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Export Strategies and Performance of Firms from Emerging Economies: Evidence from Brazil, Chile, and Mexico

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## EXPORT STRATEGIES AND PERFORMANCE OF FIRMS FROM EMERGING ECONOMIES: EVIDENCE FROM BRAZIL, CHILE, AND MEXICO

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**This study develops a framework for examining the export strategies of firms from emerging economies and their performance in foreign markets. Hypotheses derived from this framework were tested on a sample of firms from Brazil, Chile, and Mexico. Findings suggest that cost-based strategies enhance export performance in developed country markets and differentiation strategies enhance performance in other developing countries. Adapting marketing mix variables to the specific needs of developed country markets also enhances export performance. The relationship between geographical diversification and export performance is nonlinear.**

The globalization of the business environment in recent years has made it imperative for firms to look for foreign market opportunities in order to gain and sustain competitive advantage. Trade and market liberalization policies around the globe in the last two decades, especially in the erstwhile closed economies of Asia, Eastern Europe, and Latin America, provide new market, investment, and sourcing opportunities for multinational firms (Garten, 1997). Concurrently, firms from emerging economies are a growing presence in an integrated global economy. Reinforced by the success of firms from newly industrialized countries such as South Korea, Taiwan, and Singapore, emerging economies are moving away from inward-oriented import substitution policies toward outward-oriented export-led growth (Kotler, Jatusripitak, & Maesincee, 1997). Thus, public policy instruments in emerging economies are increasingly geared to providing incentives for local firms to actively internationalize and compete in foreign markets (Kotler et al., 1997).

The international expansion of private enterprises from an emerging economy is primarily ac-

complished by manufacturing in the home country and exporting products to foreign markets (Vernon-Wortzel & Wortzel, 1988). In fact, the pattern of foreign expansion of these firms follows the prescriptions of both the internationalization (Johanson & Vahlne, 1977) and international product life cycle (Vernon, 1966) models: firms first expand into foreign countries through exporting and, with increased market knowledge, escalate commitments in the form of more investment-oriented entry modes. Given that a majority of firms from emerging markets are still in the early stages of the internationalization process, with exporting being the dominant mode of their foreign market participation, an important research issue is what strategies these enterprises pursue as they compete in the global competitive landscape. However, there have been few systematic studies of the export strategies followed by firms from emerging economies and the performance implications of those strategies (Dominguez & Brenes, 1997). The few studies that exist have examined the internationalization process of developing country firms (e.g., Vernon-Wortzel & Wortzel, 1988), the relationship between organizational characteristics and export performance (e.g., Christensen, Rocha, & Gertner, 1987; Dominguez & Sequeira, 1993), or the links between macro policy initiatives, trade liberalization, and economic development at the country level (Otani & Villanueva, 1990). In the contemporary environment of market and trade liberalization, the importance of private enterprises in emerging economies as engines of outward-oriented growth necessitates

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an examination of their export strategies for building competitive advantage in foreign markets.

The purpose of this study was to provide an understanding of the export strategies of firms from emerging economies. In particular, we developed a framework by incorporating the different strategies available to exporting firms as they compete in foreign markets and linked those strategies to export performance. A set of hypotheses was generated from this overall framework and empirically tested on a sample of firms from three key Latin American countries—Brazil, Chile, and Mexico.

Latin America, comprising Mexico and countries from Central and South America, is home to about 500 million people. The region, with an average per capita gross national product (GNP) of about \$3,000, represents one-third of the developing world's economy (Dominguez & Brenes, 1997). According to Kotler, Jatusripitak, and Maesincee, Latin American countries represent a distinct strategic group with "shared histories (e.g., import substitution), common problems (e.g., inflation), and same solutions (e.g., foreign debts)" (1997: 95). Although most of the countries in the region have always participated in international trade, much of this trade activity was in commodity products like oil, copper, and cocoa, owing to the region's natural resource endowments. Furthermore, most of this trade was managed by state-owned enterprises, and the limited activity in the manufacturing sector was guided by import substitution policies, under the assumption that the sizes of domestic markets and endowments of natural resources were sufficient to support industrialization (Dominguez & Brenes, 1997; Kotler et al., 1997).

However, existing economic models of reliance on natural resources and state-owned enterprises in a protectionist environment grew to be no longer feasible. Consequently, a number of Latin American countries instituted drastic reforms in the 1980s and 1990s,<sup>1</sup> including privatization of state-owned companies and an increased role for private enterprises in fostering economic growth, opening domestic markets to foreign competition to bring in capital and new technologies and provide high-powered incentives for efficient enterprises, policy initiatives to invigorate noncommodity and higher-value-added industries, and emphasis on export-led growth.

Although an objective of these economic reforms was to emulate Asia's export-led growth policies, liberalization in Latin American is distinct on two

dimensions. First, the contemporary international liberal trade regime makes it difficult to implement export-led growth through partially protecting key industries, as did Japan and South Korea. Second, given that liberalization policies have been initiated around the globe since the 1980s, the international environment is much more competitive than the one faced in the 1970s by the Asian "tigers," thus making it difficult for firms to compete in the global marketplace solely on the basis of comparative cost advantages in labor and natural resources. Thus, we see examples of increased international participation of Latin American firms in different industries through emphasis on competitive advantages built around manufactured products, strategies based on product, service, and price differentiation, and participation in value-adding activities (Dominguez & Brenes, 1997). Since Latin American firms are competing with firms from developed countries in both domestic and international markets, an understanding of their strategies and performance can provide important insights into management thought and practice in the contemporary global environment. Accordingly, we chose three major countries of Latin American as contexts within which to explore these strategy-performance links.

#### EXPORT PERFORMANCE: LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

Numerous researchers have examined the strategies and performance aspects of multinational corporations (MNCs), and this collective effort has enriched relevant theory, but relatively few conceptual advances have been made regarding firms whose international participation is primarily through export operations. The few studies examining the behavior and performance of exporting firms have primarily identified management characteristics and attitudes (for instance, experience in foreign markets, cultural orientation, risk-taking propensity), firm characteristics (firm size, international experience), and product, industry, and export market variables as key factors in explaining export initiation and performance (e.g., Aaby & Slater, 1989, Rosson & Ford, 1982). Furthermore, these studies contain diverse export performance measures, including propensity to export (Rosson & Ford, 1982), attitudes toward exports, export sales level (Madsen, 1989), and export involvement (Diamantopolous & Inglis, 1988). The diversity both of conceptualizations of determinants of export performance and of performance measures has led to inconsistent and contradictory findings and lack of

<sup>1</sup> Chile was an exception as it initiated liberalization in 1973.

a coherent theoretical framework for exporting firms (Aaby & Slater 1989).

We sought to develop a framework incorporating the various strategic factors relevant to exporting firms as they compete in the international arena and linking these factors to the firms' performance in foreign markets. In developing the hypotheses, we incorporated the special challenges faced by exporting firms from emerging economies. The main logic underlying our framework is that although organizational characteristics and managerial risk perceptions have been shown to impact internationalization behavior (the decision to initiate exports), the current global competitive environment necessitates proactive application of specific export strategies to achieve success in foreign markets.<sup>2</sup>

We incorporated three distinct strategic factors into our framework to explain export performance: the competitive strategies of cost leadership and differentiation, marketing standardization (or adaptation) across foreign markets, and geographical diversification of exports. There is some conceptual ambiguity in the literature as to whether these are business-level or corporationwide strategies. Since we viewed these factors in the context of exports of single or a few product offerings, we examined the strategies at the level of export operations. Thus, we investigated whether strategies of cost leadership, differentiation, marketing standardization, and geographical diversification by firms in their export operations affected export performance. In this context, we did not distinguish between business- and corporation-level strategies but saw their applicability as export strategies.

The strategies of cost leadership and differentiation concern how a firm develops an advantage with respect to competitors in an industry. Firms following a differentiation strategy aim at creating a product or service that customers see as unique. This is usually accomplished through such means as a superior brand image (an example is Rolls Royce automobiles), technology (Polaroid cameras), customer service (Saturn cars), or innovative products (Rubbermaid) (Miller & Friesen, 1986a). The objective of firms following a differentiation strategy is to build customer loyalty and create barriers to entry for newcomers. Because of the loyalty created for a brand, demand is price-inelastic,

leading to higher profit margins for the manufacturer. A cost-leadership strategy involves giving consumers value comparable to that of other products at a lower cost (Porter, 1986). According to Porter, cost leadership requires "aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, . . . and cost minimization in areas like R&D, service, sales force, and advertising" (1980: 35). This strategy can provide above-average returns because firms following cost leadership can lower prices to match those of competitors and still earn profits (Miller & Friesen, 1986b).<sup>3</sup>

Marketing standardization was defined in this study as the degree to which an exporting firm used the same marketing programs in different foreign markets (Samiee & Roth, 1992). At one extreme, an exporting firm can develop marketing programs that differ in terms of products, pricing, distribution, and promotion for individual foreign markets. On the other hand, a firm can develop one marketing program, which is then implemented in all export markets. As a strategy, marketing standardization is similar to the segment differentiation strategy proposed by Chrisman, Hofer, and Boulton (1988), with a segmented-by-market approach being akin to adaptation and a homogenous-across-markets approach equivalent to standardization (Carpano, Chrisman, & Roth, 1994; Douglas & Wind, 1987; Porter, 1986). It should be noted that marketing standardization is distinct from cost leadership and differentiation. The latter relate to a firm's posture with respect to competitors, but marketing standardization concerns the consistency of marketing programs and processes between domestic and foreign markets as well as across multiple markets. Thus, it is possible for firms pursuing cost-leadership or differentiation-based competitive strategies to implement either standardized marketing programs or to adapt their programs to individual markets.<sup>4</sup>

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<sup>3</sup> Porter (1980) identified a third generic strategy, focus, that involves serving a specialized segment more effectively or efficiently than competitors who are competing more broadly. We incorporated only the individual and interactive effects of the cost leadership and differentiation strategies because a focus strategy involves achieving low cost or differentiation, or both (Govindarajan, 1988; Karnani, 1984).

<sup>4</sup> For example, an exporting firm following a differentiation strategy in foreign markets can use different or similar tools to convey this differentiation in different countries. In one country, it can differentiate its products on prestige aspects, through higher pricing and distribu-

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<sup>2</sup> Firm characteristics (size and experience) were used as control variables in our analyses. However, management characteristics were not included in this study either as determinants of export performance or as control variables.

The third component of strategy considered in this study was export diversification. The number of foreign markets that an exporting firm targets is a strategic choice that can have important implications for the firm's overall export performance. Although the costs and benefits of MNCs' international diversification through foreign direct investment have been well documented (e.g., Carpano et al, 1994; Hitt, Hoskisson, & Kim, 1997; Geringer, Beamish, & daCosta, 1989; Kim, Hwang, & Burgers, 1989; Tallman & Li, 1996), the performance impact of export diversification has not been examined. In the next section, we identify the costs and benefits of geographical diversification for exporting firms and examine its performance implications.

Existing research examining the links between competitive strategies and performance has suggested both direct and contingency effects. For instance, Miller and Friesen (1986b) found that firms following any of the three generic strategies outperformed those that did not follow any one strategy; Dess and Davis (1984) suggested that firms following "pure strategies" outperformed those "stuck in the middle"; and Miller (1988) discovered that the performance impact of generic strategies was contingent on environmental factors (cost leadership worked better in stable environments, but differentiation was positively related to performance in volatile environments). The marketing standardization-performance links have also been examined in prior research, and findings have been inconsistent and often contradictory. For instance, studies have found no effects of standardization on performance (Samiee & Roth, 1992), weak links (Carpano et al.,

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tion in luxury boutiques, for instance. In another, it can differentiate on service aspects, through distribution via an in-home sales force. In this case, although the exporter is using a differentiation strategy in both markets, it is adapting its marketing program specifically for each market. A second issue regarding marketing standardization versus adaptation concerns links to the global versus multidomestic approaches identified in the strategy literature. Global strategy deals with management of globally dispersed value chains; a multidomestic strategy refers to complete value chain management on a country-by-country basis. Product/marketing standardization has some bearing on, but is not synonymous with, the global/multidomestic strategy dichotomy. For example, Ford and Honda both use global platform strategies. Ford brings major components from several key plants around the world to produce standardized cars with identical product positioning. Honda designs its globally standardized Accord with inputs coming from Japan, the United States, and Germany, but its market positioning is adapted to individual markets.

1994), negative effects (Cavusgil & Zou, 1994), and positive effects (Kotabe, 1990). Since research findings on the performance implications of standardization and adaptation are mixed, this relationship may conceivably be moderated by different environmental factors.

In light of the above discussion, we examined the export strategy-performance relationships of emerging economy firms within a contingency framework based on the foreign market environments in which these firms compete. The important environmental factors relevant here, which have found some support in the context of developed markets, are competition and environmental uncertainty, with its underlying dimensions of dynamism and instability. Given that the firms in our sample were competing in numerous countries, each with different levels of competition and uncertainty, and our focus was the impact of export strategies on overall export performance rather than the strategies' impact in individual markets, we used a surrogate measure for environment. Accordingly, we incorporated a *foreign market focus* variable into our framework, dichotomized into developed countries and developing countries. The rationale here was that, compared to developing country markets, developed country markets are more competitive, with large numbers of resource-endowed competitors and demanding consumers, and are more dynamic, with frequent changes in consumer tastes and introductions of innovative products and services. Differences between the competitive conditions in developed and developing markets, combined with the internal resource constraints of exporting firms from emerging economies, will lead to differing effects of cost leadership, differentiation, and marketing standardization strategies on performance for firms that compete primarily in developed countries and those focusing on developing countries.

## HYPOTHESES

### Cost Leadership, Differentiation, and Export Performance

As firms from emerging economies begin to compete in export markets in the value-added manufacturing and service sectors, their export success depends upon their ability to develop and implement unique competitive strategies. When developing strategies of cost leadership and/or differentiation, these firms have to match their internal and location-specific competitive and comparative advantages with the requirements of the external environment in which they compete. In particular,

given their relatively weak technology bases, these firms concentrate primarily on mature products (Gomez, 1997; Vernon-Wortzel & Wortzel, 1988), thus precluding any competitive advantage derived from developing innovative products and/or process technologies. However, firms from emerging economies possess certain comparative advantages in terms of low labor and production costs. The fundamental issues in developing competitive export strategies for emerging economy firms then become the following: (1) Given their natural cost advantages, should they use cost leadership as their primary competitive strategy in foreign markets? (2) Since they do not have innovative products, can these firms differentiate their products along other dimensions in foreign markets and thus make differentiation their competitive weapon? (3) Is it viable for these firms to use an integrated strategy whereby they simultaneously achieve cost leadership and differentiation? We examine the viability of emerging economy firms' use of individual and integrated competitive strategies and their performance implications in the following paragraphs.

Our argument is that emerging economy firms encounter different competitive and customer environments for their products in developed and developing markets that require them to adapt their competitive strategies to the specific needs of the two types of markets. In particular, a cost-based strategy is more likely to achieve superior performance in developed country markets, and differentiation is more likely to do so in developing countries.

Developed country markets are characterized by competition (due to a history of free market economic philosophies and to the presence of both large numbers of resource-endowed firms competing in particular product markets and demanding customers) and by dynamism (due to the continuous introduction of innovative products and the frequent changes in customer tastes and preferences). Emerging economy firms exporting to these markets are at a disadvantage with respect to local firms because the latter have more financial, managerial, and technological resources, established brands, and innovative products. Furthermore, a number of studies (e.g., Cordell, 1993) have shown that consumers in developed markets perceive products and brands from developing countries negatively and generally equate them with low price and quality. Taken together, the poor quality image, focus on mature products, and resource-rich competitors make it very difficult for emerging economy firms to build advantage by differentiating their products and services. Emerging economy firms, however, do have cost advantages over com-

petitors from developed countries. Although liberalization of trade and investment around the world in the last two decades has led to a partial expropriation of these cost advantages, since multinational corporations with established brands can locate their production facilities in emerging markets, domestic emerging economy firms still enjoy overall cost advantages relative to developed country firms. These advantages stem from emerging economy firms' lower R&D, product development, and marketing costs, in turn resulting from a concentration on mature products and the absence of elaborate expenditures in brand development and other areas. Thus, emerging economy firms are more likely to achieve success in developed countries by pursuing a cost-based strategy that allows them to leverage comparative cost advantages. Further, a low cost-low price strategy is compatible with consumer perceptions and expectations of products made in emerging economies.

The characteristics of markets in developing countries are different from those in developed countries. Developing countries have traditionally had protected economies. Protectionist environments, coupled with control by state-owned enterprises of much of these economies, led to situations in which consumers either faced shortages of various products or had limited choice sets to buy from. Because of these factors, the competition within product markets was low, and pent-up demand for various types of products was substantial (Arnold & Quelch, 1998; Gillespie & Alden, 1989). Thus, developing countries provided tremendous opportunities for foreign products once their markets were liberalized. In the context of this study, the question then is, What competitive strategy will lead to superior performance on the part of emerging economy firms in other developing countries? Firms from emerging economies do not have any particular cost advantage vis-à-vis other developing economy firms, since marginal differences in costs would probably be negated by transportation costs and the remaining tariff and nontariff barriers. Therefore, a cost-based strategy may not be very effective in developing countries. On the other hand, emerging economy firms can differentiate their products and services from local competitors' to build advantage. Research suggests that consumers in developing countries perceive foreign-made products (from both industrialized and developing countries) to be of superior quality and are willing to pay a price premium over domestically made products (Hulland, Todino, & Lecraw, 1996). This observation suggests that emerging economy exporters can leverage positive consumer perceptions by differentiating their products on the country-of-

origin dimension and can, over time, build enduring brand reputations. Furthermore, the cost of implementing a differentiation strategy will be lower in developing countries than in developed countries since the former are less competitive markets with fewer entrenched local competitors having established brands or other reputations.

In view of the above arguments, we suggest contingency relationships between competitive strategies and export performance—specifically, that the effectiveness of cost leadership and differentiation strategies will depend on the types of foreign markets in which they are implemented. Accordingly, we tested the following contingency hypotheses:

*Hypothesis 1. The use of a cost leadership strategy is more likely to enhance export performance for firms that have a developed country focus than it is for those that have a developing country focus.*

*Hypothesis 2. The use of a differentiation strategy is more likely to enhance export performance for firms that have a developing country focus than it is for those that have a developed country focus.*

Porter (1980, 1986) argued that although firms could pursue both strategies successfully under certain conditions, such an approach could not be sustained, given each strategy's requirements (high R&D and advertising expenditures for differentiation versus scale and scope economies and low overhead for cost leadership). Thus, Porter suggested that "a firm must make a choice between [the two generic strategies] . . . as achieving cost leadership and differentiation are usually inconsistent, because differentiation is usually costly" (1985: 17–18).

However, a few studies, using U.S. samples, have identified successful firms pursuing both cost leadership and differentiation (e.g., White, 1986). Hill also addressed the issue, writing this: "Porter's model is flawed in two important respects. First, differentiation can be a means for firms to achieve an overall low-cost position. Hence, . . . cost leadership and differentiation are not necessarily inconsistent. Second, there are many situations in which establishing a sustained competitive advantage requires the firm to simultaneously pursue both low-cost and differentiation strategies" (1988: 401). Similarly, Karnani (1984) identified numerous contextual factors that affect the ability of firms to successfully implement both strategies. Thus, both empirical evidence, mainly in the context of U.S. firms, and theoretical advances suggest that firms can and may need to implement an integrated

strategy whereby they simultaneously differentiate and lead on cost (Hitt, Ireland, & Hoskisson, 1997).

We examine the viability of emerging economy firms' pursuing both cost leadership and differentiation. The argument put forth here is that a combination of factors related to the nature of the products exported by firms from emerging economies as well as to weak resource bases will make implementing an integrated strategy very costly and thus negatively impact export performance. In order to support our rationale, we briefly review the work of Hill (1988) and Karnani (1984).

Hill (1988) suggested that pursuing both cost leadership and differentiation can lead to superior performance when a firm can push the demand curve outward (by increasing expenditures on differentiation) but can at the same time ensure that the shift in the cost curve is smaller than the demand curve movement. He identified certain factors that will help firms accomplish this dual task: ability to differentiate, a competitive product market, switching costs for consumers, economies derived from learning, and economies of scale and scope. Similarly, Karnani (1984) pointed out that firms can achieve lower costs, independent of scale, that can allow for simultaneous achievement of both cost leadership and differentiation.

Although space does not permit us to provide a point-by-point discussion of the arguments put forth by Hill and Karnani, we would argue that some of the important conditions for successful implementation of these strategies that they identified do not hold for emerging economy firms. In particular, economies of scope and learning effects are not relevant, as most firms from emerging countries have narrow product lines, thus precluding the possibility of reducing costs by sharing resources across multiple products. Second, these firms concentrate on products that are in the growth and maturity stages and thus do not allow them to leverage steep learning curves to reduce costs faster than competitors. Third, their relative lack of experience in foreign markets and poor resource bases, relative to those of competitors from developed countries, put them at a competitive disadvantage, making it very costly for them to pursue both cost leadership and differentiation. Thus, a combination of these product-, experience-, and resource-related factors prevents emerging economy firms from effectively employing an integrated strategy in foreign markets. We tested these arguments through the following hypothesis:

*Hypothesis 3. The simultaneous use of both cost leadership and differentiation strategies*

*by firms from emerging economies is negatively related to their export performance.*

### **Marketing Standardization and Export Performance**

Yip (1992) and Samiee and Roth (1992), among others, have identified a number of benefits of using a standardized approach across foreign markets. First, substantial cost savings are realized by developing one or a few marketing programs and implementing these in multiple markets. Second, marketing program effectiveness is increased as firms can concentrate more resources behind standardized programs. Third, consistency of a marketing program (in terms, for instance, of products and advertising) across markets avoids confusion in the minds of consumers and builds brand awareness among consumer segments. Fourth, a standardized approach allows firms to quickly enter new markets and reduces the costs of simultaneously entering multiple markets. But although firms can build competitive advantage by standardizing marketing programs across markets, this approach also has limitations that explain the inconsistent and somewhat contradictory findings regarding the performance impact of standardization (Samiee & Roth, 1992). Probably the biggest drawback is related to implementation. In the case of multinationals, there is evidence that subsidiary managers responsible for marketing can be reluctant to give full support to standardized programs dictated by headquarters (Kotabe, 1992), since they perceive encroachment on their autonomy. This issue becomes even more critical for exporting firms, where marketing programs are implemented by independent distributors who tend to favor their own distinct strategies grounded in local conditions. Furthermore, exporting firms have lower bargaining power with local distributors than established MNCs. Besides the implementation difficulties, cultural, political, and economic constraints in individual markets may make it difficult for a firm to develop a standardized strategy acceptable to various country segments (Douglas & Wind, 1987). In addition, research suggests that the success of a standardized approach is contingent on the nature of the industry within which a firm competes, with global industries being more amenable to standardization than multidomestic ones (Porter, 1986).

To achieve the benefits of a standardization strategy, firms can follow two possible approaches. First, they can extend marketing programs developed for domestic markets into foreign countries. This approach is viable for firms with established brand names that are appealing to similar segments

in different countries. Second, firms can proactively develop global products and programs by incorporating the diverse preferences of consumers and other external factors from various countries (the World Car approach of Ford Motor Company is an example). This action usually involves high R&D and marketing costs, high involvement of individual subsidiaries in different markets, global coordination of marketing and production, and long lead times (Kotabe & Helsen, 1998). In essence, both approaches require a combination of facilitating conditions (established global brands, intermarket segments, resources with which to develop global programs, and so forth) to be present for firms to achieve the benefits of standardization. The relevant issue in the context of this study was whether emerging economy firms have these needed facilitating conditions.

As mentioned earlier, most emerging economy firms have relatively low resource bases, lack branded (or at least, globally branded), mature products, and lack experience in foreign markets. Furthermore, since most of these firms are in the early stages of internationalization, they are not likely to have subsidiaries in foreign markets. These characteristics make it difficult for emerging economy firms to implement a standardized marketing strategy either by extending their domestic marketing programs to foreign countries or by proactive development of globally standardized products and programs. In addition, research on exporting (the primary mode of emerging economy firms' international participation) suggests that exporters are more likely to achieve superior performance in foreign countries by adapting elements of their marketing to the needs of individual markets (Cavusgil & Zou, 1994), since the market-oriented approach (adaptation) outweighs the cost savings of a standardization strategy. We hypothesize that, although exporters from emerging economies can realize some inherent benefits of standardization (lower marketing costs, speed-to-market advantages, and so forth), given their lack of experience in foreign markets (which makes it difficult for them to proactively incorporate heterogeneous consumer preferences into standardized offerings) and low bargaining power with respect to local distributors (undermining implementation), they are more likely to achieve success by adapting their marketing strategies in individual markets, especially during the early stages of international expansion. Thus, we propose the following:

*Hypothesis 4. The degree of marketing standardization across foreign markets by firms*



*from emerging economies is negatively related to their export performance.*

Although we expected a negative impact of standardization on export performance, it appeared likely that this association would be stronger in developed countries. First, the market conditions in developed countries are very different from those faced by emerging economy firms in their domestic markets. Owing to the cultural distance (Kogut & Singh, 1988) between developing and developed countries and the competitive environments of the latter, exporting firms from emerging economies have to modify their marketing mixes to be successful in developed country markets. On the other hand, emerging country firms face economic and infrastructure conditions similar to those at home in other developing countries. The low cultural distance and pent-up consumer demand in developing countries puts less pressure on exporters to adapt their marketing programs and allows them more leverage in terms of extending their domestic programs into other developing country markets. Thus,

*Hypothesis 5. The negative relationship between marketing standardization and export performance is stronger for firms with a developed country focus than for those with a developing country focus.*

### **Export Diversification and Export Performance**

Strategic management and international business researchers have examined the impact of international diversification strategy on firm performance (e.g., Geringer et al., 1989; Hitt, Hoskisson, & Kim, 1997; Kim et al., 1989; Tallman & Li, 1996). These researchers argue that diversification into a foreign market from a firm's home base or across multiple markets allows the firm to build and sustain competitive advantage by attaining economies of scale and scope, achieving synergies across geographically dispersed locations, arbitraging across individual country markets, and leveraging ownership, internalization, and location advantages, among others (Dunning, 1988; Hitt, Hoskisson, & Kim, 1997). Empirical studies have supported the performance implications of international diversification. For instance, Kim, Hwang, and Burgers (1989) found a linear effect of international diversification on performance, and Hitt, Hoskisson, and Kim (1997) found an inverted U-shaped relationship, whereby very low levels of international diversification were insufficient to allow for any synergy gains, moderate levels of international diversification enhanced performance, and very high levels of

diversification were detrimental, as costs started outweighing potential benefits. Both of these studies, as well as Tallman and Li (1996), showed interactive effects between international and product diversification on firm performance. Although these studies used different diversification and performance measures, the theoretical rationales and empirical findings of all three point toward international diversification as an important strategic variable for building and sustaining competitive advantage.

However, most of the literature on international diversification has focused on large multinational corporations and examined diversification in terms of dispersion of value-chain operations across multiple markets accomplished through foreign direct investment. In fact, the main theoretical arguments made for the advantages of geographical diversification stem from internalization theory (Buckley & Casson, 1976), Dunning's eclectic paradigm (1988), and the organizational learning perspective (Kogut & Zander, 1993), all of which imply that foreign direct investment allows firms to exploit firm-specific ownership and internalization and country-specific location advantages to develop knowledge about foreign markets. Thus, existing studies do not provide insights into whether diversification advantages will accrue to firms that are *not* involved in foreign direct investment. This is a crucial issue for a large number of emerging economy firms whose primary mode of foreign market participation is exporting. Furthermore, internationalization models (Johanson & Vahlne, 1977) suggest that firms follow a sequential path of international involvement, first expanding abroad through low-risk entry modes such as exporting. Since firms from emerging economies are still in the early stages of internationalization (Dominguez & Sequeira, 1993; Vernon-Wortzel & Wortzel, 1988), they are likely to export products from their home bases rather than engage in foreign direct investment. The primary issue for these firms is to determine the number of countries they will export their products and services to (their level of export diversification) and the impact diversification will have on export performance.

For exporting firms, the main benefits of export diversification arise from four sources. First, exporters face much higher exchange rate exposure than multinational corporations since their costs are in one currency and revenues from product sales come from the foreign market currency. This leads to high transaction risk, given that exchange rates (especially in emerging economies) are volatile and futures foreign exchange markets do not exist for certain currencies. Thus, a major benefit of

export diversification is minimization of transaction risks by trading in multiple currencies (Dominguez & Sequeira, 1993). Second, firms can increase market coverage for their products and services by targeting similar customer segments across countries. This advantage of export diversification is particularly strong for firms whose products are targeted to very narrow market segments. For such a product, the potential market in any one country is saturated very quickly, and the only way to expand the size of the market is to target like segments in different countries. Third, and related to the above, are the scale advantages of export diversification. Government export promotion programs in a number of emerging economies are targeted to increase export sales and, thus, firms develop products especially for export markets. Here, the only way to achieve scale advantages is to increase foreign sales, which is accomplished by simultaneously targeting a number of foreign markets. Fourth, according to the organizational learning perspective expounded by Kogut and Zander (1993) and internationalization theory (Johanson & Vahlne, 1977), exporting firms can leverage their accumulated knowledge of one country to target other economically and culturally similar foreign markets. The above discussion suggests that exporting firms can achieve and leverage their competitive advantages by targeting multiple foreign markets for their products and services.

Exporting firms also face challenges of diversification similar to those faced by multinational corporations (Hitt, Hoskisson, & Kim, 1997). First, increased geographical diversification increases the coordination costs of managing export operations. Cavusgil and Zou (1994) and Madsen (1989) suggested that important determinants of export performance are the amount of support provided to foreign distributors and the commitment shown to individual export markets. Thus, increased geographical diversification can spread managerial resources thinly across markets, reducing ability to support the marketing programs of foreign distributors. Second, as Hitt, Hoskisson, and Kim (1997) noted, geographical diversification increases both managerial information-processing needs, because managers must deal with culturally diverse markets, and transaction costs, which arise from the different tariff and nontariff barriers faced in different countries.

The above discussion suggests that an exporting firm has to determine its optimal level of export diversification, the point where the benefits exceed the costs. The optimal point will be a function of the resource base of an individual firm and, to a certain extent, of the product type (Madsen, 1989),

but in general we expected a nonlinear relationship between export diversification and export performance. Thus, our prediction, which is in line with Hitt, Hoskisson, and Kim's (1997) findings about the international diversification of multinational corporations, is that increased export diversification will lead to higher performance until a certain point, after which the costs of diversification outweigh the benefits, thus reducing export performance. Thus,

*Hypothesis 6. The relationship between the export diversification of firms from emerging economies and their export performance has an inverted U shape; the slope is positive for moderate levels of export diversification but negative for high levels of export diversification.*

## METHODS

### Setting and Instrument Design

Data for this study were simultaneously collected from firms in Brazil, Chile, and Mexico during the period October 1996 through May 1997. A survey methodology was considered appropriate as relevant published data were either not available in these emerging markets or did not capture the specific variables of interest. An instrument was first designed in English that included questions related to the characteristics of the responding firms, different types of strategies followed in foreign markets, and aspects of export performance. After finalizing the English version, we translated the questionnaire into Spanish and Portuguese. The back-translation technique was used to accomplish item equivalence in different languages. Subsequently, similar procedures were used to translate both the Spanish and English versions into Portuguese. The Spanish and Portuguese versions were content-analyzed by academics in Brazil, Chile, and Mexico to ensure the suitability of the items in the respective business settings. Subsequently, three versions of the questionnaire were finalized, one each for Brazilian, Chilean, and Mexican firms.

### Data Collection

The target sample in each country was local firms—that is, firms that were not subsidiaries of foreign multinationals—that were involved in international operations. Since the primary objective of this study was to examine the determinants of export performance, the survey included questions

related to export activities.<sup>5</sup> The actual data collection procedure varied by venue, given particular limitations and opportunities within each country. As no single master directory of internationally oriented firms existed for any of the venues, various sources were used in each country, including chambers of commerce, published directories, and business school contacts.

**Brazil.** Initially, 357 firms were selected as the target sample. These firms were first contacted via phone calls (a total of 1,200 calls were made) during which the caller explained the nature of the study and asked for the name or names of those in charge of the company's export operations. Of the 357 firms, 294 were effectively contacted. In the second stage, 294 questionnaires were mailed out to these firms. However, soon after the mailing, there was a nationwide postal strike and sabotage, and numerous firms did not receive the questionnaire. Hence, some surveys had to be hand-delivered or faxed to potential respondents. A total of 93 surveys were returned, out of which 80 were complete, for an effective response rate of 27.2 percent.

**Chile.** The target sample consisted of 180 manufacturing firms that traded on the Bolsa de Comercio de Santiago. Given concerns of local researchers about the feasibility of mail surveys, only 40 questionnaires were initially sent through the mail. After two reminders and extensive telephone follow-ups, only 3 questionnaires had been returned. Subsequently, master's of business administration (M.B.A.) students at a prominent local university were asked to contact the firms in person and get questionnaires filled out. These students hand-delivered the surveys and collected them after they had been answered. A total of 92 surveys were returned, out of which 80 were usable, for a response rate of 44.4 percent.

**Mexico.** The data were collected by executive M.B.A. students of a major business school in Mexico with campuses at over 20 locations. As part of a class project, each student was given the responsibility of identifying a Mexican firm and a senior manager responsible for the firm's export operations. One of the authors then verified (1) that each

student had identified a different firm and (2) that the firms were actively involved in exporting. After this verification, the students hand-delivered the survey instrument to the key informants. Given this data collection approach, a 100 percent response rate was achieved.

### Validity of Responses

Although survey research has been useful in studying organizational behavior and, in certain contexts, may be the only feasible way to get desired information (Dess & Robinson, 1984; Huber & Power, 1985), there are several concerns related to the validity of this data collection methodology. In particular, three issues have been raised: (1) selection of key informants and informant response bias, (2) nonresponse bias, which leads to a systematic exclusion of firms from a population, and (3) common method variance (Huber & Power, 1985; Podsakoff & Organ, 1986).

First, in designing the survey, we had the measures of dependent variables related to performance precede the independent variables. Second, to further minimize consistency artifacts, we interspersed open-ended questions throughout the instrument and used both Likert and semantic differential scales. Regarding key informants, we targeted managers who were explicitly responsible for their firms' export operations. All the respondents held upper-management positions and had an average 10 years of experience with their firms and an average 6.3 years managing export operations. Nonresponse bias could not be statistically examined because comprehensive secondary information was not available, and early and late respondents could not be compared, as most of the questionnaires were collected in person; however, sample characteristics point to the appropriateness of the represented firms for testing the model, in that the firms on the average had \$150 million in total sales, foreign sales constituted 28.3 percent of total sales, and the sample firms belonged to different industries.

Finally, we examined the common method variance issue through two post hoc statistical tests. First, we used Harman's one-factor test. The logic behind this test is that if common method variance is a serious issue in a data set, a single factor will emerge, or one general factor will account for most of the covariance in the independent and dependent variables (Aulakh & Kotabe, 1997; Podsakoff & Organ, 1986). We performed a factor analysis on items related to the cost and differentiation strategies, marketing standardization, international diversification, and performance measures, extracting five factors with eigenvalues greater than one.

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<sup>5</sup> The assumption made in this study is that since firms from emerging markets are relative novices in foreign markets (especially for noncommodity manufactured products), they are more likely to participate in foreign markets through exports than to use other investment modes. To verify the validity of this assumption, we asked how many foreign countries the responding firms had manufacturing operations in. Of the 228 firms that responded to this question, 212 (or 93%) reported that they manufactured in just their home countries.

Furthermore, no general factor was apparent in the unrotated factor structure, with factor 1 accounting for only 28 percent of the variance. Second, we examined the correlation between the total sales reported by the respondents and sales figures available from secondary sources. The correlation coefficient for 45 firms for which secondary data were available was .90 ( $p < .0001$ ).<sup>6</sup>

## Measures

*Export performance* was measured through a four-item scale assessing the overall role of exports in the firms' sales growth, market shares, and competitive positions, as well as the profitability of export sales. The overall coefficient alpha for the scale was .84 (Brazil, .78; Chile, .87; Mexico, .81). Table 2 (below) gives the items in this scale and in others used in this research.

A strategy of *cost leadership* emphasizes having efficient-scale facilities and lower costs than major competitors (Porter, 1980). Accordingly, we used a two-item Likert scale to assess this strategy ( $\alpha = .68$ , overall; Brazil, .60; Chile, .72; Mexico, .72). A firm following a *differentiation* strategy wishes to create a unique image for its products and services (Porter, 1980). We thus adapted a three-item scale from Aulakh and Kotabe (1997) that captured the dimensions of quality standards, image, and general differentiation with respect to competitors ( $\alpha = .82$ , overall; Brazil, .77; Chile, .80; Mexico, .86).

A six-item scale was developed to measure the extent of *marketing standardization* in foreign countries. Accordingly, respondents were asked to indicate, on a five-point scale, the extent of their firms' standardization of product design, brand name, advertising messages, product positioning, pricing, and promotional techniques in foreign markets ( $\alpha = .82$ , overall; Brazil, .86; Chile, .73; Mexico, .84).

*Export diversification* was an adaptation of the entropy measure developed by Hitt, Hoskisson, and Kim (1997). Since the primary focus of this study was to examine diversification of exports in foreign markets (geographical diversification), respondents were asked to indicate the extent of their export sales to six regions: South America, Central America and Mexico, Africa/Middle East, United States/Canada, West-

ern Europe, and Asia/Australia. The entropy measure of export diversification of exports is defined as *Export diversification* =  $\sum_i [P_i \times \ln(1/P_i)]$ , where  $P_i$  is the sales attributed to each of the six regions and  $\ln(1/P_i)$  is the weight given to each region.

To measure *foreign market focus*, respondents were asked to indicate the percentages of their foreign sales in each of the following regions: South America, Central America and Mexico, Africa/Middle East, United States/Canada, Western Europe, and Asia/Australia. The first three regions were classified as developing countries. United States/Canada and Western Europe were classified as developed countries. The Asia/Australia region consists of both developing and developed countries. We dropped this region from analyses because the percentages of sales in the two types of markets could not be distinguished, and not all of the responding firms had significant (>5%) sales in the region. For a firm to be categorized as having either a developed country or a developing country focus, 75 percent or more of its sales had to be in one of the groups. On the basis of this criterion, 94 firms from the sample had a developed country focus, and 102 firms had a developing country focus. The subsequent empirical analyses is based on the 196 firms that had clear developed or developing country foreign market focuses.

To control for possible confounds, we included several *control variables*. Two dummy variables, one for Mexico and one for Brazil, were used to capture any systematic differences across the three countries in the sample. We included three dummy variables to control for industry effects. Given that standard industry classifications were not available through secondary sources and that classification systems vary across countries, we asked the respondents to list the primary industries of their export products. These were then classified independently by two people and coded into different industry groups. The set of export products fell under four broad industry groups: manufactured durables, manufactured nondurables, services, and food and agricultural products. *Firm size*, measured by the natural logarithm of total sales, was used to control for economies and diseconomies of scale (Hitt, Hoskisson, & Kim, 1997). Finally, firms' *international experience*, measured as the number of years of exporting to foreign countries, was used to control for experience effects on export performance.

## Psychometric Properties and Pooling Considerations

Besides the issue of translation equivalence in a cross-national sample, other factors that need to be

<sup>6</sup> Secondary data on export performance were not available because it is not reported in annual reports or other published sources. Given that our objective was to ensure the validity of retrospective reports, the high correlation ( $r = .90$ ,  $p < .001$ ) between reported and published total sales for the 45 firms suggested that the respondents were providing accurate information.

**TABLE 1**  
**Sample Characteristics<sup>a</sup>**

Characteristic	Brazil	Chile	Mexico
Total employment	3,347	2,567	5,735
Total sales	\$250 million	\$373 million	\$163 million
Number of countries the firm exported to	14	13	8
Number of years of international experience	13	13	10
Percentage of exports to developed countries	23	27	68
Percentage of exports to developing countries	66	56	20
Industry			
Manufactured durables	20.5	5.6	20.5
Manufactured nondurables	65.8	44.4	32.4
Services	5.5	24.1	25.0
Food/agricultural products	8.2	25.9	22.1

<sup>a</sup> Except for industry, the reported values are means. Values for industry are percentages.

taken into consideration were construct and measurement equivalence. To ensure that construct meanings were consistent, we took care during the questionnaire design stage, performing further empirical tests after collecting the data. A reasonably good convergence of reliability estimates across the three samples confirmed construct equivalence. We then performed three factor analyses to examine whether the factor structures were similar for the three country samples. The scale items for the three strategy variables and for the diversification and export performance measures were used in computing factor solutions. In all cases, five factors with eigenvalues greater than one emerged, and factor loadings were similar for the three samples.

After construct and measurement equivalence had been confirmed, the next step was to examine sampling equivalence. We thus compared the responding firms' means on key characteristics. There were no significant differences among the three national samples on firm size (total employment and total sales) and international experience (the number of countries in which a firm had exporting operations and the length of experience in foreign countries). Thus, the data were pooled, and subsequently reported analyses were based on the pooled data.<sup>7</sup> To further confirm the convergent and discriminant validity of the constructs, we per-

formed another factor analysis with the pooled data. The five-factor solution accounted for about 69 percent of the variance and represented all the derived factors with eigenvalues greater than one. The pattern of observed loadings indicated that the scales represented distinct measures of the underlying constructs. Accordingly, a composite score was calculated for each multi-item scale as an unweighted linear sum of the respective item scores. Sample characteristics and factor analysis results are provided in Tables 1 and 2, respectively.

## RESULTS

The hypotheses were tested through ordinary least squares (OLS) regression analysis. We performed collinearity diagnostics by examining the bivariate correlations (reported in Table 3) and variance inflation factors (VIFs; reported in Tables 4 and 5). Furthermore, assumptions of equality of variance, independence of error, and normality of the distribution of errors were met for all regression equations.

Table 4 presents the results of a hierarchical regression analysis in which we first regressed export performance on the different strategy aspects and control variables for country, industry, size, and international experience (model 1). In the second stage, we entered the foreign market focus dummy variable as well as its interactions with cost lead-

<sup>7</sup> Pooling data from the three countries was considered necessary as the number of observations in each sample was relatively small. Furthermore, we did not expect country-specific differences in the strategy-performance relationships. However, we included two dummy vari-

ables in the regression equations to control for any country-specific effects.

**TABLE 2**  
**Factor Analysis Results for Independent and Dependent Variable Scales<sup>a</sup>**

Scale and Item	1	2	3	4	5
Differentiation					
Maintaining higher quality standards for our products	.13	.06	<b>.79</b>	.24	-.06
Maintaining unique image for our products	.10	.11	<b>.88</b>	.01	.04
Differentiating products and services from competitors	.26	.26	<b>.67</b>	.12	-.04
Cost leadership					
Having lower costs than our major competitors	.03	.04	.36	<b>.80</b>	.03
Achieving economies of scale in our international operations	.13	.36	.02	<b>.80</b>	-.02
Marketing standardization					
Product design	<b>.52</b>	-.08	.23	.22	.36
Brand name	<b>.72</b>	.07	.21	-.06	.14
Advertising messages	<b>.85</b>	.06	.08	.06	-.14
Product positioning	<b>.75</b>	.12	.20	-.07	.06
Pricing strategy	<b>.51</b>	.30	.02	.23	.20
Promotional techniques	<b>.83</b>	-.02	-.05	.16	-.14
Export diversification	-.02	.08	-.11	-.01	<b>.82</b>
Export performance					
Exporting has contributed to the sales growth of our firm	-.03	<b>.90</b>	.05	.08	.09
Exporting has improved our firm's market share	.03	<b>.87</b>	.12	.09	.12
Our export activity has made our firm more competitive	.06	<b>.83</b>	.19	.12	-.09
Profitability of our export sales	.04	<b>.59</b>	.06	.11	-.30
Eigenvalue	4.55	2.62	1.59	1.16	1.05
Percentage of variance explained	28.42	16.39	9.96	7.25	6.55
Cumulative percentage of variance explained	28.42	44.81	54.77	62.02	68.57

<sup>a</sup> Varimax rotation was performed. Factor loadings greater than .40 are shown in bold. Export diversification is a single-item entropy measure.

ership, differentiation, and marketing standardization to examine the moderating effects (model 2).

The overall regression equation in model 1 is statistically significant ( $F = 10.64$ ,  $p < .001$ ), and the set of independent and control variables explain 50 percent of the variance in export performance. We had hypothesized that a firm's attempt to simultaneously achieve both cost leadership and differentiation would have a negative impact on its export performance (Hypothesis 3). This prediction was not supported, as the coefficient for the interaction term (cost leadership  $\times$  differentiation) is not statistically significant ( $\beta = -.07$ ,  $p > .10$ ).

Hypothesis 4 states that high marketing standardization in foreign markets on the part of firms from emerging economies will lead to lower export performance. This hypothesis was supported, as the coefficient is negative and statistically significant ( $\beta = -.14$ ,  $p < .05$ ). To examine the curvilinear relationship between export diversification and export performance (Hypothesis 6), we included export diversification and its squared term in the regression equation. The coefficient for export di-

versification is positive and significant ( $\beta = .40$ ,  $p < .001$ ), and for the squared term, it is negative and significant ( $\beta = -.56$ ,  $p < .001$ ). Taken together, these findings support Hypothesis 6, showing an inverted U-shaped relationship implying that diversifying into a few foreign markets improves export performance but that going beyond a certain number of markets is detrimental to performance.

Although no specific hypotheses were proposed on the direct effects of cost leadership and differentiation on export performance, we found positive and significant beta coefficients ( $\beta = .23$ ,  $p < .001$ , cost leadership;  $\beta = .13$ ,  $p < .10$ , differentiation). These relationships will be discussed in more detail below. Secondly, the results also suggest that our Mexican firms had higher export performance than both the Chilean and Brazilian firms ( $\beta = .29$ ,  $p < .001$ ), with the Brazilian firms having the lowest export performance ( $\beta = -.18$ ,  $p < .01$ ). What explains these results? One factor that appears to be meaningful is economic liberalization and integration in Mexico. Its signing of the North American

**TABLE 3**  
Means, Standard Deviations, and Correlations<sup>a</sup>

Variable	Mean	s.d.	1	2	3	4	5	6	7	8
1. Sales	3.62	2.24								
2. International experience	2.14	1.00	.39***							
3. Cost leadership	3.94	0.97	.01	.06						
4. Differentiation	3.98	0.93	-.30***	.03	.34***					
5. Cost leadership × differentiation <sup>b</sup>	0.34	1.29	.04	-.14 <sup>†</sup>	-.05	-.24**				
6. Marketing standardization	2.70	1.36	-.21**	-.05	.13 <sup>†</sup>	.28***	-.13 <sup>†</sup>			
7. Export diversification	-378.55	97.12	.12	.04	.01	-.06	.29***	.01		
8. Export diversification squared <sup>b</sup>	0.99	2.78	-.10	-.26***	-.13 <sup>†</sup>	-.13 <sup>†</sup>	.39***	.06	.79***	
9. Export performance	3.42	1.11	-.15	.21**	.37***	.28***	-.05	.04	.03	-.24**

<sup>a</sup>  $N = 196$ .

<sup>b</sup> The interaction and squared terms were calculated by first standardizing the constituent parts and then multiplying the standardized variables.

<sup>†</sup>  $p < .10$

\*  $p < .05$

\*\*  $p < .01$

\*\*\*  $p < .001$

Free Trade Agreement (NAFTA) provided Mexico with clear, cheap, and easy exporting access to two big industrialized markets, Canada and the United States (Kotabe & Arruda, 1998). This factor only explains Mexico's export success in these industrialized markets. However, other countries, such as Columbia, have signed bilateral trade agreements with Mexico in order to use Mexico as a gateway into the NAFTA markets. These trade agreements, then, provide Mexican firms easy access to both developed and developing countries and thus have positive effects on the country's export performance. Brazil is a member of another trading bloc, Mercado Común del Sur (Mercosur), but the latter has met with less success in effectively opening trade among member nations (Kotabe & Arruda, 1998), making Brazil's negotiating leverage with other countries less than Mexico's. Chile's situation seems to fall in between the other two countries'. It has a long history of liberalization and, through reciprocal trade deals, it has been able to build a sizable number of informal trading relationships with various countries. Also, Chile has been widely reported to be the next entrant to NAFTA, making it an attractive trading partner.

The results in Table 4 (model 2) also point toward the moderating effect of foreign market focus. The overall model is significant ( $F = 9.05$ ,  $p < .001$ ), and the change in the squared multiple correlation coefficient ( $R^2$ ) of .04 when the moderating variable and the interaction terms are entered into the equation is also statistically significant ( $\Delta F = 2.44$ ,  $p < .05$ ). Although the moderating effect dem-

onstrated in Table 4 is significant overall, we do not interpret the individual coefficients, since multiple interaction terms lead to high multicollinearity. This is apparent from the extremely high variance inflation factors for foreign market focus and the interaction terms. To test for the moderation predicted in Hypotheses 1, 2, and 5, we used subgroup analyses. Two regression equations were estimated. In the first equation, export performance was regressed on the set of independent and control variables for the subsample of firms whose primary foreign market focus was developed countries, and the second equation was estimated for firms whose foreign market focus was developing countries.<sup>8</sup> The results are presented in Table 5.

Both the equations are significant ( $F = 3.09$ ,  $p < .01$ , and  $F = 4.11$ ,  $p < .01$ ), with the set of independent variables respectively explaining 35 and 42 percent of the variance in export performance for the two groups. Hypothesis 1 states that the effect of cost leadership on export performance will be stronger for firms with a developed country focus than for those with a developing country focus. Although the beta coefficients for cost leadership

<sup>8</sup> International diversification was not included in the subgroup analysis because this variable and foreign market focus are related. Although the degree of export diversification within developed and developing countries may have provided additional insights on its performance effects, our data did not allow this analysis since we did not have exports sales data for individual foreign markets within each group.

**TABLE 4**  
**Results of Hierarchical Regression Analysis for Export Performance<sup>a</sup>**

Independent Variable <sup>b, c</sup>	Model 1			Model 2		
	$\beta$	<i>t</i>	VIF	$\beta$	<i>t</i>	VIF
Cost leadership	.23	3.33***	1.31	.21	2.36**	2.20
Differentiation	.13	1.84 <sup>†</sup>	1.47	.17	1.72 <sup>†</sup>	2.73
Cost leadership × differentiation	-.07	-1.02	1.18	-.09	-1.30	1.25
Marketing standardization	-.14	-2.12*	1.19	-.06	-0.78	2.24
Export diversification	.40	3.85***	3.00	.33	3.06**	3.29
Export diversification squared	-.56	-5.14***	3.22	-.54	-5.00***	3.28
Mexico	.29	3.31***	2.15	.24	2.54**	2.50
Brazil	-.18	-2.27*	1.75	-.14	-1.80 <sup>†</sup>	1.82
Manufactured durables	.02	0.25	1.87	.04	0.48	1.96
Manufactured nondurables	-.11	-1.27	2.18	-.10	-1.09	2.27
Services	-.11	-1.39	1.79	-.10	-1.20	1.95
Sales	-.06	-0.61	2.28	-.06	-0.67	2.30
International experience	.14	1.85 <sup>†</sup>	1.45	.11	1.56	1.47
Foreign market focus				.48	1.34	36.46
Foreign market focus × cost leadership				.17	0.57	25.13
Foreign market focus × differentiation				-.34	-0.96	36.47
Foreign market focus × marketing standardization				-.16	-1.01	7.00
<i>R</i> <sup>2</sup>	.50			.54		
Adjusted <i>R</i> <sup>2</sup>	.46			.48		
<i>F</i>	10.64***			9.05***		
$\Delta R^2$				0.04		
$\Delta F$				2.44*		

<sup>a</sup> *N* = 196.

<sup>b</sup> Two dummy variables were created for the three countries, with Chile omitted. Three dummy variables were created for the four industry classifications, with food and agricultural products omitted.

<sup>c</sup> Foreign market focus is a dummy variable, with 0 representing developing countries and 1 representing developed countries.

<sup>†</sup> *p* < .10

\* *p* < .05

\*\* *p* < .01

\*\*\* *p* < .001

All significance levels are based on two-tailed tests.

for both subgroups are statistically significant ( $\beta = .40$ ,  $p < .01$ , developed country focus;  $\beta = .21$ ,  $p < .05$ , developing country focus), results of a *Z*-test (Cohen & Cohen (1983) comparing the two coefficients ( $Z = 1.42$ ,  $p < .10$ ) support the hypothesis that a cost leadership strategy has a stronger effect on export performance in developed country markets than it does in developing markets. Hypothesis 2 states that the effect of a differentiation strategy on export performance is stronger for firms with a developing country focus than for those with a developed country focus. This hypothesis was also supported; the coefficient for a developed country focus is not significant ( $\beta = .02$ ,  $p > .10$ ), that for a developing country focus is positive and significant ( $\beta = .31$ ,  $p < .01$ ), and the *Z* (1.65,  $p < .05$ ) shows significant differences in the sizes of the beta coefficients. Finally, we expected that the negative relationship between marketing standardization and export performance would be stronger for firms

with a developed country focus than for those with a developing country focus. The beta coefficient for the former group is negative and significant ( $\beta = -.24$ ,  $p < .05$ ), and that for the latter is negative but not significant ( $\beta = -.04$ ,  $p > .10$ ). A significant *Z* (1.55,  $p < .05$ ) confirms differences in the coefficients, thus supporting Hypothesis 5.

These empirical results support five of the six hypotheses tested and collectively provide evidence for the export performance model for emerging economy firms proposed in this study. Before discussing the implications of these findings, we further examine the impact on export performance of an integrated strategy, as captured by the interaction of our cost leadership and differentiation variables. We argued, in developing Hypothesis 3, that two sets of factors (the first related to the nature of products and the second to financial and experiential resources) would prevent emerging economy firms from successfully developing and



**TABLE 5**  
**Results of Subgroup Analyses Examining Moderating Effects of Foreign Market Focus on Export Performance<sup>a</sup>**

Independent Variable <sup>b</sup>	Group 1: Developed Country Focus			Group 2: Developing Country Focus		
	$\beta$	<i>t</i>	VIF	$\beta$	<i>t</i>	VIF
Cost leadership	.40	3.24**	1.47	.21	2.00*	1.23
Differentiation	.02	0.15	1.69	.31	2.68**	1.43
Cost leadership $\times$ differentiation	-.19	-1.59	1.38	-.15	-1.47	1.09
Marketing standardization	-.24	-2.03*	1.31	-.04	-0.33	1.28
Mexico	.15	0.96	2.47	.38	2.82**	1.94
Brazil	-.10	-0.76	1.84	-.13	-1.05	1.56
Manufactured durables	.01	0.09	1.58	.00	-0.01	2.92
Manufactured nondurables	-.08	-0.62	2.18	-.22	-1.20	3.73
Services	-.10	-0.80	1.60	-.16	-0.96	2.93
Sales	-.18	-1.19	2.32	.22	1.55	2.26
International experience	.38	3.15**	1.43	.03	0.26	1.36
<i>R</i> <sup>2</sup>	.35			.42		
Adjusted <i>R</i> <sup>2</sup>	.24			.32		
<i>F</i>	3.09**			4.11***		

<sup>a</sup> For group 1,  $n = 94$ . For group 2,  $n = 102$ .

<sup>b</sup> Two dummy variables were created for the three countries, with Chile omitted. Three dummy variables were created for the four industry classifications, with food and agricultural products omitted.

+  $p < .10$

\*  $p < .05$

\*\*  $p < .01$

\*\*\*  $p < .001$

All significance levels are based on two-tailed tests.

implementing an integrated strategy in export markets. Accordingly, we expected a negative relationship between an integrated strategy and export performance. However, the results do not support this hypothesis; none of the beta coefficients, for either the full sample (Table 4) or the subsamples (Table 5) are statistically significant. What explains this nonsignificance? Is it possible that some firms in our sample were able to successfully implement an integrated strategy, while others were not, so that combining results produced a neutral effect? To answer these questions, we conducted a post hoc analysis in which we examined the role of firm resources (measured in terms of size and international experience) on the integrated strategy-performance relationship. Since firm resources are likely related to the implementation of a particular strategy, we first divided the sample into two groups, large and small, on the basis of total sales. Then we examined the correlations between integrated strategy and export performance for the two groups. Neither the correlation for large firms ( $r = -.05$ ,  $p = .67$ ) nor that for small firms ( $r = -.01$ ,  $p = .95$ ) was statistically significant. Next, we did the same test for more versus less internationally experienced firms. Although the correlation between integrated strategy and export performance

for more internationally experienced firms ( $r = .12$ ,  $p = .32$ ) is positive, and that of less internationally experienced firms ( $r = -.11$ ,  $p = .30$ ) is negative, neither is significant. In summary, our post hoc analyses did not provide additional insights into the relationship between export performance and use of a strategy integrating cost leadership and differentiation for firms from emerging economies.

## DISCUSSION

Understanding firms' competitive strategies has been a major focus of researchers in both management and marketing disciplines, and these efforts have provided important insights into strategic types, their impact on performance, and the contextual, organizational, and environmental factors that affect the choices and consequences of different types of strategy. Most of these models were developed to explain the competitive behavior of firms from developed countries (mainly from the "triad regions" of North America, Europe, and Japan), competing primarily within their own national markets, and of multinational corporations competing through foreign direct investment. Two questions about the external validity of these strategy models become relevant: First, are these mod-

els applicable to enterprises that participate in international markets mainly through export operations from their domestic bases? Second, are they applicable to enterprises from countries outside the triad, and in particular, to those from emerging markets, which operate under unique institutional pressures and have different managerial processes and resource capabilities than enterprises from developed countries? We made two contributions in this study. First, we proposed a framework that incorporates various strategic factors explaining the performance of exporting firms. In particular, we examined the effects on performance of three strategy components (Chrisman et al., 1988): competitive weapons (differentiation, cost leadership), segmentation differentiation (marketing standardization versus adaptation in targeting markets), and scope (geographic diversification). Second, we developed and empirically tested hypotheses in the context of emerging economy firms from Brazil, Chile, and Mexico. The results point to the validity of the proposed framework. We found that, with firm and industry characteristics controlled, the different strategies pursued by firms from emerging markets explain their export performance.

### Managerial and Theoretical Implications

Our findings have important implications for both practice and theory. The first finding relates to the performance implications of two competitive strategies, cost leadership and differentiation. This study adds a geographical market dimension to earlier evidence that the relationship between these two strategies and performance is contingent on the environment within which they are implemented (e.g., Lim & Kim, 1988; Miller, 1988). We found that, although a cost leadership strategy tends to enhance export performance for emerging economy firms in both developed and developing markets, the impact of this strategy is more pronounced when the target market focus is on developed countries. On the other hand, a differentiation strategy leads to improved performance if the market focus is on developing countries. These findings are plausible for several reasons detailed below.

Since competition in developed country markets is intense, owing to the sophistication of consumers, the large number of competitors, and dynamism related to technology, it would be rather difficult, if not impossible, for emerging economy firms offering mature products to differentiate their products on the basis of quality and unique features and build their brand recognition in those developed country markets. Also, a number of studies (e.g., Cordell, 1993) have found that consumers in

developed countries perceive products and brands from developing countries negatively and generally equate them with low price and quality. These negative perceptions will not allow firms from emerging countries to successfully create a unique image and demand premium prices for their products and services, as would be necessary to implement a differentiation strategy. Marketing products on a low-cost basis tends to be a more suitable strategy for developed country markets, as was amply demonstrated by Japanese firms in the 1960s and 70s and by firms from the Asian tigers in the 1970s and 80s. Since firms from emerging economies concentrate on mature products, they have cost advantages vis-à-vis developed country firms and can thus better compete through a cost leadership strategy. Thus, we found a stronger relationship between degree of cost leadership and performance in developed markets. In the case of firms whose foreign market focus was primarily other developing markets, we found stronger effects of a differentiation strategy on performance. This finding could be due to the fact that firms in our sample may not have had any particular cost advantage vis-à-vis domestic firms in the other emerging country markets, thus making a differentiation strategy a more appropriate way to gain competitive advantage. As a result, a differentiation strategy seems to be more effective for emerging economy firms within a group of countries that are at similar stages of economic development.

Our second major finding, regarding the association between degree of marketing standardization in foreign markets and performance, is twofold. First, like Cavusgil and Zou (1994), we found that standardized marketing programs tend to result in lower performance. Second, we found another contingency effect: firms using a standardized approach in developed countries have lower performance than those adapting their marketing programs, but in developing countries, the effect is not significant. Some studies have suggested that standardization might be appropriate when a firm is marketing to countries that are similar to its home market (Douglas & Wind, 1987; Samiee & Roth, 1992). This standardized marketing approach fails to work in developed countries because the cultural distance between the exporter and the market is high, with customers unwilling to sacrifice idiosyncratic preferences for lower costs.

Finally, we found that some extent of export market diversification is beneficial for reducing currency risks and attaining synergy and economies of scale. However, a high level of diversification can spread limited managerial and financial

resources too thin. Such a stretch, along with high transaction and coordination costs, is detrimental to export performance, as the costs of targeting multiple markets outweigh the benefits. This finding is consistent with those of Hitt, Hoskisson, and Kim (1997), who found a similar inverted U-shaped relationship between international diversification and firm performance. However, our study provides further insights for the diversification literature, as it identifies specific advantages and disadvantages relevant to exporting firms that are different from the location and internalization benefits accruing to firms that enter foreign markets through foreign direct investment.

### Further Research

According to the resource-based view of the firm (Barney, 1997), firms need to build, acquire, or identify valuable, inimitable, rare, and nonsubstitutable resources in order to gain competitive advantage. Enterprises from emerging economies traditionally had comparative cost advantages in factors of production, especially for commodity and nondifferentiated manufactured products. However, these advantages may not be sufficient in the contemporary global environment, as competition is increasingly based on differentiated products and services, and the present liberal trade regime allows firms from different countries to access location-specific factors related to factors of production.

In the preceding discussion, we suggest the possibility that the reasons behind the inability of emerging economy firms to successfully implement certain strategies include their lack of experience in foreign markets, deficiencies in managerial, financial, and technological skills vis-à-vis established multinationals from developed countries, negative brand and country-of-origin effects, and narrow product lines that preclude their taking advantage of economies of scale and scope. A fruitful area for future research would be to examine the processes through which firms can acquire these deficient resources.

One possible way could be through strategic alliances with firms from developed countries. Such alliances can potentially overcome the resource constraints of emerging economy firms as well as alleviate negative country-of-origin effects, especially if products are marketed under the developed country partners' programs. Second, there is evidence (Dominguez & Brenes, 1997) that firms from developing countries have acquired established foreign brands. These processes can potentially compensate for lack of resources and negative

consumer perceptions. Furthermore, as Khanna and Palepu (1997) suggested, firms in emerging economies become part of diversified business groups in order to create entry barriers for foreign entrants and manage the political process collectively. It is conceivable that such pooling of resources within diversified groups can enhance their competitive advantages in foreign markets as well and allow them to reap both scale and scope economies.

Another, related avenue for research is to further investigate the nature of participation by emerging economy firms in foreign markets. According to Craig and Douglas, a firm "must broaden its participation in the transnational value chain and gain a controlling role, if it is to develop a strong competitive position in world markets" (1997: 73). Finally, our study did not examine the role of organizational structures and administrative mechanisms in the implementation of successful strategies (Govindarajan, 1988; Miller, 1988). Future research can provide important insights by incorporating structural aspects in the strategy-performance models and examining if emerging economy firms use organizational forms that are similar to those used by multinationals from developed countries.

### Limitations

This study has a number of limitations. The first shortcoming is that, given its exploratory nature, our measures of strategy and performance constructs were parsimonious and did not incorporate various subdimensions identified in previous research. For instance, Miller (1988) and Lim and Kim (1988) identified innovation and marketing differentiation as two subdimensions of a differentiation strategy. Second, our environmental variable, foreign market focus, was simplistic and all encompassing, and thus did not capture heterogeneity within developed and developing markets. Finally, all of our measures were perceptual and, despite our best efforts to control for informant bias and associated common method variance problems, the results of this study should be interpreted in light of the inherent limitations of a survey methodology.

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