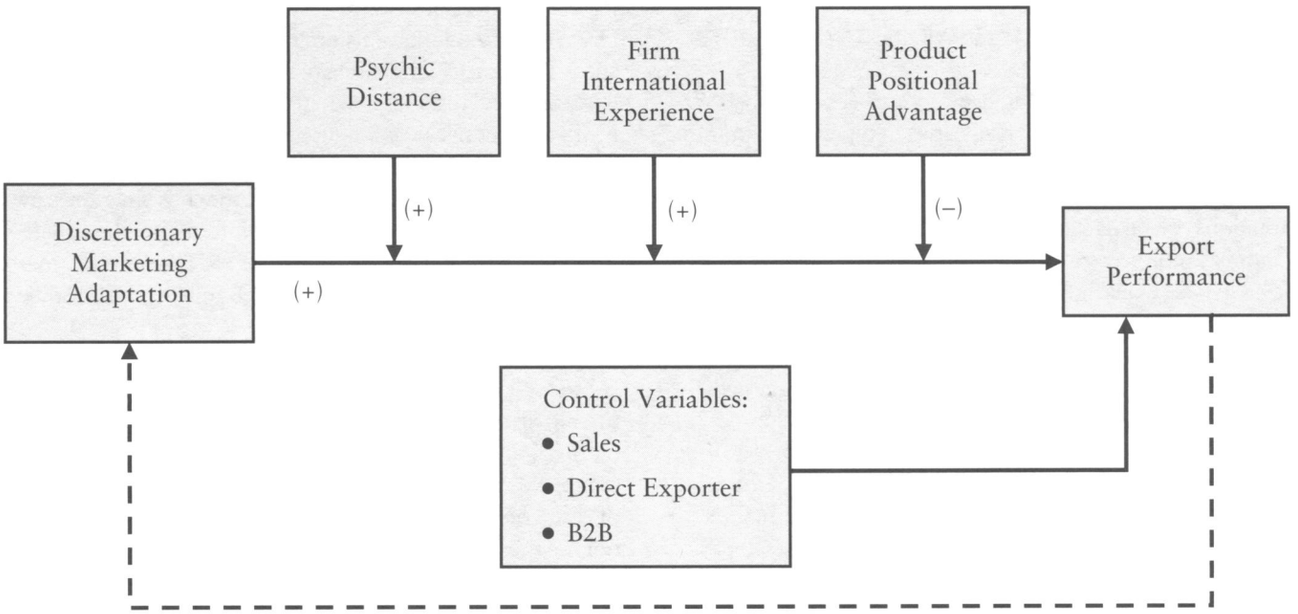
CONCEPTUAL DEVELOPMENT AND HYPOTHESES

We develop a conceptual model, illustrated in Figure 1, which describes the relationships between the variables discretionary marketing adaptation, psychic distance, international experience, positional advantage, and the outcome variable export performance. Following best practices for investigating export performance (e.g., Cavusgil and Zou 1994; Theodosiou and Leonidou 2003), we examine performance at the export venture level. Because a focus on economic objectives may overlook the attainment of important strategic objectives, we define export performance as the extent to which the firm has achieved its product-market performance objectives (Katsikeas et al. 2016). We offer clear definitions of discretionary marketing adaptation and the moderating variables in subsequent sections as they are discussed. Next, we discuss discretionary marketing adaptations and develop the theoretical rationale for a positive relationship between discretionary adaptation and export performance. This is followed by a discussion of each of the three contextual factors, which we posit moderate the relationship between discretionary adaptation and export performance.

Discretionary Marketing Adaptation and Export Performance

Strategic fit theory suggests that the firm should align its strategy with the environment (Venkatraman 1989), and when the strategy fits the environment, this results in superior firm performance (Lukas, Tan, and Hult 2001). This has led some researchers to conclude that "international marketing strategy (whether standardized or adapted) will

Figure 1. Conceptual Diagram



Notes: Strategy–performance research ideally includes longitudinal data with a time-lagged performance measure to better assess a causal relationship, because performance is expected to exert some influence on strategy (Lages, Jap, and Griffith 2008). However, longitudinal studies are rare in international business research, and the vast majority of strategy–performance research examines cross-sectional data (Hult et al. 2008). Similar to Morgan, Kaleka, and Katsikeas (2004), we acknowledge this untested theoretical link from performance to strategy with the dashed line.

lead to superior performance only to the extent that it properly matches the unique set of circumstances that the firm is confronted by within a particular overseas market" (Leonidou, Katsikeas, and Samiee 2002, p. 167). Central to this perspective is the notion that the firm reacts to "the environment as an exogenous variable and adjusts its marketing strategy and/or organizational form to match the environment" (Katsikeas, Samiee, and Theodosiou 2006, p. 869).

Extant research has conflated mandatory and discretionary adaptations, which has led to the conclusion that there should not be a main effect between adaptation and performance but, rather, that the environment moderates the relationship between adaptation and performance (i.e., strategic fit). The lack of a main effect is logical in those research studies given that a firm's mandatory adaptations presumably increase costs without increasing value and are not considered a strategic choice regarding how to compete in the market at all. Mandatory adaptations are, by definition, required simply to compete in the market; thus, they are not relevant to strategic choices about how best to fit with the environment in a way that influences performance.

Consequently, in this study, we focus on discretionary adaptations exclusively. In contrast to mandatory adaptations, we posit that discretionary adaptations, by themselves, are a strategic choice and reflect the firm's effort at achieving fit with the environment. Marketing managers are expected to scrutinize each potential discretionary adaptation and implement only the discretionary adaptations that they believe will be advantageous to the firm and constitute the best strategic fit. This implies that potential adaptations are evaluated with respect to potential costs and benefits, with discretionary marketing adaptations being implemented only when the analysis suggests a net benefit to the firm. Consider, for example, the telecom firm Vodafone, which adapted the creative strategy and execution of its social media campaigns between markets. Vodafone implemented changes on the basis of a careful analysis of differences between its U.K. and Greek customers; further analysis suggests that the discretionary adaptation had positive effects on customer engagement and brand attitudes (Hatzithomas, Fotiadis, and Coudounaris 2016).

We recognize that the potential for managerial miscalculations tends to be particularly great in a complex international environment (Shoham 1999), and we acknowledge that managers are limited by bounded rationality, meaning that they are not always able to understand the internal and external factors involved that would enable them to make the correct marketing strategy decisions. Therefore, we do not expect or hypothesize that *all* discretionary adaptations will result in success. However, it seems reasonable to assume that managers responsible for making international marketing strategy decisions have advanced to their positions in line with their ability to make appropriate judgments for *most* decisions. Thus, the firm would not introduce discretionary adaptations that the manager does not expect to be beneficial. In this sense, the coalignment of strategy and environment is inherent in the decision to implement a discretionary adaptation and leads to the following hypothesis:

H_1: Discretionary marketing adaptation has a positive effect on export performance.

Boundary Conditions

In H_1, we present a strategic fit argument for a direct effect between discretionary adaptations and export performance, suggesting that discretionary adaptation is itself an inherent attempt at fit with the environment. To better understand the boundary conditions of this effect, in the following sections, we explore three potential moderating factors. We draw on recognized frameworks that have established firm and product characteristics (internal factors) and industry and market characteristics (external factors) as meaningful categories that influence international marketing strategy (e.g., Cavusgil and Zou 1994; Leonidou, Katsikeas, and Samiee 2002). Accordingly, we identify one market characteristic (psychic distance), one firm characteristic (international experience), and one product characteristic (product positional advantage) that may moderate the relationship between discretionary adaptations and export performance. Prior literature has examined the role of these variables as predictors of strategy (e.g., Cavusgil and Zou 1994; Navarro et al. 2010; Tan and Sousa 2013) but has not explored their role in achieving strategy–environment fit in export markets. Understanding these variables' role as moderators of a discretionary adaptation–performance relationship would offer managers more valuable information with which to make strategic decisions.

The Moderating Effect of Psychic Distance

We define psychic distance as the degree of differences between the exporting firm's "typical" domestic customers and its customers in the export market. Such differences include customers' loyalty, decision-making processes, expectations for support, and price sensitivity (Hultman, Robson, and Katsikeas 2009). Psychic distance interferes with export relationships because it complicates the flow of information between the firm and its foreign market customers, making it difficult to devise and implement suitable

strategies (Durand, Turkina, and Robson 2016; Obadia, Vida, and Pla-Barber 2017) and impeding the development of favorable importer–exporter relationships (Leonidou et al. 2014; Skarmeas, Zeriti, and Baltas 2016).

Extant research has established that there is a significant relationship between differences in the home and host markets and the degree to which the firm adapts its marketing strategy (e.g., Tan and Sousa 2013; Theodosiou and Leonidou 2003). Indeed, when markets are considered culturally or psychically very similar, firms tend to adapt the marketing mix very little (O'Grady and Lane 1996). Not only do we suggest that great differences between home- and host-market customers encourage more adaptation, but we predict a stronger relationship between discretionary adaptation and export performance in markets characterized by high psychic distance.

The strategic fit between the degree of discretionary adaptation with the host-market environment has important implications for performance. For discretionary adaptations to be positively related to performance, managers must accurately identify relevant differences between home- and host-country customers and implement corresponding adaptations. As such, firms can overadapt the marketing mix by implementing unnecessary discretionary adaptations that raise costs, but with limited benefits, or they can underadapt by failing to recognize important differences, leading to insufficient adaptation. Evidence has shown that when psychic distance is small, firms often have a difficult time recognizing and responding to subtle differences between markets (O'Grady and Lane 1996). Dow (2006) suggests that there is a systematic bias among international marketing managers to adapt the marketing mix less than would appear appropriate (i.e., underadapt). In the context of strategic fit theory, performance should be maximized when the level of adaptation corresponds with the degree of differences between the home- and host-country markets.

Furthermore, highly similar home- and host-country export markets may require only limited discretionary adaptation, which suggests that the relationship between discretionary adaptation and performance should be relatively weak in similar markets. In contrast, it is comparatively easier for managers to recognize important differences and implement impactful discretionary adaptations when there are large differences between home and the host markets. Furthermore, if conditions in the new market are significantly different, the appeal of the firm's standard offering may be limited (Roth 1995), and the firm's performance is likely to be enhanced by a higher degree of discretionary adaptation (i.e., improved strategic fit). Thus, the greater the psychic distance, the greater the positive effect of discretionary adaptation on performance.

H_2: The positive relationship between discretionary marketing adaptation and export performance is stronger when psychic distance is high.

The Moderating Effect of International Experience

Experience is a primary source of organizational learning (Penrose 1959), and thus, international experience is expected to be a proxy for the amount of export knowledge the firm is expected to have acquired, with the assumption that a more experienced firm has gained valuable knowledge about how to be successful in international export markets (Hultman, Katsikeas, and Robson 2011). We define international experience as the number of years of international exporting experience the firm has accumulated.

International experience has been examined most often as antecedent to international marketing strategy; however, results of such studies have been mixed and inconclusive (Tan and Sousa 2013), reporting both positive (Cavusgil and Zou 1994) and negative (Chung 2003) effects on product adaptation. Instead, we examine international experience as a moderator and posit that it provides the basis for the firm to develop the expertise with which to devise and implement more effective discretionary adaptations that have a stronger positive effect on performance compared with firms with less international experience. We expect that the greater the years of organizational international experience, the stronger the discretionary adaptation–performance relationship, due to the accumulated organizational knowledge from prior exporting experiences. In effect, international experience enables the firm to achieve a better strategic fit between the firm's strategy and its environment.

Knowledge gained from prior international experience helps firms acquire and use new knowledge (Chetty, Eriksson, and Lindbergh 2006). With knowledge based on experiential learning, firms are better able to understand opportunities and recognize differences between the home and host markets (Cavusgil, Zou, and Naidu 1993). Exporters with more international experience are more confident and perceive less uncertainty with respect to estimating risks and returns (Erramilli 1991), and knowledge based on international experience has been found to help firms better understand market mechanisms, develop a network of contacts, avoid threats, and make improved marketing decisions (Lages, Jap, and Griffith 2008). Indeed, experiential

learning is a basic mechanism for identifying and exploiting opportunities with respect to internationalization of the firm (Johanson and Vahlne 2009). Similar arguments have been made with respect to international experience and product modifications (Calantone et al. 2004) as well as with marketing-mix adaptations and cultural intelligence (Magnusson et al. 2013).

Thus, it is logical to expect that the greater the years of organizational international experience, the greater the firm's organizational knowledge and ability to identify opportunities and threats with respect to export markets (Ahi et al. 2017). This strategic fit between experience and discretionary adaptation should result in firms with greater international experience making better marketing-mix adaptations than firms with little international experience. Furthermore, under circumstances of strategic misfit with the environment, firms are motivated to regain fit (Zajac, Kraatz, and Bresser 2000). Firms with greater levels of international experience operating in foreign markets tend to better realign themselves strategically compared with firms with little international experience (Sousa and Tan 2015). Thus, international experience should help firms implement more effective discretionary adaptations.

H_3: The positive relationship between discretionary marketing adaptation and export performance is stronger when the organizational international experience of the firm is high.

The Moderating Effect of Product Positional Advantage

Positional advantage is considered the relative superiority of customer value or lower relative costs achieved by a firm compared with its competitors (Day and Wensley 1988). Its origins reside in the firm's resources and capabilities and is directly linked to firm performance (Day 1994; Day and Wensley 1988). Marketing capabilities and market orientation (i.e., focus on developing superior solutions to meet customer needs) are especially important with respect to positional advantage because of their role in identifying and creating customer value. Exporters' marketing capabilities lead to even higher levels of positional advantage for highly innovative exporters (Martin, Javalgi, and Cavusgil 2017). As a result of positional advantage, firms can improve accounting performance (Hult and Ketchen 2001) and market share and sales growth (Martin, Javalgi, and Cavusgil 2017).

In this study, consistent with Navarro et al. (2010), we define product positional advantage as managerial perception of the export line's competitive strength relative to its competitors. However, unlike Navarro et al., we view positional advantage as an independent construct that has the potential to affect the marketing strategy–performance relationship rather than a consequence of the firm's discretionary marketing adaptation. Our view is consistent with other research that has viewed positional advantage as a consequence of the firm's capabilities and resources rather than as a result of adaptation strategy (e.g., Day and Wensley 1988; Morgan, Kaleka, and Katsikeas 2004; Ulaga and Reinartz 2011). For example, the capability to quickly innovate new products facilitates the development of positional advantages (Carbonell and Rodriguez 2006). Consider the example from Apple; it launched its first iPhone in the United States in the summer of 2007, approximately one year before launching in many international markets. During that time, iPhone accrued strong brand equity, and Apple had already developed a significant product positional advantage when it entered the new markets. Thus, Apple's product positional advantage was not a consequence of the firm's adaptation strategy; rather, its product positional advantage was based on resources and capabilities on entering the new markets.

While our view is similar to that of Morgan, Kaleka, and Katsikeas (2004), they did not address the issue of the strategic fit of positional advantage with the firm's adaptation strategy in a manner that attenuates the discretionary adaptation–performance relationship. We posit that firms with a strong positional advantage benefit less from discretionary adaptations than firms without such advantages. Firms with strong positional advantages have less to gain from discretionary adaptations than firms with weak or no positional advantages. Benefits from discretionary adaptations, while helpful, would have comparatively less impact on performance because so much of the firm's performance is already accounted for by its existing advantages. In other words, strategic fit for firms with weak positional advantages would come from more discretionary adaptation compared with firms with strong positional advantages.

Again, consider the example of Apple; its iPhone is highly standardized across global markets with strong product positional advantage. Consumers around the world yearn for the same level of global excellence, and there has been little reason for Apple to make significant adaptations to appeal to unique preferences in various markets. We note that Apple designed a gold-colored iPhone to appeal specifically to the Chinese market, but it has since been made available to consumers worldwide due to consumer demand (Hanson 2015). Thus, it seems that Apple's strong positional advantage has limited the appeal or need for discretionary adaptation, suggesting that when firms have strong positional

advantage, the relationship between discretionary adaptations and export performance is expected to be weak.

In contrast, we expect a much stronger positive relationship between discretionary adaptations and performance for firms with weak positional advantage. In effect, we posit that discretionary adaptation will have a compensatory effect that dampens the negative effects resulting from the lack of positional advantage. Firms without a strong positional advantage can compensate by increasing their cultural knowledge about their international markets and developing more localized versions of the marketing mix.

H_4: The positive relationship between discretionary marketing adaptation and export performance is stronger when product positional advantage is low.

METHOD

Sample

We follow recommended practices for evaluating international marketing strategy (e.g., Theodosiou and Leonidou 2003) in using the export venture, which pertains to a specific product or line exported to a particular foreign market, as the unit of analysis in the study. Participants were from general manufacturing firms (North American Industry Classification System = 31–33) and were identified and incentivized by the market research firm Research Now, a process similar to that used in other research (e.g., Griffith and Lee 2016). Consistent with prior studies on export marketing strategy, (e.g., Obadia, Bello, and Gilliland 2015), we relied on a key informant from each company who was actively involved in the firm's exporting activities and able to evaluate the firm's export marketing strategy and performance. The research firm emailed invitations on a rolling basis over a period of two weeks, which precludes the calculation of a traditional response rate. We collected 203 completed and usable surveys from 347 qualified respondents, who were identified on the basis of their response to a question about their direct involvement in export management decisions. The qualified respondents were derived from a total of 1,220 managers who opened the survey from the email invitation.

Nearly half the respondents (47%) identified themselves as managers, and half (53%) identified themselves as vice presidents, C-level officers, or owners. The sample consists of small and medium-sized enterprises (SMEs); 85% were privately held, and 60% had sales of less than US$50 million. The firms represent a variety of industries; the most common were fabricated metal products (15%), machinery (13%), electrical equipment and appliances (12%), computer and electronics (8%), and food (6%). Informants were randomized to respond with reference to the largest, third-largest, or fifth-largest export market (Obadia, Bello, and Gilliland 2015). As a result, 33 countries were identified as focal export markets. Consistent with U.S. trade patterns, the most common markets were Canada (15%), the United Kingdom (13%), China (11%), and Mexico (11%).

Measures

We developed a structured survey instrument in several stages. We first defined each construct's domain and then drafted items to reflect the conceptual domain of a particular construct, based on a review of the literature and field interviews. Through an iterative process with evaluation and feedback from international marketing academics and export managers, we developed the final questionnaire.

Consistent with current advice on assessing performance outcomes in marketing (Katsikeas et al. 2016), we focus on a particular aspect of performance (i.e., product-market performance), because exporting can be viewed as a strategic response and not simply an economic objective (Cavusgil and Zou 1994). Product-market performance is measured with three items capturing how well the firm has met its expectations in the given export market in terms of sales, market share, and overall marketing success. Furthermore, the use of self-reported export performance measures is justified because (1) managers are often unwilling to disclose objective performance data, (2) export venture–specific information is not provided in financial statements, (3) managerial decisions are driven by perceptions of export performance, and (4) perceptual measures have been shown to yield reliable and valid performance indicators (Morgan, Kaleka, and Katsikeas 2004).

The focus of this study is to capture the effects of discretionary marketing adaptations. To do this, we clearly defined discretionary adaptations for the respondents as voluntary adaptations that are made to appeal to customer preferences, and we specifically asked respondents to consider only such adaptations in their responses. Furthermore, marketing strategy adaptation has traditionally been measured as a second-order construct based on the Ps of the marketing mix (product, price, promotion, and place). Some have used all four Ps (e.g., Katsikeas, Samiee, and Theodosiou 2006), while others advocate dropping the price dimension, because managers have difficulty providing an accurate assessment due to significant variation in local regulations and competitive environments (Schilke, Reimann, and Thomas

2009; Zou and Cavusgil 2002). In line with this, we measured discretionary marketing adaptation as a second-order construct reflected by three factors: discretionary product adaptation, discretionary promotion adaptation, and discretionary channel adaptation.

Product positional advantage is a four-item formative construct measuring the firm's positional advantages in terms of marketing advantage, cost advantage, financial advantage, and legal advantage. Similar to Hultman, Robson, and Katsikeas (2009), we measured psychic distance as the export manager's perception of differences between customers in the home and host markets. Drawing on field interviews with export managers, we assessed perceived differences in terms of customer loyalty, the decision-making process, service support expectations, and price sensitivity. We measured international experience by the number of years the firm has been exporting.

In addition to the focal variables, we control for the firm's business-to-business (B2B) or business-to-customer (B2C) orientation (70% B2B), firm total sales (to control for potential scale economies), and whether the venture exports directly or indirectly through a distributor. All survey items and their properties appear in the Appendix.

Validity and Reliability

We assess the validity and reliability of the constructs first by using SPSS to conduct an exploratory factor analysis of all the items used to measure the five first-order reflective latent constructs in the model. The analysis produced a five-factor solution, with all items loading on their intended constructs, explaining 76% of the variance. In comparison, a forced one-factor solution explained only 35% of the variance. We then conducted a confirmatory factor analysis for the reflective constructs using AMOS 24, modeling discretionary adaptation as a second-order reflective construct with first-order constructs of product, promotion, and channel adaptation. The resulting fit statistics met commonly accepted thresholds ($\chi^2 = 230.52$, χ^2/d.f. = 1.82, root mean square error of approximation [RMSEA] = .06, comparative fit index [CFI] = .96, standardized root mean square residual [SRMR] = .04). All items loaded significantly on their intended constructs, with loadings ranging from .61 to .97; only one item has a loading below .70. Composite reliability for the latent constructs range from .84 to .96, and average variances extracted (AVEs) exceed ranges from .59 to .86 (Anderson and Gerbing 1988). Finally, discriminant validity was evident, as all squared phi correlations were less than the respective AVEs for all pairs of constructs (e.g., Fornell and Larcker 1981). Table 2 presents correlations and descriptive statistics for all constructs.

To control for common method bias, we followed the advice of MacKenzie and Podsakoff (2012) in designing the survey to minimize the threat on the main effect, including survey length, complexity, and item order. Statistically, we employed the correlation-based marker variable technique (Lindell and Whitney 2001), which is commonly used (e.g., Bello et al. 2016). We used a marker variable measuring the export market's degree of industry maturity because it is unrelated to the variables of interest. We adjusted the zero-order correlations by subtracting the smallest correlation between the marker variable and the variables of interest (r = .003). We tested the new adjusted correlations for significance and compared them with the zero-order correlations; all significant correlations remained significant after partialing out the

Table 2. Construct Correlations and Discriminant Validity

	M	SD	1	2	3	4	5	6	7
1. Psychic distance	3.74	1.45	*.77*						
2. International experience	4.26	1.49	.10						
3. Positional advantage	4.36	.93	−.06	.05					
4. Marketing adaptation	2.85	1.33	.43	.01	.30	*.78*			
5. Export performance	3.89	1.25	.06	.05	.45	.32	*.84*		
6. Indirect exporting	1.39	.49	−.07	−.15	−.13	.11	−.04		
7. Sales	3.69	2.01	.18	.17	.20	.17	.29	−.17	
8. B2B	1.69	.46	.06	.15	.00	−.09	−.05	−.06	.02

Notes: Correlations ≥ .14 are significant at $p < .05$. The square root of the AVE for reflective constructs on the diagonal appear in italics.

effect of the marker variable. As a result, we do not consider common method bias to pose a serious threat.

Analysis and Results

To evaluate the proposed model, we used AMOS 24 to estimate a structural equation model. To analyze the interactions, we created averaged composites for each variable comprising an interaction term. These variables were subsequently standardized and used to create multiplicative interaction terms. We estimated structural paths from all moderating variables and their corresponding interaction terms to the criterion variable, export performance. In addition, we included three control variables: firm sales, type of customer (consumer or business), and type of exporting (direct or indirect). The fit of the structural model met generally accepted criteria (χ^2 = 309.62, χ^2/d.f. = 1.49, RMSEA = .05, CFI = .96, SRMR = .06). The results of the structural model, summarized in Table 3, support the proposed model. In support of H_1, discretionary marketing adaptation improved export performance (b = .23, p < .01). Our hypotheses describe the interactions between discretionary adaptation and (1) psychic distance (H_2), (2) international experience (H_3), and (3) positional advantage (H_4); all three interactions are significant. The effect of discretionary adaptation on export performance was positively moderated by psychic distance (b = .17, p < .01) and international experience (b = .12, p < .05), and negatively moderated by product positional advantage (b = –.16, p < .05). We illustrate the significant interaction effects in Figure 2, Panels A–C.

DISCUSSION

Theoretical Implications

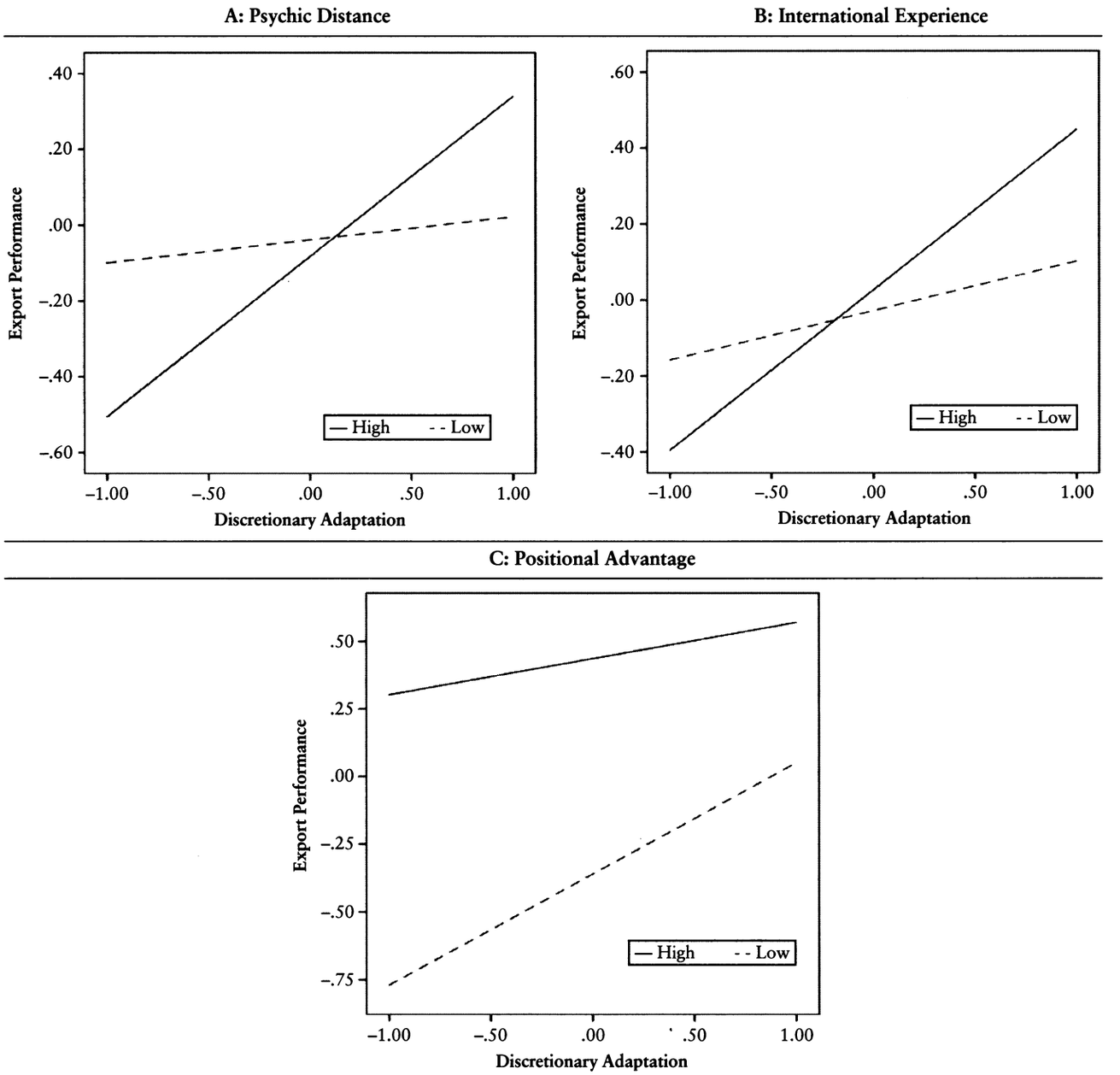
This study makes two specific theoretical contributions to the international marketing literature. The first theoretical contribution is the distinction between mandatory and discretionary adaptation. We suggest that some of the conflicting results in the literature may be explained by the conflation of mandatory versus discretionary adaptations in extant operationalizations. Although early researchers conceptually recognized the difference between mandatory and discretionary adaptation (Hill and Still 1984; Kacker 1972; Keegan 1969), this seems to have been largely overlooked since the 1980s. Discretionary adaptations are the only type of adaptation that involves choice with respect to how to compete in a market. In contrast, mandatory adaptations, while relevant for market entry decisions, are irrelevant to the question of how to compete. Thus, investigations involving

Table 3. Covariance-Based Structural Equation Modeling Results

Structural Path		Standardized Coefficient	t-Value
Controls			
Direct/indirect exporting → Export performance		.01	.06
Sales → Export performance		.16*	2.30
B2B → Export performance		–.04	–.05
Psychic distance → Export performance		–.02	–.23
International experience → Export performance		.02	.34
Positional advantage → Export performance		.38***	5.17
Hypothesized Relationships			
H_1	Discretionary adaptation → Export performance	.23**	2.37
H_2	Discretionary Adaptation × Psychic distance → Export performance	.17**	2.54
H_3	Discretionary adaptation × International experience → Export performance	.12*	1.84
H_4	Discretionary adaptation × Positional advantage → Export performance	–.16*	–2.28

*p < .05.
**p < .01.
***p < .001.
Notes: One-tailed tests of significance. R^2 for export performance = .30, χ^2(d.f. = 208) = 309.62, χ^2/d.f. = 1.49, CFI = .96, SRMR = .06, RMSEA = .05.

Figure 2. Discretionary Adaptation Interactions



the strategic choice of how to compete in a market should disambiguate the adaptation construct and focus only on discretionary adaptations.

We have applied strategic fit theory to argue that there should be a positive relationship between discretionary adaptation and export performance, which we have confirmed empirically. The findings suggest that the effort to achieve fit with the environment is inherent in the decision to employ a discretionary adaptation. We assume that managers deliberate over potential discretionary adaptations including their costs, potential benefits, and expected returns.

This would likely be accomplished by examining the environment in the export market and then deciding whether a proposed adaptation fits with that environment in a way that would produce a forecasted return. Thus, strategic fit with the environment is an inherent goal in the decision to employ a discretionary adaptation.

Our second theoretical contribution lies in the identification of three contextual factors that influence the discretionary adaptation–performance relationship. Although the main effect suggests a positive relationship between discretionary adaptation and export performance, the significant interaction effects identify important boundary conditions. We found that characteristics of the market (psychic distance), the firm (international experience), and the product (product positional advantage) significantly influence the effectiveness of discretionary adaptations. International experience has been more commonly investigated as a predictor variable (e.g., Cavusgil and Zou 1994) and only with rare exception as a moderator of the international marketing strategy–performance relationship (e.g., Hultman, Katsikeas, and Robson 2011). The inclusion of international experience is important because of its allusion to organizational learning and its effects on decision making. This could be another reason why prior investigations have produced conflicting results.

Our results indicate that psychic distance enhances the effectiveness of discretionary adaptations on export performance. Interestingly, because psychic distance is based on subjective perception of differences between markets (Sousa and Bradley 2006), greater international experience would logically alter the perception of psychic distance of the export market because the firm would have greater familiarity with and more accurate knowledge about the export market. Although more knowledge of the export market could lead to the perception that it is more different than previously thought, it is more likely that more knowledge would lead to a perception of less distance. This question is beyond the scope of this investigation; however, because both psychic distance and international experience have positive moderating effects, one wonders how the total effect on export performance would be affected as the level of one positive moderator increases and the other decreases.

Finally, our research explores the moderating effect of product positional advantage, which, to our knowledge, had not yet been examined as a moderator. Like international experience, it has also been modeled to be directly related to marketing-mix adaptation (e.g., Navarro et al. 2010). However, we have argued conceptually that positional advantage is not a direct consequence of marketing-mix adaptation; rather, it moderates the discretionary adaptation–performance relationship. This offers a new perspective on the role of product positional advantage with respect to export performance and again potentially explains conflicting findings from prior research that did not account for an attenuating effect of product positional advantage on the adaptation strategy–performance relationship.

Discretionary adaptations compensate to some degree for a lack of positional advantage. Our data do not allow for nominal comparisons of performance, so we do not suggest that poor positional advantage can be entirely overcome through discretionary adaptation. Indeed, the upward sloping line in Figure 2, Panel C, implies positive effects of discretionary adaptation even for firms with strong product positional advantage. However, the positive effect is much stronger for firms with weak positional advantage; thus, it is a strategy that pays comparatively higher dividends to such firms.

Managerial Implications

The results of this study provide strong evidence that discretionary adaptations can have a positive effect on export performance, and this is particularly so in psychically distant markets, when the firm has significant international experience to help guide the adaptation process, or when the firm lacks a significant positional advantage. Although we examine only discretionary adaptations, managers should not ignore the implications of mandatory adaptations. Mandatory adaptations have cost and operational consequences that may affect the decision of whether to export to a given foreign market. Furthermore, discretionary adaptations that are needed to meet the desired competitive positioning in the export market may also influence the decision of whether to enter. However, when determining strategy with respect to how to best compete in that same given market, managers should focus not on mandatory adaptations but, rather, the potential benefit of discretionary adaptations. These potential benefits are predicated on the idea that managers engage in a cost–benefit analysis of any proposed discretionary adaptation, and how it might affect other elements of the firm's strategy. Thus, managers are cautioned not to simply believe that all adaptations lead to improved export performance under all conditions.

The significance of international experience as a moderator suggests that firms with more international experience tend to benefit more from implementing discretionary adaptations. This raises questions as to what a firm with limited international experience should do. One way to solve a problem of lack of experience is to gain experience by doing. This would result in the organizational learning needed to

better evaluate potential discretionary adaptations. Alternatively, a firm lacking in experience might also benefit from onboarding human resources or acquiring firms that bring international experience with them. Although this is not a replacement for organizational learning, it has been shown to accelerate the process (Johanson and Vahlne 2009).

The managerial relevance of this study is highlighted by the current geopolitical environment, which reflects some doubt about the benefits of globalization (Ghemawat 2017), accompanied by the rise of antiglobalist sentiment in some developed markets (Cuervo-Cazurrra, Mudambi, and Pedersen 2017). Indicators of this trend include the U.K. vote to leave the European Union; the United States' withdrawal from the Trans-Pacific Partnership; and the rise of nationalist, populist politicians in many countries. This skepticism about the benefits of globalization in developed markets is creating new challenges for exporters, which has been recognized by industry leaders. For example, General Electric's chief executive officer, Jeffrey Immelt, suggested localization as the appropriate strategic response to this change in the business environment (Murray 2016). Thus, we believe that the findings from this study provide important and urgent guidelines for managers. At the same time, if the pendulum swings back toward greater globalism, openness, and increased consumer homogeneity, the benefits of standardization, as envisioned by Buzzell (1968) and Levitt (1983), may yet come to fruition.

LIMITATIONS AND FUTURE RESEARCH

The key contribution of this study is our more precise measurement of discretionary adaptation. By not conflating mandatory and discretionary adaptation, we can develop a better understanding of firms' strategic choices and effects. Thus, we believe that future research will benefit from clearly distinguishing between mandatory and discretionary adaptations. Furthermore, a natural follow-up to this study would be to incorporate both mandatory and discretionary adaptations into a broader theoretical framework examining both strategy and market-entry decisions.

Although most previous research has conceptualized standardization and adaptation as a generalized construct, this lack of precision is not necessarily a problem; rather, it depends on the research question. For example, examining antecedents to the degree of adaptation that firms employ could logically include both legally mandated changes as well as discretionary adaptations (e.g., Rao-Nicholson and Khan 2017). Comparing overall levels of adaptation by industry or product category would also not necessarily require separating mandatory from discretionary adaptations. Another example is examining marketing phenomena that are immune to mandated legal adaptations, such as the study by Griffith et al. (2014), which investigated adapted versus standardized international relational behavior and governance strategies with foreign buyers. Thus, for investigations in which adaptation is the dependent variable, or the focus is on a marketing phenomenon immune to mandated legal adaptations, the traditional, broader measure of adaptation may be sufficient. Thus, in future research, the research question being addressed should drive the distinction of types of adaptation.

The measurement of adaptation, discretionary or mandatory, may also benefit from distinguishing between frequency and severity. Some firms may make frequent minor adaptations, and others may make infrequent, but major (severe), adaptations. The measure for discretionary adaptation used in this study does not capture this distinction. Thus, frequency and severity of adaptation is a potential new avenue of research on international marketing strategy.

Because of the nature of the sample collection in this research, we were unable to calculate a traditional response rate. Furthermore, emailing invitations on a rolling basis created multiple short response windows, preventing us from establishing legitimate early and late responder groups for comparison. However, the process we used was very similar to that reported in other marketing research (e.g., Dahlquist and Griffith 2014; Griffith and Lee 2016).

With respect to performance outcomes, we measure what Katsikeas et al. (2016) refer to as product-market performance. However, the measure used to assess product-market performance is a global measure that consists of several items, whereas product-market performance can be further broken down into different performance aspects (i.e., sales-, share-, product-, and brand-related aspects). Given the potential for trade-offs between performance aspects, future research could focus more precisely on individual aspects of performance and examine the relationships between them (Katsikeas et al. 2016).

With respect to the implied causal relationship between strategy and performance, such research ideally includes longitudinal data with a time-lagged performance measure to better assess causality, as performance is expected to exert some influence on strategy in a feedback loop. However, longitudinal studies are rare in international marketing research, and the vast majority of strategy-performance research examines cross-sectional data (Hult et al. 2008). We

suggest that, when possible, future research should use a time-lagged performance measure.

In conclusion, to assist managers with strategy decisions and to better understand the effects of international marketing strategy with respect to standardization and adaptation, researchers should focus on discretionary adaptations and avoid conflating them with mandatory adaptations. Results from this study offer evidence that discretionary marketing adaptations can improve export performance—particularly when the firm does not have a product positional advantage, the firm has international experience, and the market has customers that are very different from the home market.

Appendix. Measurement Items

Items for Construct Measurement	Loading
Second-Order Constructs	
Discretionary Marketing Adaptation (CR = .82, AVE = .60)	
Discretionary product adaptation	.80
Discretionary promotion adaptation	.83
Discretionary channel adaptation	.76
First-Order Constructs	
Export Performance (Product-Market Domain) (CR = .87, AVE = .70)	
Our marketing success in this market has ... (1 = "Not met our expectations," and 7 = "Far exceeded our expectations")	.90
Our market share in this market has ... (1 = "Not met our expectations," and 7 = "Far exceeded our expectations")	.89
Our sales in this market have ... (1 = "Not met our expectations," and 7 = "Far exceeded our expectations")	.71
Discretionary Product Adaptation (CR = .92, AVE = .75)	
Please indicate the degree of DISCRETIONARY adaptations you have made to the following product-related aspects in this export market (1 = "Not at all," and 7 = "Substantially"):	
• Product design/style	.87
• Product features	.84
• Product packaging	.90
• Product labeling	.83
Discretionary Promotion Adaptation (CR = .96, AVE = .85)	
Please indicate the degree of DISCRETIONARY adaptations you have made to the following promotion-related aspects in this export market. (1 = "Not at all," and 7 = "Substantially")	
• Advertising message	.93
• Creative presentation	.94
• Promotion (advertising) resource allocation	.95
• Sales promotion tools	.91
Discretionary Channel Adaptation (CR = .94, AVE = .84)	
Please indicate the degree of DISCRETIONARY adaptations you have made to the following distribution-related (place) aspects in this export market. (1 = "Not at all," and 7 = "Substantially"):	
• Channel structure	.82
• Type of middlemen	.97
• Role of middlemen	.95
Psychic Distance (CR = .85, AVE = .59)	
Please indicate the level of differences between your domestic (U.S.) customers/consumers and your customers/consumers in the export market you identified earlier on the following dimensions (1 = "Very similar," and 7 = "Very different"):	
• Customer loyalty	.61
• Decision-making process	.74

Appendix. Continued

Items for Construct Measurement	Loading
• Service support expectations	.84
• Price sensitivity	.86

International Experience

How many years has your firm been exporting? (1–2, 3–5, 6–10, 11–15, 16–20, 20+)

Product Positional Advantage (formative)

How does your business compare to your major direct competitors in this export market in terms of ... (1 = "Much worse," and 7 = "Much better"):

- Marketing differentiation advantage (e.g., a product or marketing advantage based on a superior brand, quality, design, or product features)
- Cost leadership advantage
- Financial resources advantage
- Legal resources advantage

Control Variables

Direct/Indirect Exporting

Select the response below that best describes your company as it relates to this export market.

- Direct Exporting—Your company is responsible for marketing and selling the product directly to your target customers in this market.
- Indirect Exporting—Your company works with an export intermediary which markets and sells the product in this market.

Sales

What is your firm's total annual revenue? (1–9 categorical options)

B2B

In which market category does your exported product(s)/product line best fit?

Consumer goods/services (B2C)

Commercial-industrial goods/services (B2B)

Notes: CR = composite reliability.

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