

# Isomorphic Pressures, Peripheral Product Attributes and Emerging Market Firm Export Performance

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## Abstract:

- Drawing upon the neo-institutional theory of mimetic isomorphism and the concept of the extended product, we identify and empirically evaluate two potential product strategies that emerging market firms (EMFs) may use to improve their export performance while also addressing the financial, managerial expertise, and international experience limitations that they frequently face.
- Hierarchical regression is used to test our proposed peripheral product adaptation strategies on a unique dataset of 106 Chinese and Romanian exporters.
- We find that EMFs that change either of two visible peripheral product attributes (the brand name or the packaging) to conform to local market norms, on average, are more satisfied with their export performance than those that pursue other strategies. Our results also suggest that changing the brand name to conform to local market norms has more than twice the impact on EMF performance than does changing the packaging.
- Consistent with the tenets of neo-institutional theory, EMFs managers may be able to improve their firms' export performance by changing the peripheral attributes of their products to conform to local market norms.

**Keywords:** Export performance · Branding · Packaging · Strategy · Emerging market firms

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## Introduction

Firms frequently face unfamiliar institutional environments when entering new international markets. This creates isomorphic pressures that affect their legitimacy and ability to succeed. To improve their success in new foreign markets, firms need to conform to new institutional norms (Brouthers et al. 2008a) which place greater demands on managerial and financial resources. Abrahamson and Rosenkopf (1993) suggest that one way for firms to address the demands imposed by international expansion is to employ a mimetic isomorphism strategy by imitating the successful strategies of host country firms. Such strategies include reinforcing national generic product stereotypes (Brouthers et al. 2000) or global branding (Samiee and Roth 1992). Each of these strategies has been used by multinational enterprises (MNEs) as a means of conforming to new institutional demands resulting in improved firm performance. Can such strategies also work for emerging market firms (EMFs)?

Unlike MNEs, EMFs typically do not have well-recognized global brands, nor are they identified with well-known generic product strategies. In addition, EMFs often lack the financial prowess, international market experience, resources, and managerial expertise (Hitt et al. 2000; Steensma et al. 2005) needed to make product changes (such as the substantial investment required to customize products on a market-by-market basis) that would allow their products to be perceived as legitimate in new host countries. For this reason, changing the product to meet local norms, a common strategy used by MNEs to improve host country market penetration, may not even be attempted by EMFs because of their financial and resource limitations and the higher product costs (Walters and Toyne 1989) associated with designing products for specific, differentiated national markets.

Given their resource constraints, we asked whether there was a way for EMFs to improve export performance by adapting products without dramatically increasing costs. To answer this question we invoke the concept of the *extended product*. The extended product deals with the item the firm is actually selling. First developed by Peter and Donnelly (1991), the extended product represents an expanded view of what is actually being sold. The extended product contains the actual physical elements of the product, the credence aspects of the product like warranties, and psychological elements of the product like its packaging or brand names.

Integrating mimetic isomorphism with the concept of the extended product, we developed a new theory. Our theory suggests that consumers respond to visible external cues in making purchase decisions (Garber 1995; Underwood 2003; Underwood and Ozanne 1998) and that such cues that correspond to local market norms (mimetic isomorphism) increase firm legitimacy (Carson et al. 2007; Creusen and Schoormans 2005; Veryzer and Hutchinson 1998) resulting in better export performance. Based on this theoretical reasoning, we propose that by adapting two visible external attributes (the packaging and the brand name) to conform to local expectations, EMFs can cost effectively adapt their products, resulting in improved export performance.

In this paper we attempt to make theoretical and managerial contributions. Scholars have called for increased attention to explaining how resource-deficient EMFs can catch up to and compete with established incumbents (Li and Kozhikode 2008), particularly in ways that minimize changes to product quality (Tantong et al. 2010). Of particular note is

the lack of available international marketing research that offers *theoretically-grounded* explanations and recommendations regarding product adaptation strategies (Schmid and Kotulla 2011).

In response to these concerns we make a theoretical contribution by combining the concept of the extended product with the theory of mimetic isomorphism which leads to a set of predictions on how to improve firm export performance by (1) focusing on extended product attributes rather than on physical product attributes in product adaptation; and (2) using mimetic isomorphism to guide the choice of exactly how to adapt the extended product. Thus, we use this combined theoretical perspective to aid in determining what attributes to adapt and how to adapt them. Previous efforts, to the best of our knowledge, have not provided theoretical *a priori* guidance regarding which attributes to adapt or how to adapt them.

Additionally, as Barreto and Baden-Fuller (2006) conclude, legitimacy-driven imitation may be more relevant in certain strategic contexts than in others. Their findings imply that not all mimetic isomorphism necessarily results in a positive impact on financial performance. This study builds upon this notion and extends isomorphism theory by identifying specific conditions whereby utilizing mimetic isomorphism to adapt extended product attributes can improve the export performance of emerging market firms.

We also make a contribution to managerial practice by providing a new and practical method for improving firm export performance. Managers may assume that specific firm experience is required to be able to effectively adapt product offerings to new markets (Hultman et al. 2009). For this reason firms that lack significant specific experience and only have nonspecific general exporting experience may be driven toward standardization strategies by default. Previous research (Brei et al. 2011; Calantone et al. 2004) suggests that finding new product adaptation strategies and determining their impact on export performance represents an important advancement to the product adaptation-standardization literature. Our paper attempts to do just this. We test our proposed strategy on a sample of Chinese and Romanian exporters.

## Theory and Hypotheses

Neo-institutional theory recognizes that the structure and behavior of a firm is not always based on pure economic rationality, but instead may be more socially constructed, a reflection of the organization's institutional environment (Meyer and Rowan 1977). The institutional environment consists of both formal institutions, such as rules and regulations, as well as informal institutions, such as cultural norms and other "unwritten" standards of behavior (North 1990). Formal and informal institutional alignment is important to firm success and even survival because "incorporating externally legitimated formal structures increases the commitment of internal participants and external constituents" (Meyer and Rowan 1977, p. 349). Firms have a variety of strategic responses they may employ to respond to these institutional pressures (Oliver 1991).

One key element of the neo-institutional perspective is the pursuit of legitimacy. Legitimacy is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms,

values, beliefs, and definitions” (Suchman 1995, p. 574). Firms desire to be seen as being appropriate to their key constituents. The institutional environment defines a range of acceptable behavior (Lee and Paruchuri 2008), and firms strive to satisfy these institutional expectations to gain legitimacy and maintain their ability to acquire resources, compete effectively, and survive (Kostova et al. 2008).

Overcoming the liabilities of foreignness to gain and maintain acceptance is difficult for firms operating in multiple countries because of the potential complexity of dealing with multiple institutional environments (Kostova and Zaheer 1999). The process of obtaining legitimacy can be particularly challenging for EMFs, because most international EMFs tend to be relatively small, young, and/or recently privatized (Brouthers et al. 2005; Contractor et al. 2007; De Castro and Uhlenbruck 1997). Achieving legitimacy may be even more important for EMFs than for firms from developed markets (Hitt et al. 2000) because (1) they tend to be less well known (Pangarkar 1998; Ramamurti 2012) and (2) they suffer from negative country of origin effects (Aulakh et al. 2000; Brouthers et al. 2008b; Kumar and Singh 2008).

Suchman (1995) points out there are two distinct perspectives from which to consider organizational legitimacy: *Institutional* legitimacy and *strategic* legitimacy. Institutional legitimacy focuses on how coercive and cultural pressures inherent in the institutional environment ultimately influence firms’ ways of thinking, decision making, and subsequent actions. In this paper we adopt a strategic legitimacy perspective. Strategic legitimacy reflects a more deliberate use of external institutional cues to increase firm acceptance (Pfeffer 1981). With a strategic approach, legitimacy is treated as an operational resource whereby symbols and rituals can be managerially manipulated to achieve institutional acceptance in the eyes of key constituents (Suchman 1995).

There are three strategies that organizations may use to gain legitimacy (Suchman 1995). First, firms may have an opportunity to *select* from a variety of available institutional environments in which to participate. By choosing an institutional environment that most closely resembles their home country, firms can better leverage their existing capabilities to establish legitimacy. Second, firms may be able to *manipulate* their institutional environment, influencing the regulatory forces to be more suitable to their organization and better aligning their firm’s environmental legitimacy. However, neither of these strategies is necessarily helpful to EMFs, given their more limited resources, reduced market options, and general lack of influence over their operating environment.

Instead, a third strategy for gaining legitimacy is most appropriate to EMFs, and that is *conforming* to the institutional environment. Conformity as a legitimization strategy is appropriate to EMFs for a number of reasons. First, unlike manipulation, conformity does not necessitate changes to structures outside of the firm, but instead can be accomplished by simply changing the nature of how the firm appears to others. Second, conforming to the institutional environment reduces the likelihood that the firm’s legitimacy will be challenged and the associated difficulty acquiring customers (Deephouse 1999). Finally, conformity can reduce uncertainty. Operating in new countries with different institutional environments increases complexity and uncertainty, making legitimization more difficult (Kostova and Zaheer 1999). By utilizing a conformance strategy EMFs can achieve legitimization with constituents, reducing environmental ambiguity and increasing their acceptance and ability to compete in new target markets.

One legitimacy conformance strategy is *mimetic isomorphism*. Mimetic isomorphism is a direct response to uncertainty (DiMaggio and Powell 1983) that is based on the principle that imitating the previous decisions of other successful organizations is one way for firms to efficiently deal with uncertainty (Carroll 1993; Cyert and March 1963). DiMaggio and Powell (1983) suggest that firms often legitimize their current decisions by identifying similarities to prior decisions made by themselves or other firms. Levitt and March's (1988) research suggests that firms can reduce decision uncertainty by using previous decisions to guide current decisions. Thus, mimetic isomorphism provides an avenue for firms to take advantage of the collective wisdom of other firms rather than proceeding as if they were the first to face it (Heugens and Lander 2009).

The literature identifies three basic types of mimetic isomorphism: Frequency-based, trait-based, and outcome-based imitation (Haunschild and Miner 1997). Frequency-based choices are those in which a firm selects a strategy which is consistent with that adopted by the largest number of firms, whereas trait-based imitation involves imitating the 'external decisions' of firms that are similar in such respects as target markets or size. Outcome-based imitation, the type used in this study, focuses on imitating practices that have led to desired outcomes in other firms (Dobrev 2007; Fombrun and Shanley 1990; Haveman 1993; Haveman and Rao 1997; Lieberman and Asaba 2006; Strang and Tuma 1993).

More recent studies have extended mimetic isomorphism from conforming or legitimizing firm decisions (Dacin et al. 2007; DiMaggio and Powell 1983; Hannan and Carroll 1992; Meyer and Rowan 1977) to explaining normative outcomes (e.g., firm performance). Abrahamson and Rosenkopf (1993) suggest that imitation represents a rational response to competitor "cues" that certain decisions lead to normatively better results thereby justifying the strategic choices of firms. This is especially true for international business decisions where greater environmental complexity (Mahini 1990) underscores the importance of utilizing simplification mechanisms to solve problems.

Here we examine one such international business decision. In particular, we investigate whether the guidance provided by mimetic isomorphism can be used by EMFs to develop a less expensive, less resource intensive way to adapt products, resulting in increased export market performance.

### Mimetic Isomorphism, Product Adaptation, and the Extended Product

One major benefit associated with product adaptation is the enhanced market penetration that results from matching product attributes with the tastes and preferences of specific foreign markets (Calantone et al. 2004); however, adapting the physical characteristics of products is often costly to do (Walters and Toyne 1989). Though adaptation costs is an important issue for all firms, it is an especially important consideration for EMFs that want to experience the market penetration benefits of product adaptation but face major resource constraints (Hitt et al. 2000; Hoskisson et al. 2000; Newman 2000; Steensma et al. 2005). So how can EMFs less expensively adapt their products?

The concept of the extended product may provide one potential answer to this question. According to Peter and Donnelly (1991), the extended product includes both core and peripheral product attributes. Core product attributes consist of the ingredients, features, and components that make up the physical product while peripherals include attri-

butes such as the packaging or the brand name. Modifying the core product typically requires high levels of market knowledge and extensive investments of time and resources (Keegan 1969; Walters and Toyne 1989) to support the additional market research and subsequent analysis, design, testing, and retooling of equipment and machinery. Firms face higher costs in customizing physical products for local markets “even with flexible manufacturing systems, rapid prototyping, and just-in-time methods” (Calantone et al. 2004, p. 189). Mass customization, combining international physical product adaptation with mass production (Schmid and Kotulla 2011), is not a viable option for EMFs given their limited resources and capabilities. Simply put, changing core product design is expensive for EMFs (Tantong et al. 2010).

In contrast, imitating peripheral product attributes to conform to host country market expectations is typically less expensive, requires much less time, and consumes considerably fewer resources (Keegan 1969; Walter and Toyne 1989). Imitation is recognized as a viable product strategy, particularly for firms from emerging markets (Lee and Zhou 2012). This is because imitation requires less analysis, design, and testing than innovation. This is particularly true for imitation of peripheral product attributes. For example, imitating the color and shape of an existing local brand’s packaging takes limited expertise and resources. It is noted that even a relatively simple packaging imitation requires a certain amount of local market knowledge to enable the firm to identify and select an appropriate target for imitation. However, the *degree* of local market knowledge required to imitate peripheral product attributes such as packaging is far less than to modify core product attributes.

Likewise, modifying a product name to the local language is another viable peripheral product attribute adaptation strategy for EMFs. Like packaging imitation, crafting a local product name implies at least a minimum amount of local market knowledge. But the essential elements are concentrated on the selection of an easy to pronounce word(s) that has (ve) a positive meaning in the local language (Alashban et al. 2002; Francis et al. 2002); this requires limited local market knowledge (e.g., supportable via consultants) and limited local testing (e.g., focus groups). The primary goal is the assurance there are no negative or offensive connotations with the chosen name, a much less market knowledge-intensive activity compared to changing core product features and functionality. For these reasons, we conclude that it is easier and much less expensive for EMFs to adapt peripheral product attributes than to modify the core product when exporting to host country markets.

As for what to imitate, previous research suggests that consumers have expectations about what products should look like (Garber 1995; Veryzer 1993; Veryzer and Hutchinson 1998). Such expectations stem from local market product offerings which establish visual product norms for a given host country market (Hill and Still 1984; Smith and Park 1992; Veryzer 1999). Products whose visuals fall within these norms tend to be accepted by consumers (Carson et al. 2007; Creusen and Schoormans 2005; Garber 1995; Veryzer and Hutchinson 1998) and as such, are more likely to be purchased than those that fall outside local market norms.

In a purchase setting, consumers are first exposed to a product’s peripheral attributes such as its packaging and brand name rather than the physical product itself. Essentially, attributes like the brand name and the packaging represent “visible” characteristics of

the product (Dawar and Parker 1994; Klein 2002; Rao and Monroe 1989; Roullet and Droulers 2005; Smith and Park 1992; Underwood 2003; Underwood and Ozanne 1998) and are commonly used by consumers to make product choices by comparing them to locally established norms (Garber 1995; Veryzer and Hutchinson 1998). Thus, adapting our two visible peripheral attributes to local norms makes it more likely that the products will be considered legitimate by local market consumers and therefore, be accepted and purchased (Carson et al. 2007; Creusen and Schoormans 2005; Veryzer and Hutchinson 1998).

### Changing Brand Names and EMF Performance

One major purpose of brands is to connote unobserved quality to markets or consumers (Dacin and Smith 1994; Erdem and Swait 1998; Kirmani and Rao 2000; Teas and Agarwal 2000). In support of this perspective, Rao and Monroe's (1989) review of the extant literature found brand name and perceived quality to be positively related. This relationship appears to consistently hold across international markets (Hong et al. 2002; Zhang and Schmitt 2001).

Theoretically, firms may realize economies of scale and scope, enhanced product appeal in market segments, and reduced time-consuming and expensive product adaptations by establishing a global brand (Steenkamp et al. 2003). However, for global branding strategies to be effective, firms position products consistently across world markets and invest heavily in building brand reputation (Samiee and Roth 1992). Neither positioning products consistently across world markets nor investing heavily in building brand reputation is feasible for many EMFs. Thus, we suggest that EMFs change their brand names to reflect the local language. In so doing, the EMF's product better conforms to local market norms and appears as a local brand (Steenkamp et al. 2003).

Local brand names reduce negative foreign country of origin effects (Elango and Sethi 2007; Zeugner-Roth et al. 2008) and/or national animosities (Klein 2002) resulting in more positive product images (Thakor and Pacheco 1997). Moreover, brand attitudes are affected by structural differences in language and writing systems (Pan and Schmitt 1996; Tavassoli and Han 2002). For instance, the connotative meanings of brand names are often lost when used in foreign markets (Usunier and Shaner 2002). Localizing brands enables EMFs to develop brand names that are easier to pronounce and understand (Onkvisit and Shaw 1989) making them more similar to local brands, thereby improving export performance (Usunier and Shaner 2002).

*Hypothesis 1:* EMFs that adapt the brand name of their products, by changing the name of the product or brand to reflect the local language, will, on average, have better export performance than EMFs that do not.

### Changing Packaging and EMF Export Performance

Recent research suggests that packaging aesthetics play a major role in a market's response to product offerings (Richardson et al. 1994; Veryzer and Hutchinson 1998), quality perceptions (Dawar and Parker 1994; Underwood 2003), and in establishing

brand image (Keller 1993). Aesthetic response theory (Veryzer and Hutchinson 1998) suggests that aesthetic similarities positively influence the point-of-purchase product evaluation process and the ultimate purchase decision; empirical research supports this perspective (Garber 1995; Underwood 2003; Underwood and Ozanne 1998). All these studies intimate that changing packaging aesthetics to match local tastes and preferences improves export performance.

Changing packaging aesthetics to local tastes often involves understanding and addressing perceptual differences in the meanings associated with packaging color (Grimes and Doole 1998). Such differences led Madden et al. (2000) to suggest that firms should evaluate color and color combination perceptions on a country-by-country basis. Therefore, similar to brand names, changing the product packaging enables EMFs to better conform to local market perceptions and expectations, which in turn, improves export performance.

*Hypothesis 2:* EMFs that adapt the packaging of their products, by altering the packaging to appear similar to that of the largest domestic supplier, will, on average, have better export performance than EMFs that do not.

## Data and Methodology

To test our proposed peripheral product adaptation strategies, we collected data from two emerging markets, China and Romania. We chose these two emerging markets for three reasons. First, both countries have undergone major political and market transitions in the 1990s and have made considerable strides towards participating in today's global economy. Second, China and Romania offer two very different emerging market contexts in which to examine the generalizability of our proposed strategies. Romania's economy is small and slow growing while China is one of the largest (Terpstra and Sarathy 2000) and most rapidly growing economies in the world. Finally, the availability of reliable and knowledgeable interviewers in both China and Romania improved our ability to collect quality data in a timely fashion.

We used face-to-face interviews to administer our survey. Though this mode is time consuming and expensive, previous literature indicates that such measures facilitate data collection in emerging markets (Brouthers and Xu 2002). Primary data collection in emerging markets like Romania and China has been found to be a difficult process. Local managers are often concerned about firm information ending up in the "wrong hands" and are suspicious about the motives and intentions of survey researchers. For these and other reasons, managers in emerging markets perceive that minimal benefits may be realized from providing researchers with firm information and often decline to participate in survey studies (Hoskisson et al. 2000; Roy et al. 2001; Wang et al. 1998). In our data collection efforts, we initially experienced similar difficulties but overcame them by following Lee and Miller's (1999) advice to use local researchers from well-known and respected local institutions to conduct interviews.

Similar to Osland and Cavusgil (1996), we asked managers to provide us with perceptual rather than numerical measures of export performance in order to address their

reluctance and unwillingness to share sensitive “objective” data. We also used several single item measures to streamline our questionnaire thereby facilitating the data collection process. As a result, our response rates were high in both China and Romania.

### Survey Instrument and Pretest

The English version of our survey was translated into both Chinese and Romanian. Each version was administered to eight Chinese and eight Romanian EMBA students, all of whom had related work experience. Based on their feedback, we revised and finalized both versions of the survey. To ensure that the meanings of the original English version were maintained, we back-translated both the Chinese and Romanian surveys into English.

As an additional precaution, six Chinese and four Romanian managers were provided copies of the updated survey and asked to complete them. These individuals were later interviewed to identify areas of confusion and ways to improve the survey’s quality and clarity. We used their comments and recommendations to update the survey one more time. We further evaluated the survey instrument throughout the data collection process by asking informants to provide feedback regarding the clarity of scale items and instructions. No major problems were identified.

### Survey Approach and Sample

Project managers were hired in China and Romania to actively manage the data collection process. Ten Chinese and five Romanian graduate students from a renowned research institution in each respective country were trained by their project manager to conduct face-to-face interviews.

The Chinese sample used in this study consisted of 223 companies that actively export products and had sent managers to an international trade executive seminar at the fore-mentioned university. The companies in our sample were located in China’s coastal provinces of Fujian, Guangdong, Jiangsu, Shanghai, and Zhejiang. Of these 223 firms, fourteen no longer existed, reducing our final sample to 209 firms.

Interviewers attempted to contact the CEO or the manager overseeing exports for each of the sample firms and then to establish rapport and develop trust through their ties with a well-established research university and the manager’s experience with that institution. Eighty-eight (88) Chinese managers agreed to be interviewed (i.e., a 42.11% response rate) of which 72 of their survey responses were sufficiently complete to use in our analysis resulting in a 34.45% final response rate. This response rate was larger than those found in three prior studies about China that had response rates of 14% (Isobe et al. 2000), 22% (Luo and Peng 1999) and 32% (Peng and Luo 2000). The average export experience of the Chinese firms in our sample was 10.67 years and ranged from 1 to 44 years. Relative to product class, 57% of the firms exported industrial products, 33% exported consumer products, and 10% exported both industrial and consumer products.

In Romania, we were unable to find a comprehensive list of export firms. To address this problem, we examined newspapers and consulted export associations and other government agencies to develop a list of 101 export firms. Of these 101 firms, 8 no longer

existed resulting in a sample of 93 firms whose CEO or export manager were contacted by interviewers. A total of 42 survey responses were obtained (i.e., a 45.16% response rate) of which 34 were sufficiently complete to use in this analysis for a final response rate of 36.56%. The average export experience of the Romanian firms in our sample was 8.56 years and ranged from 1 to 28 years. With respect to product class, 29% of the firms exported industrial products while 71% exported consumer products. The overall sample contained 106 firms of which 24 actively pursued peripheral product changes consistent with our theoretical model. The percentage of Chinese and Romanian firms that pursued such strategies in our sample was 20 and 29% respectively.

Consistent with Brouthers et al. (2009), we used two methods to evaluate for non-response bias. First, we compared the responses from the first round of data collection with those of the subsequent rounds consisting of respondents that we had difficulty reaching or initially making an appointment with to determine whether a significant difference existed in the responses of these two groups. No significant differences were found. Second, we compared the age and number of employees of the respondent firms to a sample of firms that did not participate in our study using t-tests (Churchill and Iacobucci 2002). No significant differences were found between these two groups. Based on these two tests, we concluded that non-response bias was not a problem in this study.

We combined the Chinese and Romanian samples and performed multivariate statistical analyses. We originally wanted to run separate analyses for each sample; however, we could not because the Romanian sample was too small. We believe combining the samples was an acceptable procedure for two reasons. First, the average export performance for both the Chinese and Romanian firms that adapted the brand name or packaging of their products was higher than those that used other strategies, providing *prima facie* evidence for our two strategies. Second, we included a country dummy variable in our regression models to account for differences in export performance perceptions resulting from national characteristic differences between China and Romania. We considered this an effective way to capture country differences because we only have two countries in our analysis. Any national level variable that we might include can have only two possible values; one for China, another for Romania. Statistically this is no different than a dummy variable that takes on a value of one for China and zero for Romania. Thus, any national difference variable will function in an identical fashion to the country dummy variable used in this analysis.

Because the country variable standardized coefficient was small ( $b = -0.05$ ) and not statistically significant ( $p = 0.659$ ), we concluded that, despite the many historical, political and economic differences between the two nations, perceived export performance, on average, was not significantly different between Chinese and Romanian firms.

## The Questionnaire and Variable Measurement

### *Dependent Variable*

Consistent with previous research (Brouthers et al. 2003; Luo et al. 2001; Nitsch et al. 1996; Woodcock et al. 1994), perceptual measures of firm performance were used in this study. Perceptual measures of performance have been found to be well correlated

with objective performance measures (Dess and Robinson 1984; Geringer and Herbert 1991) and are appropriate when firms are unwilling (or unable) to provide financial data, accounting practice differences restrict or limit reconciliation across countries, and/or differences in financial reporting and exchange rate fluctuations exist between countries (Woodcock et al. 1994).

To capture the respondents' perception of firm performance, we used a multi-dimensional scale consisting of three 10-point scale items (1 = "very dissatisfied" to 10 = "very satisfied") that, consistent with Shoham's (1998) suggestion, include both short term (e.g., sales and overall export performance) and long-term (e.g., achieving market share targets) dimensions of export performance. Including both short-term and long-term dimensions in our measures of performance results in what Shoham (1998) suggests is a more reliable measure of export performance. In particular, respondents were asked "how satisfied are you with the export performance of your firm with respect to (1) sales, (2) achieving market share targets, and (3) overall export performance." To assess whether these three performance dimensions were relevant to our sample of EMFs, interviewers were instructed to provide project managers with feedback regarding any items in the survey that were confusing or considered not relevant to respondents. No such information was reported by our interviewers; therefore, it appears that the items making up our measure of export performance satisfaction made sense and were relevant to our EMF sample. The responses to these three items were summated. The summated scores for both the Chinese and Romanian firms were then converted to z-scores in response to Roster et al.'s (2006) notion that different nationalities tend to use different ranges of semantic differential scales. The resulting z-scores represent our dependent variable, *Satisfaction with Export Performance* (Cronbach's  $\alpha = 0.805$ ).

### *Independent Variables*

Our independent variable of interest was the firm's specific product strategy. Chinese and Romanian senior managers were asked to identify their firm's primary product strategies. This was accomplished by asking managers to select one or more potential strategies that included (1) changing some of the ingredients, features, or components of the product, (2) altering the packaging to appear similar to that of the largest domestic supplier, (3) developing a new product, (4) changing the name of the product or brand to reflect the local language, (5) undertaking any other modification (no firm was in this category), and (6) making no modifications.

We identified firms whose primary product strategy involved changing the name of the product or brand or altering the packaging of the product. We compared their perceptions of performance with firms that used any of the other product strategies or that made no changes.

To test our hypothesized outcomes, we created two dummy variables, *Change Brand* and *Change Packaging*. Firms whose primary product strategy was to change the name of their products or brands were assigned a value of one, while all other firms were coded as zero. Similarly, firms whose primary product strategy was to change the packaging of their products were assigned a value of one; all other firms were coded a zero. Firms

that employed product strategies other than those specified above (including those that pursued no changes) were used as our base.

### *Control Variables*

We included nine control variables taken from previous studies in our analyses: *Firm Size*, *Experience*, *Low Price*, *Target Market*, *Foreign*, *Joint Venture*, *Country*, *Industrial*, and *Consumer & Industrial*. Consistent with earlier studies (Erramilli and Rao 1993; Gatignon and Anderson 1988), *Firm Size* was measured by the number of employees. *Experience* was defined as the number of years that the firm had been exporting products outside its home country (Gatignon and Anderson 1988; Padmanabhan and Cho 1999) and was measured by asking respondents to identify the year in which their firm had first exported.

Drawing upon earlier EMF product strategy research (Aulakh et al. 2000; Brouthers and Xu 2002), *Low Price* was included in our model as a control variable. Firms that identified their primary selling strategy as being a low price provider were coded as a one, while all other firms were coded as a zero. *Target Market*, as evaluated by the ratio of the exports to developed countries (e.g., the U.S., Canada, Japan, and the European Union) divided by total exports, was also included as a control variable since it was found by Brouthers and Xu (2002) to be positively related to export performance.

Prior research suggests that completely or partially foreign owned EMFs have better export performance than domestically owned EMFs (e.g., Hooley et al. 1996). For this reason, we decided to control for foreign ownership. Respondents were asked to identify whether their firm was (1) completely domestically owned, (2) a joint venture involving foreign capital, or (3) completely foreign owned. Two dummy variables were created to indicate the nature of the firm's ownership: *Joint Venture* and *Foreign*. For the *Joint Venture* dummy variable, firms that had partial foreign ownership were coded as one; all other firms were coded as zero. For the *Foreign* dummy variable, firms that were completely foreign owned were coded as one; all other firms were coded as zero.

In addition to the six firm level controls, we included three more dummy variables. *Country* controls for country differences; we coded Chinese firms as a one and Romanian firms as a zero. Also, because prior research (Boddewyn et al. 1986) suggests that consumer products are more likely than industrial products to be adapted, we included two dummy variables, *Industrial* and *Consumer & Industrial*, to control for differences between firms that export industrial products and those that export consumer and both consumer and industrial products. Firms that exported industrial products were coded as a one, while all other firms were coded as a zero. Firms that export both consumer and industrial products were coded as one; all others as zero.

Since our variables were reported from a single respondent, we tested for common methods variance. We expected that common methods variance would be fairly small because in contrast to our dependent variable which is subjective, our independent variables are objective thereby reducing the amount of spurious correlation among the variables in our model. To check this expectation, we tested for common methods variance using a method outlined by Podsakoff and Organ (1986) who suggested that a study may have a problem with common methods if the variables used in that study load on

a single factor that explains a large percentage of the variance. When we performed a factor analysis that included all of the variables used in our model, the unrotated factor matrix consisted of five factors with the largest explaining only 17.54% of the variance. Therefore, we concluded that common methods variance did not appear to be a problem.

## Findings

We initially examined the correlations among the independent variables (Hair et al. 1995) to evaluate if multicollinearity was a problem in our analysis. As shown in Table 1, none of the correlations were unreasonably large. The maximum variance inflation factor (VIF) for our independent variables was 1.808 (for the *Country* variable), which did not exceed the maximum limit of 10 identified by Neter et al. (1996). Based on the low VIF scores of our model, we concluded that multicollinearity was not a problem.

The hierarchical regression models used to test the effect of our control variables (*Country*, *Firm Size*, *Experience*, *Foreign*, *Joint Venture*, *Industrial*, *Consumer & Industrial*, *Target Market*, and *Low Price*) and our variables of interest (*Change Brand* and *Change Packaging*) on our dependent measure (*Satisfaction with Export Performance*) are shown in Table 2. All three models in Table 2 were found to be highly significant ( $p < 0.01$ ).

Model 1 (the control variables model) explained about 19% of the variance of *Satisfaction with Export Performance* ( $R^2 = 0.185$ ; Adj.  $R^2 = 0.109$ ;  $p < 0.01$ ). Four control variables were statistically significant. *Joint Venture* ( $p < 0.01$ ), *Consumer & Industrial* ( $p < 0.05$ ), and *Target Market* ( $p < 0.10$ ) were positively and significantly related to *Satisfaction with Export Performance* while *Low Price* was negatively and significantly ( $p < 0.10$ ) related to export performance satisfaction. *Low Price* was not significantly related to export performance in any subsequent model.

Model 2 adds our first variable of interest, *Change Brand*, to Model 1. Model 2 explained about 28% ( $R^2 = 0.275$ ; Adj.  $R^2 = 0.199$ ;  $p < 0.01$ ) of export performance satisfaction. Similar to Model 1, *Joint Venture* ( $p < 0.01$ ), *Consumer & Industrial* ( $p < 0.01$ ), and *Target Market* ( $p < 0.10$ ) were found to be significantly related to *Satisfaction with Export Performance*. *Foreign* ( $p < 0.05$ ) and *Industrial* ( $p < 0.10$ ) were also found to be positively and significantly related to export performance satisfaction. Most importantly, our independent variable of interest, *Change Brand*, was found to be positively and significantly ( $p < 0.01$ ) related to *Satisfaction with Export Performance*. The R-squared increase (0.090) of Model 2 over Model 1 was significant ( $p < 0.01$ ). Thus, our results support Hypothesis 1; *EMFs that change the name of their products or brands to reflect the local language, on average, have better export performance than EMFs that do not*.

Model 3 adds our second variable of interest, *Change Packaging*, to Model 2. Model 3 explained over 31% of satisfaction with export performance ( $R^2 = 0.312$ ; Adj.  $R^2 = 0.232$ ;  $p < 0.01$ ). Consistent with our earlier models, *Foreign* ( $p < 0.05$ ), *Joint Venture* ( $p < 0.01$ ), *Industrial* ( $p < 0.10$ ), *Consumer & Industrial* ( $p < 0.01$ ), *Target Market* ( $p < 0.10$ ), and *Change Brand* ( $p < 0.01$ ) were all significantly related to export performance satisfaction. Our independent variable of interest, *Change Packaging*, was also found to be positively and significantly ( $p < 0.05$ ) related to *Satisfaction with Export Performance*. The R-squared increase of Model 3 over Model 2 (0.037) was significant ( $p < 0.05$ ). Thus,

Table 1: Correlation matrix

Variable	Perfor- mance	Country	Firm size	Experience	Foreign	Joint venture	Ind.	Cons & ind.	Target market	Low pPrice	Change brand	Change package
Mean	17.41	0.68	288	9.99	0.11	0.19	0.48	0.07	61.73	0.48	0.08	0.14
S.D.	6.06	0.47	209	7.19	0.31	0.39	0.50	0.25	34.63	0.50	0.28	0.35
Performance	1.00											
Country	0.03	1.00										
Firm size	0.13	0.11	1.00									
Experience	0.13	0.14	0.32**	1.00								
Foreign	0.06	0.18	-0.06	-0.21*	1.00							
Joint venture	0.24*	0.18	0.09	0.17	-0.17	1.00						
Industrial	0.01	0.26**	0.32**	0.11	-0.16	-0.03	1.00					
Consumer & industrial	0.12	0.18	-0.08	0.16	-0.09	-0.13	-0.26**	1.00				
Target market	0.17	-0.12	-0.03	0.01	0.12	-0.08	-0.14	-0.03	1.00			
Low price	-0.16	0.45**	0.06	0.25*	0.07	-0.03	0.06	0.12	-0.09	1.00		
Change brand	0.23*	-0.30**	-0.05	-0.09	-0.10	-0.15	-0.23*	-0.08	0.11	-0.23*	1.00	
Change packaging	0.17	0.11	0.09	-0.14	0.11	0.01	0.10	-0.11	-0.01	-0.12	-0.12	1.00

*N* = 106. All variables have no missing values.

\**p* < 0.05; \*\**p* < 0.01

**Table 2:** Hierarchical regression results of peripheral product strategies

Variables	Satisfaction with export performance		
	Model 1	Model 2	Model 3
Intercept	0.00	0.00	0.00
Country	-0.03 (-0.23)	-0.01 (-0.11)	-0.05 (-0.44)
Firm size	0.09 (0.87)	0.07 (0.72)	0.05 (0.47)
Experience	0.09 (0.81)	0.09 (0.87)	0.11 (1.15)
Foreign	0.17 (1.63)	0.24** (2.32)	0.23** (2.29)
Joint venture	0.29*** (2.77)	0.35*** (3.54)	0.36*** (3.71)
Industrial	0.11 (0.94)	0.21* (1.84)	0.21* (1.91)
Consumer & industrial	0.22** (2.08)	0.28*** (2.70)	0.30*** (2.96)
Target market	0.17* (1.83)	0.15* (1.71)	0.15* (1.75)
Low price	-0.19* (-1.76)	-0.14 (-1.34)	-0.10 (-0.95)
Change brand		0.33*** (3.43)	0.36*** (3.76)
Change packaging			0.20** (2.26)
Change in R <sup>2</sup>		0.090***	0.037**
F-value for change in R <sup>2</sup>		11.762***	5.114**
F-value significance		0.001	0.026
R <sup>2</sup>	0.185***	0.275***	0.312***
Adj. R <sup>2</sup>	0.109	0.199	0.232

*N*=106 in all models. For each variable, the reported values are standardized betas with corresponding t-values in parentheses.

\**p*<0.10; \*\**p*<0.05; \*\*\**p*<0.01

Hypothesis 2 was also supported; *EMFs that change the packaging of their products to appear similar to that of the largest domestic supplier, on average, have better export performance than EMFs that do not.*

Finally, we did a *post hoc* analysis of changes in brand name/packaging by industry type. The results are shown in Table 3.

Of the 51 industrial firms, slightly less than 20% changed their brand or packaging. Only one changed its brand while nine changed their packaging. For consumer product firms, over 28% changed their brand or packaging. The changes were much more evenly divided with eight changing their brand names while six changed their packaging. Thus,

**Table 3:** Adaptation of brand name/packaging and industry type

Firm industry type	Number of firms that adapted brand name	Number of firms that adapted packaging	Total number of firms for each industry type
Industrial	1	9	51
Consumer	8	6	48
Industrial & consumer	0	0	7
Total number of firms <sup>a</sup>	9	15	106

<sup>a</sup>A total of 24 firms adapted either their brand name or their packaging.

it appears that firms producing industrial products are much more likely to alter their packaging than change their brand name while consumer product firms are almost evenly divided between changing the brand name and the packaging. We speculate that this finding makes sense given the differences between the two industries with respect to the nature of the buyers. Industrial buyers tend to have much more expertise with respect to the products that they buy so changing the brand name is unlikely to have a major influence on their purchases; however, altering the packaging of the product to support the firms' production processes is more likely to have a greater impact on their purchase decisions. Conversely, consumer purchase decisions may be influenced by changing visual cues (Garber 1995; Veryzer and Hutchinson 1998) like the brand name or the packaging.

## Discussion

We began this study by suggesting that in order to enhance their ability to succeed in new foreign markets, firms need to conform to new institutional norms. To meet this challenge, many firms choose to employ an expensive mimetic isomorphism strategy by adapting their physical products to reflect the successful strategies of host country firms. This approach, though reasonable for MNEs, represents a major challenge for EMFs because of the resource constraints they typically face.

Given their resource constraints, we asked whether there was a way for EMFs to improve export performance by adapting products without dramatically increasing costs. In this study, we combined mimetic isomorphism with the concept of the extended product, theorizing that consumers respond to visible external cues (like brand names and packaging) in making purchase decisions. We hypothesized that by altering such cues (the extended product) to conform to local market norms (mimetic isomorphism), firms can increase their legitimacy, resulting in better export performance.

We tested our two hypothesized strategies on a sample of Chinese and Romanian exporters. We found, as hypothesized, that EMFs that changed their brand name or packaging had higher levels of satisfaction with export performance than those that used other product strategies.

## Limitations and Future Research

This study has a few limitations. First, the sample size used in this study was fairly small (n=106). Because smaller samples make it more difficult to obtain statistically signifi-

cant results, the significant results of this study attest to the theoretical robustness of our proposed strategies. Both of our independent variables were strongly related to export performance. This is because the effect sizes for *Change Brand* ( $b=0.36$ ) and *Change Packaging* ( $b=0.20$ ) were large representing 28.9 and 11.9% of the variance in *Satisfaction with Export Performance* explained by our full model respectively. Therefore, our results are conservative in that they reflect the large effect sizes of our two independent variables rather than the smaller standard errors associated with large samples.

Second, since our sample consisted of Chinese and Romanian firms, the results of our study may not generalize to other emerging markets. Future studies using other emerging market exporters may provide additional support for our two proposed strategies. Additionally, our study examined only exports of manufactured products; additional research is needed to determine whether our strategy of changing the peripheral product to meet local norms will also result in improved export performance for service providers.

Finally, because of the difficulties involved with acquiring objective performance information in China and Romania, we followed the lead of previous scholars (Brouthers et al. 2003; Luo et al. 2001; Nitsch et al. 1996; Woodcock et al. 1994) and used subjective rather than “objective” measures of export performance. Although prior research suggests that objective and subjective measures of export performance are highly correlated (Dess and Robinson 1984; Geringer and Herbert 1991), our preference would have been to demonstrate this by using both types of measures as Shoham (1998) suggests. As China and Romania become more transparent, researchers may be able to obtain reliable, objective measures of export performance. Until this happens, we recommend following Podsakoff et al.’s (2003) recommendations to control for common methods variance.

A variety of other opportunities for future research may be motivated by the results of our study. For example, future studies may want to incorporate the impact of international reputation and/or brand equity. Established firms like Lenovo or Dacia may not need to change their brand names or packaging when entering into new markets. Therefore, future research examining the value of peripheral product attributes may want to include reputation, brand equity and prominence in their assessment of the effectiveness of our combined theoretical approach to improving EMF export performance. By doing so, they may be able to more fully assess the independent influence that adapting these cues has on export performance.

Additionally, though our results suggest that pursuing *either* of our proposed strategies results in higher levels of EMF export performance, a question remains. Does pursuing *both* strategies result in better export performance than pursuing just one strategy or the other? Since no firm in our sample pursued both strategies, future efforts may wish to examine this question. Future research efforts may also wish to evaluate if our findings hold in a longitudinal context.

Finally, the purpose of this paper *was not* to explain export performance but instead, to develop and test a new mimetic isomorphic strategy that would allow EMFs to inexpensively conform to local norms. We asked whether changing visible peripheral product attributes to meet local norms improves EMF export performance. Our results suggest it does. Our model explained over 31% of the variance in export performance satisfaction, an R-squared comparable to other emerging market exporting studies (Brouthers and Xu 2002; Chang and Hong 2000; Peng 2004; Yiu et al. 2005). Our proposed strategies of

changing the brand name or the packaging substantially increased the explanatory power of the model by 49 and 20% respectively. For this reason, future researchers examining the determinants of export performance may wish to incorporate our two strategic variables in their studies.

### Contributions and Managerial Implications

We conclude by making one theoretical and two managerial recommendations. With respect to our theoretical contribution, we combined mimetic isomorphism with the concept of the extended product, theorizing that consumers respond to visible external cues (like brand names and packaging) in making purchase decisions. By altering such cues (the extended product) to conform to local market norms (mimetic isomorphism), firms can increase their legitimacy, resulting in better export performance.

Thus, in this study we combined the theory of mimetic isomorphism with the concept of the extended product to develop a new theoretical perspective that addresses how to adapt extended product attributes in order to improve export performance. The results of this study provide initial empirical support for our proposed theory and shed light on the previously unanswered questions of how EMFs can cost-effectively utilize specific product adaptation strategies to create competitive advantage when exporting to new markets (Calantone et al. 2004; Li and Kozhikode 2008; Schmid and Kotulla 2011; Tantong et al. 2010).

These results enhanced our understanding of the combined theory in two ways. First, we operationalized the concept of external cues in a practical manner and emphasized the importance of adapting such cues to local norms. Second, we demonstrated that such adaptation results in improved export performance. This result provides *prima facie* evidence to support the notion that our new applied theory works; firms that altered brand name or packaging to conform to local markets had better export performance than firms that did not. Thus, our empirical results suggest that firms that adapt the theoretical perspective developed in this study realize improved export performance.

In addition to our theoretical contribution, we make two managerial recommendations. First, EMFs can improve export performance by pursuing two relatively inexpensive peripheral attribute adaptation strategies (i.e., changing the brand name or the packaging of their products to meet local norms), although, as suggested by our *post hoc* analysis, industrial manufacturers might be better served by adapting the packaging rather than the brand name of their products. Second, our results indicate that changing the brand name (as opposed to the packaging) to meet local norms has more than twice the impact on EMF export performance satisfaction (.090 versus .037). Thus, it appears that utilizing a mimetic isomorphic approach to brand names rather than to the packaging has a greater impact on EMF export performance.

Though EMFs are looking for ways to improve their export performance, only 20% of the Chinese firms and 29% of the Romanian firms in our sample pursued either of our proposed peripheral product adaptation strategies. This suggests that the majority of firms in our sample may have been unaware of adapting visible external cues when entering export markets.

Finally, Calantone et al. (2004) suggest that identifying and empirically evaluating performance outcomes of *specific product adaptation strategies* represent an important extension of the product adaptation-standardization literature. Our paper responds to this point by empirically linking both brand name and packaging adaptation (two specific product adaptation strategies) to improved export performance. Therefore, this paper makes meaningful contributions toward augmenting scholarly knowledge about the relationship between product adaptation and export performance.

In closing, this study provides EMF managers with two cost effective product strategies that appear to enhance export performance. Future efforts, by developing and evaluating additional strategies, may be able to provide further guidance to EMF managers as they attempt to determine additional ways to improve their export performance. In this regard, this study is research opening in that it raises more questions than it answers. For instance, do our theory and results have implications for the relationship between mode choice and firm performance? Are firms which invest in foreign cooperation or production to conform to local norms able to reach the same level of performance by following our theory? Can the cost savings resulting from adapting the external cues to conform to local norms be used to develop penetration pricing strategies without affecting profits? Each of these questions provides fertile soil for new research examining how our theory may aid EMFs as they enter new foreign markets through joint ventures and/or wholly-owned subsidiaries and attempt to maintain or perhaps enhance performance.

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