Change in International Market Strategy as a Reaction to Performance Decline

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MOTIVATION

• IB research has been devoted to understanding how international strategy affects international performance  
  (e.g., Styles, Patterson & Ahmed 2008; Katsikeas, Skarmeas & Bello 2009)

• Little is known about how performance affects international strategy:
  – There is no clear link of causality from strategy to performance, because the relationship performance-strategy also holds.  
    (e.g., Lages & Montgomery 2004; Lages, Jap & Griffith 2008)
  – No empirical research in IB has looked to the impact of past performance change (performance decline vs improvement) on strategy change.
We offer guidance as to when and how international change occurs.

There is building evidence that managers learn and respond to performance feedback:

- “After poor results Motorola elected Ed Zander as the new CEO in order to revitalize the firm’s mobile products. In a very short period, Zander’s marketing team had the capability to successfully relaunch the ultra-thin mobile phone Razr.”

- “Razr decreased its value proposition in the global marketplace and Motorola moved again into negative results. In January 2008 a new CEO was appointed.”

Failure provides strong reasons to react without delay by launching improved versions of products, changing prices, and somehow providing higher value for the consumer.

Fresh view on the standardization vs. adaptation debate:

- We focus on strategy change overtime rather than the adoption of a given international strategy.

- We lift the veil about the process and the dynamics by which firms change their strategies and become more or less adapted to foreign environments.
What is the role of past performance change in shaping international strategy?

- Do firms keep or change strategy in the foreign market as a reaction to change in performance?

**Past performance decline leads to change:**

- empirical evidence (e.g., Boeker 1997)
- managers are placed into a context which challenges their prior beliefs about the accuracy of prior decisions.
- managers are under greater pressure to do something.

**Past performance improvement leads to inertia:**

- empirical evidence (e.g., Miller and Chen 1994)
- the “fat cat syndrome”, reluctant to discard past strategies (Dutton and Duncan, 1987)
- focus on past successes
- view opportunities to change as discretionary -rather than as vital- (Miller, 1993).
Research Hypothesis

PERFORMANCE DECLINE LEADS TO CHANGE

H1: Firms whose performance has declined are more likely to change their international strategy than those whose performance has not declined.

According to OLT, in the presence of decline:
- Managers become under scrutiny and:
  - will move to problem-motivated search,
  - respond more appropriately to the environment,
  - become more willing to take more risks,
  - translate learning from failures into organizational actions
- Environmental analysis will help to identify opportunities and avoid threats,

(e.g. March and Simon 1958; Lant and Mezias 1992; Cavusgil and Zou 1994; Ozsomer and Gencturk 2003; Miller and Chen 2004; Lages et al. 2008)

Standardization & Adaptation as Consequences of Performance Decline

Performance decline stimulates standardization
- centralize control,
- cut costs and safeguard resources,
- increase rigidity,
- restrict information processing.

(Staw, Sandelands and Dutton, 1981)

Performance decline stimulates adaptation
- look for additional knowledge,
- look for alternative ways of solving the problems,
- uns success is used to justify more risky strategies and exploration of new opportunities.

(Miller and Chen, 1994)
Research Question:
Consequences of Performance Decline

- Assuming that performance decline leads to change, will firms react to past performance by standardizing or adapting more their strategies to the foreign market?
  - Which context might enhance/inhibit these (opposite) reactions?

RESEARCH HYPOTHESIS

MODERATING EFFECTS OF COMPETITION: IF HIGH COMPETITION

H2: In high-competitive environments, firms are more likely to respond to a decline in performance by standardizing their international strategy with the one used for the domestic market (i.e., adapt less to the foreign market).

When competition is higher:
- It becomes more problematic and complex:
  - learning about competitors,
  - access to market information,
  - benchmarking,
  - anticipating competitors actions.
- Firms will:
  - Focus on more familiar and less risky strategies,
  - Work to leverage economies of scale to drive down overall costs
  - Take a more defensive approach,

(Levitt 1983; Jaworski and Kohli 1993; Morgan et al. 2004; Madhok 2006)
**RESEARCH HYPOTHESIS**

**MODERATING EFFECTS OF COMPETITION: IF LOW COMPETITION**

H3: In low competitive environments, firms are more likely to respond to a decline in performance by adapting their international strategy to the foreign market (i.e., strategy less similar to the domestic market).

When competition is lower:

- It is easier to succeed and have higher margins,
- It becomes easier to:
  - learn about market specificities
  - afford to experiment
  - present alternatives to increase the value offered,
  - anticipating competitors actions,
  - adapt strategies to better address market needs.

(e.g. Aulakh, Kotabe and Teegen, 2000; Samiee and Roth 1992)

**METHOD**

**Data Collection & Data Analysis**

**Data collection**
- Survey of 2500 questionnaires w/ reply envelope to Portuguese exporters
- Answered: 519 valid questionnaires (22%)

**Non-response bias**
- No significant differences between the early and late respondents.

**Respondents profile**
- individuals have significant knowledge in exporting activities:
  - exporting responsibility:
    - 3 to 30 years: 81.5% / 8 to15 years: 39.3%
  - experience in exporting (scale 1=none and 5=substantial)
    mean= 3.6 (s.d.=.84, range 1 to 5).
METHOD
Survey Instrument Development

- **Unit of analysis: single export venture**
  - an exported product to a specific foreign market.
    
    (e.g. Morgan, Kaleka and Katsikeas, 2004; Lages, Jap, and Griffith, 2008)

- **Performance and strategy change over one-year period:**
  - Well-established approach in both general management and IB
    (e.g. McDonald and Westphal, 2003; Cooper and Kleinschmidt, 1985).
  - The use of a short period for measuring change is stringent,
    as only robust relationships are revealed in such a period.

METHOD
Common Method Bias

- Followed Podsakoff et al.’s (2003) remedies

- Empirically we followed 3 Post Hoc approaches
  - Analysed correlation matrix for possible multicolinearity
  - Harman’s one factor test
  - Collected additional objective data (growth in sales) to compare the results with the subjective data
METHOD
Common Method Bias

<table>
<thead>
<tr>
<th>Performance Variable</th>
<th>All firms</th>
<th>Firms for which the export-venture accounts for at least 60% of firm sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>achievement of export sales volume</td>
<td>0.314</td>
<td>0.729</td>
</tr>
<tr>
<td>achievement of export sales revenue</td>
<td>0.317</td>
<td>0.625</td>
</tr>
<tr>
<td>satisfaction with export sales volume</td>
<td>0.249</td>
<td>0.729</td>
</tr>
<tr>
<td>satisfaction with export sales revenue</td>
<td>0.247</td>
<td>0.638</td>
</tr>
<tr>
<td>export sales volume intensity</td>
<td>0.228</td>
<td>0.607</td>
</tr>
<tr>
<td>export revenue intensity</td>
<td>0.228</td>
<td>0.584</td>
</tr>
</tbody>
</table>

*Note: Sample sizes are 124 and 126 for the intensity measures. All correlations are statistically significant at any conventional levels.

METHOD
Dependent variable: Strategy change

**Strategy** is assessed as a proxy for the generic strategy that firms can follow to achieve competitive advantage: the price–quality relationship (cf. Brouthers et al., 2000; Doyle 2000)

**Change of generic strategy:**

- **Generic strategy:** The trade-off between price and quality, in which perceived value can be increased by lowering price or improving product quality (Brouthers et al. 2000; Doyle 2000)

- **Strategy change:** We analyze whether generic strategy, i.e. the price–quality strategy, changes from one year to the next, and whether it becomes more/less adapted to the export market.
**KEY CONSTRUCTS**

**Independent: Export performance change**

- **Performance achievement:** extent to which firms achieve their export objectives in terms of sales, profitability, and market share, as well as overall performance (cf., Katsikeas et al. 1996).
- **Performance satisfaction:** an affective state assessing the effectiveness of a program in terms of its sales, profitability, market share, and overall performance. (cf., Bonoma and Clark 1988).
- **Export intensity:** % of export to total sales/profits (used by 61% of export performance studies, cf. Katsikeas et al. 2000)

**METHOD**

**Survey Instrument Development**

- **Multinomial logit model, allows to assess if strategy:**
  - changes for more standardized
  - no change
  - changes for more adapted
METHOD
Testing the robustness of findings

We use 3 approaches for performance assessment and found consistent results (cf. Bagozzi and Foxall, 1996):

• **total-item aggregation**: 13 items converted into a single factor score
• **intermediary aggregation**: converted into 3 factor scores (sat, ach, int)
• **total desegregation**: 13 performance items

Control for:
• size
• absolute performance (total aggregation, intermedi. aggregation, 13 items)
• absolute strategy adaptation
• international experience
• if financial reports differentiate between export and domestic performance

FINDINGS
Total aggregation approach: A factor score of 13 performance items

<table>
<thead>
<tr>
<th></th>
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<th>More Adapted</th>
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<tbody>
<tr>
<td><strong>Overall Performance Decline</strong> → (no moderator)</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td><strong>Overall Performance Decline in Low Competitive Markets</strong> →</td>
<td>ns</td>
<td>+</td>
</tr>
<tr>
<td><strong>Overall Performance Decline in High Competitive Markets</strong> →</td>
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## FINDINGS

### Partial aggregation approach:
3 performance constructs

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## FINDINGS

### Desegregation approach:
Each of the 13 performance items

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<tr>
<td></td>
<td>+: 11/13</td>
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<td>+: 12/13</td>
<td>ns: 9/13</td>
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FINDINGS:
Control Variables

Experienced managers:
• more likely to change toward a more adapted strategy (11/13)

Firm size:
• larger firms tend to change to a more standardized strategy (13/13)

Firms with adapted strategies:
• more likely to change both to more standardized (13/13 cases) and to more adapted strategies (11/13 cases).

CONCLUSION

• Firms learn from past experiences

• Managers must work to be continual learners and efficient adjustors
  – This highlights the importance of managerial dynamism and constant reporting systems

• Competition is critical:
  • to explain strategic reactions to past performance,
  • to understand how firms adapt to the environment.
This is the first study providing evidence on the impact of past performance change on strategy change in foreign markets:

- **Good export performance leads to inertia:**
  - Firms whose performance has improved are more likely to stick with their international strategies than those whose performance has declined.

- **Declining export performance leads to change:**
  - Firms are highly responsive to declining performance.
    - When performance declines, firms operating:
      - in low competitive markets change to a more adapted strategy,
      - in high-competitive markets change to a less adapted one.