# Determinants of Expected Short-term Export Performance Improvement:

# An Empirical Study of Industrial Exporters*

Luis Filipe Lages and Ana Catarina Leal**

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** **Luis Filipe Lages** is Assistant Professor of Marketing and International Business at Universidade Nova de Lisboa, Faculdade de Economia, Campus de Campolide, 1099-032 Lisboa, Portugal. E-mail: lflages@fe.unl.pt; url: prof.fe.unl.pt/~lflages; Telephone: +351.213.801.600; Fax: +351.213.886.073.
**Catarina Leal** is affiliated with Universidade Nova de Lisboa, Faculdade de Economia, Portugal.

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## ABSTRACT

In this research, key determinants of expected short-term export performance improvement are identified. We develop a conceptual framework that incorporates past, current and expected performance, internal and external forces of the firm, and pricing strategy adaptation to the foreign market. The framework is tested via a field survey of industrial exporters. Surprisingly, findings reveal that the effect of firm's commitment to exporting on expected short-term export performance improvement is negative. More importantly, findings indicate that past export intensity has a negative moderating effect on the relationship between export intensity increase and expected short-term export performance improvement. Similarly, the relationship between external market forces and expected short-term export performance improvement is moderated by the level of past export satisfaction. Additionnaly, findings suggest that for a better understanding of the effects of pricing strategy change on export performance, particular attention should be given to the moderating effects of previous experience with past pricing strategies. These and other surprising results have important implications for both public policy and management decision-making, and suggest several potentially fruitful streams for global marketing research of industrial products.


## INTRODUCTION

With the globalization of markets and competition, foreign markets have become increasingly attractive for domestic firms. However, while exporting is now one of the fastest growing economic activities for industrial firms, there is no strong theoretical framework for researching the export activity phenomenon in the context of industrial products. This is even more surprising if we consider that a substantial proportion of industrial products are in fact exported (Tzokas, Hart, Argouslidis and Saren, 2000). Moreover, industrial firms constitute the bulk of economic activities and international business growth (Calantone and Knight 2000). Hence, with the increasing involvement

of industrial firms in foreign markets, we argue that there is an urgent need for research on the role of specific determinants of export performance within this specific context.

Research that analyzes export performance is also of managerial interest as it may provide guidelines for firms reducing costs and dependency on the domestic market, while stabilizing cyclical demand. From the point of view of governments, a better understanding of export performance determinants is also crucial because it allows the accumulation of foreign exchange reserves, enhances societal prosperity and helps national industries to develop, improve productivity and create new jobs (Czinkota, 1994; Katsikeas, Leonidou and Morgan, 2000).

These increasing micro and macro policy concerns with the exporting activity are leading to a growing interest in export performance research (Zou, Taylor and Osland, 1998). As revealed by Katsikeas, Leonidou and Morgan's (2000) recent review of the literature in this topic, only a very limited number of studies use measures of anticipated future export performance. This is somewhat surprising if we consider that, even when using cross-sectional studies, this approach helps to gain insight into the export performance phenomenon while taking into consideration the "time horizon" dimension.

Moreover, another recent review of the top journals in strategy and organizational behavior (March and Sutton, 1997) indicates that performance appeared in 71% of the articles as a dependent variable only, in 12% as an independent variable and in 11% of the studies as a dependent and independent variable. We therefore expect to contribute to the literature by investigating the determinants of anticipated future export performance as well as export performance measures in the role of independent, dependent, and moderating variables. We believe that in several circumstances the

classic model of using performance exclusively as a dependent variable does not provide a complete understanding of the phenomenon studied.[1]

This research also investigates the impact of industrial export pricing strategy on expected short-term performance improvement. We are particularly interested on the short-term effects because when assessing performance, both managers and public policy makers place a high emphasis on short-term factors and are particularly worried about setting annual targets and assessing annual export performance improvement (see Lages and Montgomery 2003; Lages and Lages 2004). It is also essential to do a short-term analysis of the effects of pricing strategy change on expected performance because shifts in competitive price are constant in the marketplace. Additionally, the topic of export pricing strategy adaptation/standardization is particularly interesting, as the majority of the articles have focused on the adaptation/standardization of the other aspects of an international marketing program (Theodisou and Katsikeas 2001, Theodisou and Leonidou, 2003). Furthermore, in industrial markets where professional buyers tend to be more knowledgeable and discerning than their counterparts in retail markets, it is crucial to understand how export pricing strategy affects export performance (Calantone and Knight, 2000). Industrial prices are typically "highly inaccurate" because industrial-market list prices rarely are the ones the buyer pays, as they are subject to discounts, rebates and other allowances (Tzokas, Hart, Argouslidis and Saren, 2000). For the above reasons we believe that research on managerial perceptions of export pricing strategy are particularly relevant.

[1] More specifically, in some cases the predictive efficacy of an independent variable and/or the form of the relationship may vary systematically as a function of some other variable(s). One alternative to the classic validation model proposed by Saunders (1956) in the psychological literature and used increasingly in marketing is the concept of moderator variables. This has been defined as a concept which systematically modifies either the form and/or strength of the relationship between a predictor and a criterion variable (Sharma, Durand and Gur-Arie, 1981).

In sum, in the pages to follow we develop a conceptual framework for export marketing strategy that incorporates past, current and expected performance, internal and export market forces of the firm and pricing strategy adaptation. The framework is then tested via a field survey of industrial exporters. Empirical results are presented and discussed. Implications for public policy makers and managerial practice, limitations of the research and future directions are also considered.

## CONCEPTUAL FRAMEWORK

We begin with a conceptual framework based on research in the fields of strategy, organizational behavior and international marketing. A diagram of this framework is presented in Figure 1. The unit of analysis throughout the discussion is an individual product-market export venture of the firm, involving a specific product in a specific export market. In this section, we begin with a definition of the factors that comprise the conceptual model. We then develop a set of hypotheses regarding the determinants of expected short-term export performance.

### EXPORT PERFORMANCE

In the export marketing literature, researchers have used a wide array of measures to assess export performance. Some reasons justify the use subjective performance measures in this study. Although objective assessments of export performance may be regarded as trustworthy, this type of approach can also raise various measurement problems. First, since samples are often drawn from a heterogeneous population of exporting firms, the researcher -- unlike the manager -- determines the imaginary boundary between success and failure (Styles 1998). Second, some objective measures are difficult to compare across firms due to different accounting practices. Third, export managers might possibly be unwilling to respond openly and effectively to absolute values (Katsikeas, Piercy and Ionnidis 1996). Additionally, both stakeholders and

managers may have different opinions about which operational measures to use when setting targets, making it very difficult to agree on how to use financial measures to assess export performance (Madsen 1998). This explains why the export marketing literature has used mostly subjective measures in determining the manner in which performance is associated with managerial decisions as well as in assessing export performance. Similarly, in this study we will consider both different subjective dimensions of export performance.

***Export intensity level.*** A traditional measure of export performance is export intensity, which refers to the proportion of production output to exports evidenced by the percentage of exports to the firm's total sales volume, revenue and profits. Export intensity is one of the most widely used measures of performance in the literature on international marketing. In fact, a recent meta-analysis of export performance studies indicates that approximately 61% of the reviewed studies have used this measure (Katsikeas, Leonidou, and Morgan 2000). The heavy reliance of previous studies on this measure of performance is due to the fact that company reports and financial statements rarely distinguish between domestic and export markets operations, and rarely provide specific information on the different export ventures (Katsikeas, Piercy and Ionnidis 1996). Since export intensity is a measure of the relative importance of the export venture, it is a better measure of comparability across firms than variables such as total export sales. Consequently, researchers have overcome this problem by asking managers about their perceptions of the importance of the exporting venture to total sales and profitability.

***Export satisfaction level.*** Export satisfaction is defined as a compound psychological variable assessing the effectiveness of a marketing program in terms of its sales, profitability, market share, and overall performance (Lages and Jap 2003).

Satisfaction is the most-studied outcome variable in the marketing literature on interorganizational relationships (see Geyskens, Steenkamp, and Kumar 1999, for a review). One reason for this trend is the fact that performance itself is, in the firm's view, a complex construct. Performance is often idiosyncratic to the firm and setting; success for one company may constitute failure for another. For research purposes, it is often impossible to establish a common definition or fixed reference points across firms.

In our model we included both past export performance satisfaction and past export intensity in a specific year as moderating variables. By using two different approaches (satisfaction and intensity), we expect to be able to capture the degree to which performance has matched the goals and aspiration levels of the firm in the past and to compare it across a variety of exporting firms. In this manner, a boundary line is incorporated from the perspective of the firm and used as a reference point for perceived success and failure in the future.

***Expected short-term export performance improvement***. As mentioned above, only a minor percentage of international marketing studies use measures of expected export performance (Katsikeas, Leonidou and Morgan 2000). In this study by asking managers about the expected short-term performance improvement, managers will be able to report on their expectations of improvement from one year to the next while taking into consideration their own perception of their firm's reference groups. Similarly to export performance intensity, some researchers might also argue that expected export performance improvement does not necessarily imply higher export performance in the current year. However, earlier research reveals that expected short-term export performance improvement is clearly correlated with other short-term export performance measures (Lages and Lages 2004).

By including expected short-term performance improvement in the current year, we expect to be able to capture the impact of both internal and external forces of the firm in the short term (i.e., a one year period). The precedent of the one-year time period has already been established in the literature (Cooper and Kleinschmidt 1985; Kaynak and Kuan 1993; Lages and Lages 2004). In this manner, we are able to isolate the firm's performance in a previous period and the degree to which its performance in the subsequent year has matched its aspirations for that year.

**SHORT-TERM EFFECTS**

The focus on the determinants of expected short-term export performance improvement is important because many firms depend on short-term performance for survival, particularly firms that lack financial resources as well as those operating in markets with low margins (due to a high level of competition or market saturation). There is also a common practice of focusing on expected short-term performance results because quite often they relate to managers' personal income (e.g. salary bonus) and personal interests. Moreover, when performance decreases in any given year, both internal and external publics will consider it a potential threat to the whole organization. Overall, while understanding long-term performance is crucial, it will be extremely difficult for managers to focus on the long-term future if the exporting activities of the firm are not expected to work properly in the short term. And if one considers the long-term failures and successes of the firm a function of its short-term actions, it is clear that understanding the impact of specific actions in the short term can yield valuable insights into improving long-term performance (Lages and Lages 2004; Lages and Montgomery 2004).

## THE CONSEQUENCES OF PRICING STRATEGY ADAPTATION

In this study we analyze export pricing strategy adaptation on expected short-term performance improvement, a field in which limited research has been conducted. The lack of existing research on international pricing strategies can be attributed to the complexity of pricing issues and the widespread reluctance of managers to discuss their pricing strategies (Myers and Cavusgil, 1996). Nevertheless, researchers need to be aware that managers involved in international operations regard pricing strategy as one of their main concerns (Samiee, 1987). Moreover, understanding export pricing strategy standardization is vital because it has a powerful and immediate effect on a firm's performance (Stottinger, 2001), as previously demonstrated by past empirical research (Lages and Montgomery 2003). We present pricing strategy adaptation as the degree to which the pricing strategies (the determination of pricing strategy, credit concessions, price discount policy and margins) for the main exported product, or line of products, differs from the domestic market to the main foreign market. While "increase of pricing strategy adaptation" refers to price change from one year to the following, "past pricing strategy adaptation" refers to pricing strategy in a specific year.

## RESEARCH HYPOTHESES

In this paper we propose that expected short-term performance improvement is influenced by yearly increase of pricing strategy adaptation to the foreign market, yearly increase of export intensity, firm's commitment to exporting, and by three market-forces (export market competition, export market distance and export market development). Moreover, it is proposed that the impact of increase pricing strategy adaptation on expect performance improvement will be lower if the pricing strategy was more adapted in the past. Additionally, it is expected that past performance levels of

satisfaction and export intensity will play a significant moderating role in specific relationships. An overview of the conceptual framework is presented in Figure 1.

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**Insert Figure 1**

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Empirical studies suggest that for export market activities to perform well, industrial firms must set an exporting price that is tailored to the foreign markets. Such is the case of Bilkey's (1987) investigation of US firms, which indicates that export profitability increases for industrial firms as their products' prices are adjusted to the export market. Similarly, Das (1994) found that Indian firms with higher export performance (ratio of export sales to total sales) are more likely to have adapted their prices in foreign markets. Other evidence, however, suggests the opposite effect. Lages and Montgomery (2001) found that standardization of price improves export performance. This assertion might be particularly true if the domestic market price tends to be lower than competitive prices in the export market, or if the exporting firm is able to take advantage of a currency advantage. However, firms tend to increasingly adapt their pricing strategies from one year to the next because of their better understanding of foreign market characteristics, namely better understanding of pricing practices of competitors, differences in exporting costs, price controls, market structures, and purchasing power, financial trade barriers, the costs of production, promotion, and transportation, and margins of distribution channels (Leonidou, Katsikeas and Samiee 2002). This leads us to the first hypothesis:

> *H1a) The greater the increase of pricing strategy adaptation, the greater will be expected short-term export performance improvement.*

While it is logical to expect that the greater the change of pricing adaptation, the higher will be expected short-term performance improvement, further reflection suggests, however, that the level of past pricing strategy adaptation could naturally influence this relationship for the following reasons. Although pricing strategy adaptation should take into account the differences in the politico-legal, economic and socio-cultural characteristics of the host country, pricing strategies may be difficult to adapt because of the need for extra financial and human resources associated with price adaptation. Hence, if past pricing strategy was more adapted, the impact of the increase of adaptation of current pricing strategy on expected short-term export performance improvement will be lower. Moreover, if past pricing strategy was already adapted, the adaptation of pricing strategy will naturally lead to lower marginal increments in expected short-term export performance improvement. Hence, it is expected that

> *H1b) The greater the past pricing strategy adaptation, the weaker will be the relationship between increase of pricing strategy adaptation and expected short-term export performance improvement.*

**THE CONSEQUENCES OF EXPORT INTENSITY**

It is expected that the change in the degree of export intensity is likely to be positively related to expected short-term performance improvement. If the importance of the export operations to overall firm activity increases in a specific period, it is expected that export performance will improve in the following period. If the importance of the export activity increases, the reputation of the export manager and export operations will improve. Both the internal (e.g. employees, union representatives) and external publics (e.g. foreign clients/customers, investors, and credit institutions) will be more likely to react favorably to the export operations, thus facilitating continued performance improvement. Hence, we expect that:

*H2a) Increase of export intensity is positively related to expected short-term export performance improvement.*

However, it is expected that this relationship will be negatively influenced by past export intensity levels. If past export intensity was already higher, the firm increases slack and decreases effort on the exporting operations, which may negatively affect expected short-term performance improvement in the short term. Additionally, there is less room for improvement. Hence,

*H2b) The greater the past export intensity, the weaker will be the relationship between increase of export intensity and expected short-term export performance improvement.*

**THE CONSEQUENCES OF FIRM´S COMMITMENT TO EXPORTING**

The firm's commitment to exporting refers to the degree to which organizational and managerial resources are allocated to exporting ventures. As increasing levels of resources are committed to the exporting venture, the firm is able to improve its planning procedures and to implement more adaptive strategies. The firm's commitment to a particular direction may also enhance employees' feelings of loyalty and duty to the organization, as well as increase clarity in the prioritization of tasks (Wiener and Vardi 1980). When the firm demonstrates a strong commitment to exporting, managers may be more apt to work harder on demanding tasks such as international market research. The firm's commitment to exporting in international markets should also directly influence performance because the firm's commitment will direct greater resources to the task, better enabling the organization to achieve its exporting goals. Tookey's (1964) investigation of British clothing manufacturers was one of the first studies to link the firm's export commitment with export success. Following his work, additional empirical studies have supported this positive relationship (for extensive reviews regarding this relationship see Bilkey 1978; Aaby, and Slater 1989; Zou and Stan 1998).

In general, the more committed the firms, the more successful their performance, as they are more engaged in planning and therefore allocate greater financial and human resources to the export activity (Diamantopoulos and Inglis 1988; Shoham 1999). Hence, we propose that:

> *H3) The firm's commitment to exporting is positively related to the expected short-term export performance improvement.*

**THE CONSEQUENCES OF EXPORT MARKET FORCES**

Two additional external forces included in our model are export market competition and export market development. Export market competition is the extent to which businesses must strive to out do each other to gain the economic rents of that industry. Competition may vary along multiple dimensions, such as the number of competitors, competition in terms of delivery deadlines, and price competitiveness. The strategic imperative of a firm should be to create and sustain superior performance through a competitive advantage in the marketplace (Porter, 1985). Thus, from the perspective of individual firms, the most desirable way to achieve competitive advantage easily would be to operate in a market environment as least competitive as possible. This explains why previous research has found that firms operating in the less competitive markets tend to perform better. According to Bilkey's (1982) study of American exporters, the degree of competition in the industry is negatively correlated with export performance. Similarly, Beamish, Craig and McLellan's (1993) investigation found that for Canadian exporters there was a negative relationship between the degree of competitiveness and export sales growth. Hence, we propose the following hypothesis:

> *H4a) Export market competition is negatively associated with expected short-term export performance improvement.*

Export market development refers to the overall standard of living in the export market, as evidenced by the level of economic development and education levels in that market.

Earlier research on the impact of export market development on export performance yields mixed findings. On the one hand, Sriram and Manu (1995) found that firms that export to developing countries perform better than firms exporting to developed countries, because of the lack of competition in less developed countries. On the other hand, Austin (1990) found that a negative relationship exists between exporting to less developed countries and export success, because of the economic instability associated with those countries. Beamish, Craig, and McLellan's (1993) results complicate the picture even further; they found a positive relationship between less developed countries and export profit performance among Canadian exporters, and a non-significant relationship among British firms. In light of these mixed results, we do not hypothesize the direction of association between the export market development and expected short-term export performance improvement.

> *H5a) The relationship between export market development and expected short-term export performance improvement presents mixed findings (+/-).*

Past export performance satisfaction is expected to be a key moderator of the two previous relationships. Satisfaction with past performance is expected to reinforce export performance improvement in the short-term because performance levels tend to reinforce one another from period to period. This tendency works in two ways. When the export operations perform well, internal publics and external publics are more likely to react favorably to the firm, thus facilitating continued performance improvement (Isen and Baron 1991). On the other hand, poor export performance may negatively influence performance in the next period, as the reputation of both the export operations firm and export management is spoiled by poor performance (Sutton and Callahan 1987). The perception of failure on the part of the different entities interacting with the exporting operations, enhanced by the internal instability, will lead the exporting

department into vicious cycles of "unsuccess" (Masuch 1985). Consequently, it is extremely difficult to change the direction of a "downward spiral," or consecutive decreases in performance (Hackman 1990). Thus, we hypothesize that:

> *H5b) The greater past export performance satisfaction, the stronger will be the relationship between export market competition and expected short-term export performance improvement.*

In this paper we also investigate the impact of geographical distance on expected short-term performance improvement. Although the concept of psychic distance does not simply express objective distances, this concept maps the individually perceived distances between home and target market which affect the way of doing business. Managers are less likely to initiate and/or pursue business relations with countries perceived to be culturally and geographically distant. This explains the strong relationship between objective and psychic distance. Indeed, this is confirmed by the correlation coefficients obtained in previous studies. For example, correlation coefficients using an Austrian sample were clearly high, with 0.45 in a first study (Holzmuller and Kasper 1990, 1991) and 0.33 in a second (Holzmuller and Stottinger 1996). A US data set produced even higher correlation coefficients of 0.51 in Texas and 0.56 in Michigan (Stottinger and Schlegelmilch 1998). Given that the literature on psychic distance strongly points towards its negative impact on export performance, we might infer some implications from this literature to geographical distance. Differences in both legal and ethical standards between distant countries can negatively and significantly affect sales management and personal selling activities. In this study the relationship between export market distance and expected short-term performance improvement is expected to be negative because when exporting to geographically distant markets the firm will tend to incur more risks (Chetty 1999) and higher distribution costs.

*H6a) The higher export market distance, the lower will be the expected short-term export performance improvement.*

However, while it is logical to expect that export market distance and expected short-term performance improvement are negatively related, further reflection suggests that past satisfaction could influence this relationship. It is expected that if managers are satisfied with the past performance satisfaction, geographical distance will be considered less of a problem and, hence, managers will expect higher short-term performance improvement.

*H6b) However, when past export performance satisfaction is higher, the relationship between export market distance and expected short-term export performance improvement will be higher.*

## METHODOLOGY

### THE RESEARCH SETTING

The research setting is the country of Portugal, a member of the European Union (EU). The EU is the world's largest exporter of goods, maintaining a stable share of approximately one fifth of total world exports (intra-EU trade excluded) since 1990 (European Commission 2000). As in many countries in the EU, economic growth in Portugal depends heavily on the exporting success of its firms. Since entering the EU in 1986, the country's export growth has boomed. From 1986-91, the country's exports increased by 9.5% per annum. The most recent data show that since 1993, Portuguese exports have increased by 60% (National Statistics Institute 1999). In fact, exporting is currently viewed as an important means for quickly decreasing the nation's budget deficit (*Financial Times*, October 21, 2002). Collectively, these characteristics indicate that both Portuguese firms and the national government are motivated to develop

successful export marketing strategies in the short term, an ideal context for considering the activities of industrial exporters.

Our focus is on the firm's *main export venture*, primarily because our exploratory interviews in the research context indicated that firms typically develop a marketing strategy only for their main export venture. Many secondary ventures lack defined strategies, or their strategies are defined as a consequence of the main venture. Additionally, this approach involving a single product or product line exported to a single foreign market allows us to associate expected export performance more precisely with its antecedents.

## SURVEY INSTRUMENT DEVELOPMENT

A questionnaire was developed that incorporates a variety of multi-item measures and indicators of the conceptual framework. Also included were additional indicators derived from exploratory interviews in the research context. The firm's commitment to exporting was adapted from Cavusgil and Zou (1994). Past pricing strategy adaptation was influenced by Shoham (1999). Past export intensity was adapted from Kaynak and Kuan (1993), and past export satisfaction was adapted from Shoham (1998). All other scales were developed specifically for this research.

The questionnaire was initially developed in English and then translated into Portuguese. The content and face validity of the items were assessed by four Portuguese judges (university lecturers in marketing); each judge was asked to assess how representative each item was of the final factor. The survey was revised according to their comments and then given to a pretest sample of fifteen managers involved in export operations. The pretest results were used to refine the questionnaire further. In order to avoid translation errors, a different researcher translated the questionnaire into English. A full listing of the final 31 items (in English) and their scale reliabilities can

be found in Appendix 1. Appendix 2 provides an overview of the factor means, standard deviations, and the correlation matrix among the ten factors.

## DATA COLLECTION PROCEDURE

A sample of 500 industrial exporters was randomly generated from a government agency database of Icep-Portugal (1997), which was the most comprehensive and up-to-date available in the Portuguese market at the time of the survey. The pretest results indicated a strong need for an incentive to motivate the respondents to participate. One manager's suggestion was incorporated into the data collection: Respondents would be provided with a list of potential overseas importers or clients in return for a completed survey. The cover letter indicated this incentive. In the first mailing, a cover letter, a questionnaire, and an international postage-paid business reply envelope were sent to the person responsible for exporting in each of the 500 Portuguese firms exporting industrial products. This missive was followed by a second mailing that included a reminder letter and a reply envelope.

The data collection was conducted in the first quarter of 1999. Of the 500 questionnaires sent out to industrial exporters, 103 valid (plus 13 non-valid) questionnaires were returned, a 20.6% response rate. This result is satisfactory, considering that the average upper management domestic survey response rate is between 15% and 20% (Menon, Bharadwaj, Adidam, and Edison 1999). Non-response bias was tested by assessing the differences between the early and late respondents with regard to the means of all the variables (Armstrong and Overton 1977). Early respondents were defined as the first 75% of the returned questionnaires, and the last 25% were considered to be late respondents. These proportions approximate the actual way the questionnaires were returned. No significant differences among the early and late respondents were found, suggesting that response bias was not a significant problem in the study.

*Data and respondents profile.* Industrial exporters from all of the Portuguese regions participated in the survey. The average annual sales of these firms ranged in the millions from €1.5M - €5M, with 10% of the companies having annual sales over €35M, and 6% having more than 500 employees. Around 85% of the respondents reported on industrial export ventures with other European countries, while the remainder occurred with the United States and other non-European countries. The average sales volume of the main export venture ranged from €750,000 - €1.5M.

The survey was directed to individuals who were primarily responsible for exporting operations and activities. The job titles of these individuals ranged from president to marketing director, managing director, or exporting director. 43% of the respondents indicated that they had been responsible for the exporting operations of their firm for 8 to 15 years, while 87% of the respondents ranged from 3 to 30 years of responsibility for the operations. Respondents were also asked to indicate their degree of experience in exporting on a scale where 1=none and 5=substantial. The mean response was 3.6 (sd=.78, range 1 to 5). Collectively, this indicates that although the title of the respondents' positions may be wide-ranging, the individuals appear to have significant knowledge in the specific exporting activities of the firm and are experienced with exporting in general.

## FINDINGS

The data were analyzed by estimating a moderated multiple regression equation. Expected short-term export performance improvement was the dependent variable, while the increase of pricing strategy adaptation, firm's commitment to exporting, export market competition, export market distance, export market development and increase of export intensity were the independent variables. The moderator factors are the past pricing strategy adaptation, past export performance satisfaction and past export

intensity. All variables were entered simultaneously. The results of the multiple regression analysis appear in Table 1.

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**Insert Table 1 About Here**

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H1a predicted a positive relationship between the increase of pricing strategy adaptation and expected short-term export performance improvement. This hypothesis was supported by the data (ß = 0.287, p<.01). H1b predicted that the degree of past pricing strategy adaptation would moderate the effects of increase of pricing strategy adaptation on expected short-term export performance improvement. The results also indicate that the degree of past pricing strategy adaptation does moderate the effects of increase of pricing strategy adaptation on expected short-term export performance improvement (ß= 0.205, p<0.05). Hence, both H1a and H1b are supported.

Similarly there is support for H2a and H2b. The increase of export intensity has a significant positive effect (ß=0.242, p<0.01) on expected short-term export performance improvement and the degree of past export intensity moderates the effects of increase of export intensity on expected short-term export performance improvement (ß =-0.189, p< 0.05).

H3 proposed that the relationship between firm's commitment to exporting and expected short-term export performance improvement would be positive. However, this relationship is not supported by our empirical findings. The main effect of firm's commitment to exporting on expected short-term export performance improvement is significant and negative (ß=-0.261, p<0.01).

Similarly, H4a predicted a negative relationship between export market competition and expected short-term export performance improvement. However, this relationship is not

supported in this study. The interaction between these variables is not statistically significant (ß=0.107, ns). Thus, there is no support for H4a. Similarly, H5a states that there is no consensus about the relationship between export market development and expected short-term export performance improvement. Our findings reveal that this relationship is non-significant (ß=0.086, ns).

H6a predicted a negative relationship between the export market distance and expected short-term export performance improvement. This hypothesis was supported by the data (ß = -0.308, $p<0.01$).

Finally, H4b, H5b and H6b, respectively, propose that the degree of past export performance satisfaction would moderate the effects of export market competition, export market development, and export market distance on expected short-term export performance improvement. We find support for all three of these hypotheses, respectively (ß=0.203, $p<0.01$; ß =0.271, $p<0.01$; ß=0.338, $p<0.01$).

## DISCUSSION

One of the major objectives of this study was to identify factors that explain expected short-term export performance improvement. Eight out of the eleven predicted relationships are statistically significant (see Table1). One of the significant relationships has a sign contrary to the predicted one.

Of particular interest for our discussion are the moderating effects of export performance measures. First, it is interesting to note the negative moderating effect of past export intensity on the relationship between export intensity increase and expected short-term export performance improvement. Our follow-up interviews reveal that managers usually avoid risky situations once the performance of the export operations is high. At this stage, they are more prudent and will expect lower performance improvement. Another possible explanation for this negative effect might be that when

past export intensity is high, the firm increases slack and decreases effort to the exporting operations, which may negatively affect expected short-term export performance improvement. Another explanation for this negative effect includes the possibility that maintaining high levels of export intensity or ambitious performance goals is difficult from year to year. Since the majority of firms in the sample are in medium to high stages of exporting involvement (over 80% of the sampled firms have maintained international operations for more than eight years), these firms may have high goals and expectations for the following year. Consequently, the likelihood of frustration or falling short of expectations increases. At these levels, little room exists for improvement, and more often than not, firms might only diminish or slightly improve their export performance in the short-term. This inability to improve might explain the decrease of expected short-term export performance improvement (Lages and Jap 2003). Second, the moderating effects of past export satisfaction on the relationship between external market forces and expected short-term export performance improvement is also of particular interest. This suggests that when managers are satisfied with the past performance, external issues will not be considered as major and, hence, managers will expect higher short-term performance improvement. Additionally, higher satisfaction with past export performance facilitates the support of the different internal and external publics, leading to "vicious cycles of success", more support and more resources availability from the different entities interacting with the organization. These extra resources, in turn, enable the firm to search broadly for information and to conduct the in-depth analyses of the environment, which will naturally contribute to promote and sustain differential advantage in the most competitive, developed and distant markets.

Also of interest for further discussion are the two unexpected relationships. Surprisingly, our empirical results reveal that the greater the firm's commitment to export, the lower will be the expected short-term export performance improvement. One explanation for this negative relationship might be that more commitment provides better knowledge of export markets, customers and competitors. As a result, the more committed managers will be more realistic and consequently will have lower expectations. Moreover, the most committed managers will have negative expectations, as they will be more frustrated in terms of exporting resources availability than the less committed ones. Nevertheless, the short-term effects of this surprising relationship might be quite different in the long term. Further research is encouraged to test this possibility. Another surprising relationship is the non-significant relationship between export market competition and expected short-term export performance improvement. A possible explanation is that contrary to what occurs with consumer goods (e.g. drinks, food), industrial goods compete more in terms of the augmented product (e.g. service, warranties, specific attributes). Hence, this suggests that the effects of competition will not be noted as much in an industrial context.

## MANAGERIAL AND PUBLIC POLICY IMPLICATIONS

Our findings can assist industrial exporters to better understand the determinants of expected performance. A better understanding of the factors that affect expected short-term export performance improvement is vital, because managers tend to use their own perceptions of performance, rather than objective values, in order to formulate their own decisions. Additionally, since managers' expectations might influence future performance, it is important to manage performance expectations. A short-term analysis is essential because managers may act hastily to solve emerging problems. It is easier to solve problems and react to the market in the short term. A better understanding of

performance expectations in the short-term might also help managers to monitor performance, allowing them to take the short term as a reference point when defining future actions and when allocating resources to specific export ventures.

At the public policy level, expectations are very difficult to control. Although, public policy makers cannot control managerial expectations directly, they might do it indirectly. If public policy makers hold knowledge about the determinants that affect the expected short-term export performance improvement, they may act upon these variables and play a more important role in helping managers to improve their firm's performance. For example, our research findings suggest that firms with a pricing strategy more adapted to the exporting countries have better expected short-term export performance improvement. Public policy makers may provide subsidies as well as information (e.g. marketing research, support data) to support firms in better adapting the pricing strategy adaptation to local customers.

## LIMITATIONS OF THE RESEARCH

Some limitations of the research should be considered. First, the data are not longitudinal. Although we attempt to capture the dynamics of the exporting phenomenon by focusing each question on specific time periods, thus building in a logical progression, the collected data are still cross-sectional. Another limitation is that the data incorporate only the view of one player in the exporting relationship–the exporter–and do not consider views on the other side of the dyad. Such an approach would be particularly difficult if the other side were an individual consumer, as opposed to an organizational customer. The fact that the research context involved only one country, and exclusively industrial exporters, may limit the generalizability of the results to other exporting contexts. Nevertheless, industrial exporters from countries in situations similar to that of Portugal may benefit from the findings. Finally, the survey

methodology may have created common method variance that could have inflated factor relationships. This inflation could be particularly threatening if the respondents were aware of the conceptual framework of interest. However, they were not apprised of the specific purpose of the study, and all of the factor items were separated and mixed so that no respondent should have been able to detect which items were affecting which factors. Hence, the bias of common method variance was partially minimized.

## DIRECTIONS FOR FUTURE RESEARCH

Both the findings and the limitations of this study create opportunities for future research. First, our study reveals that it is important to analyze the determinants of expected short-term export performance improvement and the moderating effects of both export performance variables and pricing strategy adaptation. It is expected with these findings to enhance the quality of empirical research on export performance and to help managers to improve performance. As Lamons (2004) defends: "e*xpectations are, maybe, more important than the products, services and strategy themselves"*. So it is crucial to encourage future research in export marketing to develop models that focus on expected short-term export performance improvement, an increasingly important but understudied area. Also, it is of interest to analyze export performance simultaneously as an independent variable, moderating and dependent variable.

Second, future research should be concerned with exploring the short-time horizon frequently used by managers and public policy makers to make decisions (Madsen 1998). If we consider the long-term failures and successes of the firm as a function of its short-term actions, it is clear that future research should seek to understand short-term performance and its antecedents and effects, because they can yield valuable insights into improving long-term performance (Lages and Lages 2004).

Third, there is an important gap in the literature concerning the analysis of international pricing strategies. This gap is even more surprising since pricing is considered to be a key issue from a managerial perspective. Also, price tends to be regarded as the most important factor of both the exporter and importer. Our study reveals that pricing strategy change has a strong impact on expected export performance and this effect is mediated by past performance levels. So, we encourage future research to try to understand the factors that influence international pricing strategy change and examine its impact on export performance improvement.

Finally, to better understand performance change, much more research is needed on the moderating effects of past performance levels. Similarly, for a better understanding of strategy change and its effects on performance, particular attention should be given to the moderating effects of managerial experience with past strategies. Given the importance of the issues discussed in this paper for industrial managers and export marketing researchers, it is hoped that our investigation will stimulate future research and discussion in the field.

## FIGURE 1

## CONCEPTUAL FRAMEWORK

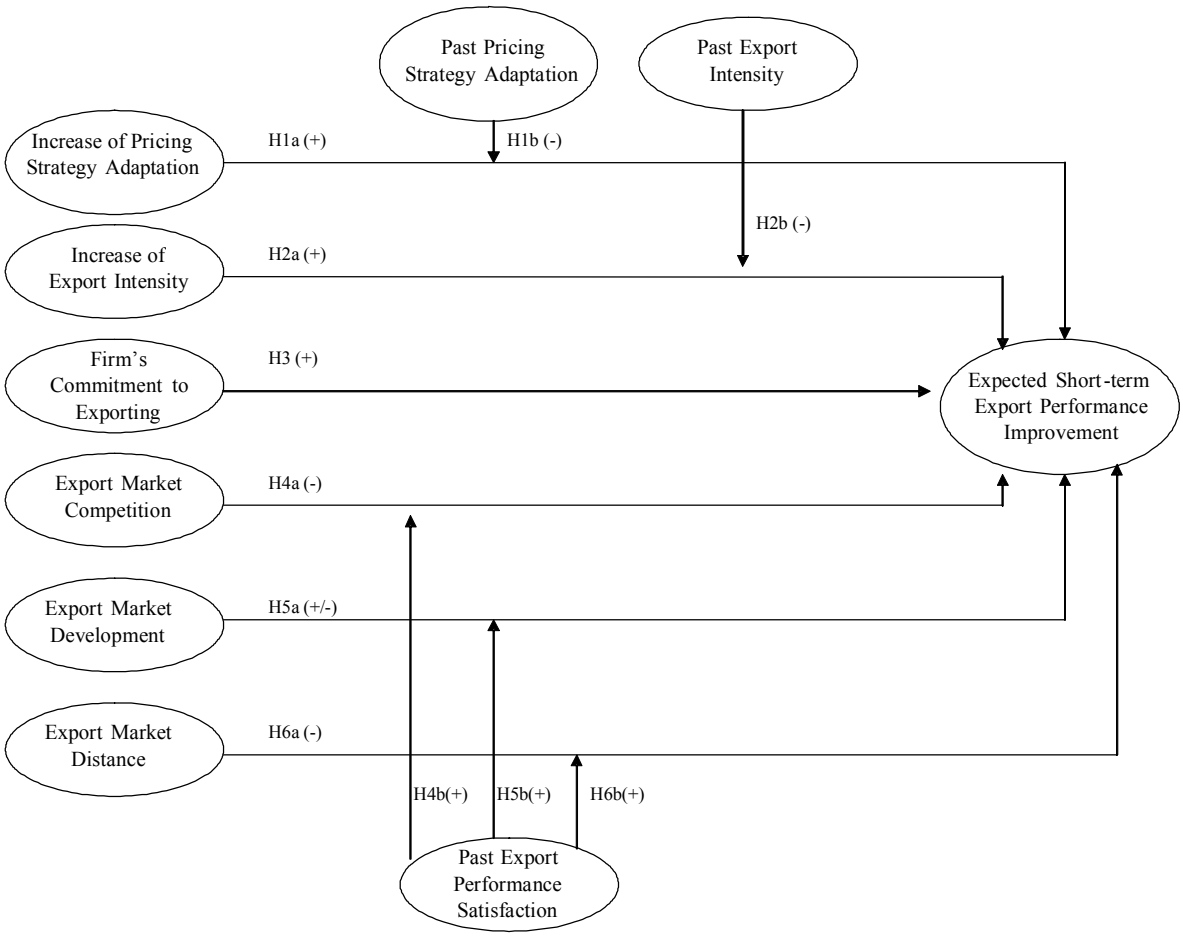

**Table 1**
**Determinants of Expected Short-term Export Performance Improvement**

| Independent Variable | Hypothesized Effect on Expected Short-term Export Performance Improvement | Hypotheses Test | Standardized Regression Coefficient | t value |
|---|---|---|---|---|
| Increase of pricing strategy adaptation | H1a (+) | C | 0.287†† | 2.50 |
| Increase of pricing strategy adaptation x Past pricing strategy adaptation | H1b (-) | C | 0.205† | 1.78 |
| Increase of export intensity | H2a (+) | C | 0.242†† | 2.57 |
| Increase of export intensity x Past export intensity | H2b (-) | C | -0.189† | -1.90 |
| Firm's commitment to exporting | H3 (+) | R | -0.261** | -2.59 |
| Export market competition | H4a (-) | NS | 0.107 | 1.13 |
| Export market competition x Past export performance satisfaction | H4b (+) | C | 0.203† | 2.03 |
| Export market development | H5a (+/-) | NS | 0.086 | 0.87 |
| Export market development x Past export performance satisfaction | H5b (+) | C | 0.271†† | 2.79 |
| Export market distance | H6a (-) | C | -0.308†† | -3.00 |
| Export market distance x Past export performance satisfaction | H6b (+) | C | 0.338†† | 3.23 |

Notes: C= Confirmed; R= Rejected; NS = Non Significant;
Two-tail test: ** $p<0.01$; One-tail test: † $p<0.05$; †† $p<0.01$

## APPENDIX 1
## SCALE ITEMS AND RELIABILITIES

### Independent variables

INCREASE OF PRICING STRATEGY ADAPTATION (α = .83)
**Question:** Regarding your main exporting venture, to what extent were the following factors changed from 1998 to 1999, when comparing the domestic market with the main importing market?
**Scale:** 1=This year (1999) is much more similar between the two markets than it was in 1998; 5=This year (1999) is much more differentiated between the two markets than it was in 1998
Determination of pricing strategy
Concession of credit
Price discounts policy
Margins

INCREASE OF EXPORT INTENSITY (α = .98)
**Question:** With regard to your main export venture, to what extent did the following change from 1997 to 1998?
**Scale:** 1= Large Decrease from 1997 to 1998; 5= Large Increase From 1997 to 1998
Percentage of exporting venture to total sales volume (unit sales)
Percentage of exporting venture to total sales revenue
Percentage of exporting venture to total profitability

FIRM'S COMMITMENT TO EXPORTING (α = .78)
**Question:** Consider the main export venture over the past year (1998). To what extent do you agree or disagree with the following statements?
**Scale:** 1=Strongly Disagree; 5=Strongly Agree
There was substantial planning for this export venture
There was a significant amount of human resources involved in the exporting activity
There was a significant degree of management commitment to exporting
There were more financial resources for exporting than those used for the domestic market

EXPORT MARKET DEVELOPMENT (α = .81)
**Question:** Considering the main export venture over the past year (1998), how would you characterize the following aspects of the export market?
**Scale:** 1=None; 5=Substantial
Degree of country's development
Level of consumer education in the importing country

EXPORT MARKET DISTANCE
**Question:** Please indicate which was, in 1998, your company's main importing country of your main exporting product (or group of products): _____ *(please indicate one country only)*
**Scale:** The distance in *kms* was computed as the difference between Lisbon (Portugal) and the capital of the country.

EXPORT MARKET COMPETITION (α = .74)
**Question:** Considering the main export venture over the past year (1998), how would you characterize the following aspects of the export market?
**Scale:** 1=None; 5=Substantial
Extent of price competition in the industry
Competition in the accomplishment of delivery deadlines
Competition in the industry

## Moderating variables

PAST PRICING STRATEGY ADAPTATION ($\alpha$ = .88)
**Question:** Considering the main exporting venture over the past year (1998). To what extent do the following factors differ in comparing the main exporting market with the domestic market?
**Scale:** 1=No Adaptation at all; 5=Extensive Adaptation
Determination of pricing strategy
Credit concession
Price discounts policy
Margins

PAST EXPORT PERFORMANCE SATISFACTION ($\alpha$ = .94)
**Question:** How satisfied are you with the 1997 results of your main export venture?
**Scale:** 1=Not Satisfied at All; 5=Extremely Satisfied
Export sales volume (unit sales)
Export sales revenue
Export profitability
Market share in the main importing market
Overall export performance

PAST EXPORT INTENSITY ($\alpha$ = .97)
**Question:** With regard to your main export venture in 1997, how do you assess the following?
**Scale:** 0-9%; 10-29%; 30-59%; 60-84%; 85-100%
Percentage of exporting venture to total sales volume (unit sales)
Percentage of exporting venture to total sales revenue
Percentage of exporting venture to total profitability

## Dependent variable

EXPECTED SHORT-TERM EXPORT PERFORMANCE IMPROVEMENT ($\alpha$ = .94)
**Question:** How you expect the results for your main exporting venture to be for the current year (1999)?
**Scale:** 1= Worsen significantly; 5= Improve a lot
Objectives achieved for the main export venture
Satisfaction with main exporting venture

## APPENDIX 2
## MEANS, STANDARD DEVIATIONS AND CORRELATIONS AMONG FACTORS

| Factor | Mean | SD | Min | Max | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 -increase of pricing strategy adaptation | 2.88 | .51 | 1.0 | 4.3 | 1 | | | | | | | | | |
| 2- increase of export intensity | 3.35 | 1.04 | 1.0 | 5.0 | -.126 | 1 | | | | | | | | |
| 3- firm's commitment to exporting | 3.27 | .83 | 1.0 | 5.0 | .138 | .120 | 1 | | | | | | | |
| 4- export market development | 3.69 | .91 | 1.0 | 5.0 | -.026 | .090 | .363 | 1 | | | | | | |
| 5- export market distance (*kms*) | 2351 | 2415 | 502 | 11140 | .254 | .027 | -.049 | -.093 | 1 | | | | | |
| 6- export market competition | 3.91 | .63 | 1.7 | 5.0 | .033 | .143 | .104 | .167 | -.129 | 1 | | | | |
| 7- past pricing strategy adaptation | 2.54 | 1.05 | 1.0 | 5.0 | .230 | .103 | .126 | -.059 | .236 | -.177 | 1 | | | |
| 8- past export performance satisfaction | 2.89 | .70 | 1.0 | 5.0 | -.61 | -.118 | .125 | .164 | -.020 | -.128 | -.106 | 1 | | |
| 9- past export intensity | 2.73 | 1.29 | 1.0 | 5.0 | .139 | -.175 | .522 | .319 | -.040 | .023 | .033 | .239 | 1 | |
| 10- expected short-term export performance improvement | 3.01 | .97 | 1.0 | 5.0 | -.042 | .258 | -.167 | .018 | -.181 | .128 | -.197 | .003 | -.049 | 1 |

All correlations >.170 are significant at $\alpha$=.10, >.235 are significant at $\alpha$=.05, and >.255 are significant at $\alpha$=.01.

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