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# Analyzing the Short Term Link between Public Policy Support and Export Performance Improvement: The Importance of the Mediating Effects of Price Strategy

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**ANALYZING THE SHORT TERM LINK BETWEEN PUBLIC POLICY SUPPORT  
AND EXPORT PERFORMANCE IMPROVEMENT:  
THE IMPORTANCE OF THE MEDIATING EFFECTS OF PRICE STRATEGY**

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All the benefits provided by the exporting activity encourage public policy makers to implement export promotion programs with the objective of helping firms improve their strategies and ultimately enhance their performance in the international arena. Surprisingly, this support has often been reported to be inadequately targeted and to have no effect in terms of performance (Gray 1997; Seringhaus and Rosson 1990). In this study we look specifically to the relationship between this export assistance and pricing, because pricing has a powerful and immediate effect on firm's performance (Stöttinger 2001). Furthermore, despite its importance for export managers, most pricing research is conceptual and applied at the domestic market, with pricing being the marketing-mix variable that receives least attention in export marketing research (Myers, Cavusgil and Diamantopoulos 2002; Tzokas et al. 2000).

After testing how pricing strategy adaptation mediates the relationship between export assistance and short-term performance, our research reveals that the total effects of export assistance on export performance are non-significant because although support has a direct positive impact on performance, it also has a negative indirect impact through export pricing strategy. The indirect effect suggests that the firms receiving more export assistance make more effort to adapt their prices, which in turn leads to a worse performance. This situation leads to a non-significant total effect of export assistance on export performance. A possible explanation for this relationship is that managers within these firms might have a false assessment of the external environment and be incapable of implementing price adaptation, and this might lead to a poor performance (Cavusgil and Zou 1994).

Our findings also reveal that the most important indicator of export assistance is management's international experience, which is twice as important as export market competition. In other words, when allocating export support, the European Union, national government and trade associations will give greater emphasis to managerial characteristics than to the level of export market competition. This finding supports the work of some strategy theorists (e.g. McGahan and Porter 1997; Roquebert, Philips and Westfall 1996), who have stressed the importance of firm factors versus industry factors to achieve the desired performance.

With regard to the determinants of price adaptation, both management's international experience and export assistance are found to have a similar positive impact on pricing adaptation. Surprisingly, although export market competition does not *directly* influence pricing adaptation, there is an *indirect* positive impact on pricing adaptation. This indirect impact results from the fact that more export assistance is provided to firms operating in more competitive markets, which in turn leads managers to do more to adapt the pricing strategy to the foreign market. A possible interpretation of this finding is that although managers tend to offer the lowest possible prices, they are aware of the importance of properly adapting their strategy to the foreign market. Consequently, if they receive export assistance they will be tempted to use this support to overcome some of the costs associated with this adaptation and to invest in resources in order to better adapt their strategies.

In addition to providing useful insights into international marketing, this research can aid managers in improving their firm's performance. Our results indicate that firms are more likely to improve their short-term performance if they have more experienced managers. Hence, companies may benefit by hiring managers with experience in international business because these managers will have established networks and a better understanding of the foreign markets. Our findings also indicate that price adaptation has a negative impact on performance improvement. In our study of the Portuguese situation the adaptation of price entails charging higher prices in the foreign market than in the domestic market. This suggests that price standardization is particularly recommended when the domestic market price is lower than competitive prices in the foreign market, and when firms might benefit from a currency advantage to maintain the prices used for the domestic market to the foreign market. Surprisingly, our findings also indicate that firms exporting to more competitive markets tend to perform better, suggesting that managers exporting to these markets are more alert to market opportunities and competitors' threats, and as a result they will perform better.

By better understanding how exporting firms operate, it will also be easier for public policy makers to screen candidates in order to allocate export assistance more effectively. This study shows that a firm's export performance increases with both the degree of management's international experience and the level of export market competition. Hence, public policy makers know that the prospects for achieving better results in a shorter period, and consequently realizing a better allocation of their resources, will increase if they continue to allocate export assistance to the most experienced firms and to firms able to operate in the most competitive markets. Finally, by better understanding the relationship among export assistance, pricing strategy adaptation and short-term performance, public policy makers can avoid being caught in a vicious cycle of successive unsatisfactory allocations of their resources. In particular, when a firm's export performance is not satisfactory because of the strategy used for the foreign market, public policy makers should debate with managers how to break this pattern.

With this research we hope to stimulate researchers to develop future studies that analyze both the antecedents and outcomes of export assistance. It would be interesting for future research to differentiate between pure financial subsidies and more custom-made support, such as setting export promotion trips, management advice, and dedicated market research. This paper also argues that it is *crucial* to develop an in-depth understanding of pricing strategy and short-term performance. Further research might attempt to examine company pricing practice in the foreign market following different perspectives: possibilities include exploring the antecedents and consequences of price competitiveness and different price levels, such as the use of price premium, going-rate and discount pricing strategies. Our short-term results also indicate interesting and surprising features, which might well be suggestive of the potential for further surprising results when a longer horizon is examined.

References are available upon request.

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