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When and how managerial ties matter in international competitive strategy, export financial and strategic performance framework

A standardized or customized approach?

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Abstract

Purpose – This study aims to present two new contingent frameworks that hypothesize the moderation role of managerial ties (MTs) in the international competitive strategy-export financial and strategic performance framework. The purposes of this study are to explore whether a common standardized or individual customized conceptualization consisting of MTs, international competitive strategy and performance can be used to achieve export financial and strategic performance; to offer contingent factors for the current international competitive strategy-export performance framework; and to generalize the roles of MTs in the developed vis-à-vis developing region.

Design/methodology/approach – This study uses the experience of 114 exporting firms operating in the European Union region to test its theoretical frameworks. MTs include both business and political ties.

Findings – Business and political ties have completely different moderation effects on the relation between international differentiation/low-cost strategy and export financial/strategic performance. Business ties have a positive influence on the international differentiation strategy-export strategic performance and international low-cost strategy-export financial performance dyads, but a negative effect in the international low-cost strategy-export strategic performance framework. In contrast, political ties are revealed to have a negative effect on the international differentiation/low-cost strategy-export financial performance framework.

Originality/value – This research advances extant international competitive strategy-export performance literature by revealing the bright and dark sides of business ties and the down side of political ties in the framework. Performance should be investigated in terms of financial and strategic performance. The moderation effect of business ties is more complex than that reported in the developing region; thus, a cross-regional generalization on these ties' effects is more difficult to establish. In contrast, the dark side effect of political ties is consistent across developed and developing regions; a cross-regional generalization on these ties is more viable. Collectively, the results show that a

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standardized process for achieving both export financial and export strategic performances is not feasible, while a customized process for each export performance is needed.

Keywords Networking, European Union, Export performance, Developing countries, Contingency theory, International competitive (differentiation and low cost) strategy, Managerial (business and political) ties, Developed vs developing region, Standardization/customization process

Paper type Research paper

Introduction

A differentiation strategy denotes offering a product that customers perceive as unique in the market, where the product is specifically tailored to the needs of each customer, thereby creating high levels of customer loyalty and satisfaction (Porter, 1980; Knight and Cavusgil, 2005). A low-cost strategy occurs when a firm becomes the lowest cost producer competing in the industry in which it operates (Porter, 1985). Firms can achieve superior performance when their product sells at a lower price than rivals in the market (Li and Li, 2008). Though a significant amount of research has been dedicated to competitive business (differentiation and low-cost) strategy and performance in the past decades (Acquaah, 2007; Jusoh and Parnell, 2008), extant research primarily focuses on the direct relationship between international competitive strategy and export performance but fails to consider the contingent framework in the international competitive strategy-export performance dyad (Aulakh *et al.*, 2000; Julien and Ramangalahy, 2003; Knight and Cavusgil, 2005; Namiki, 1988; Murray *et al.*, 2011). The contingency theory suggests that the association between two variables is contingent upon internal and external factors (Zeithaml *et al.*, 1988) and, thus, a firm's performance is an outcome of the subject variables' interactions (Chung *et al.*, 2012). This theory provides guidance on what firms should do, and how they should do it, when the direct effect of an international competitive strategy on export performance is absent. In this study, we argue that the contingency approach can be used as an alternative technique for generating marketing theory in the dyad, especially when the direct effect of international competitive strategy on export performance is lacking (Zeithaml *et al.*, 1988; Chung *et al.*, 2012). Our study explores the contingent effect of managerial ties (MTs) (business and political ties) on the international competitive strategy-export performance framework.

We argue that business and political ties play a different moderation role in the international competitive strategy-performance framework (Acquaah, 2007; Li *et al.*, 2009; Zeithaml *et al.* 1988). A firm's business ties include those with business partners (buyers, suppliers, distributors and competitors) (i.e. business ties; Li *et al.*, 2009), while the political ties include a firm's executive ties with local government officials, including political leaders at various levels of government, officials in industry bureaus and regulatory and supporting organizations (Peng and Luo, 2000; Li *et al.*, 2009; Chung, 2012). By building on the findings established in prior research (Li *et al.*, 2009; Andersson *et al.*, 2002), we propose that business ties have a positive moderation effect on the international competitive strategy-performance, and political ties have a negative interactive effect in this dyad. Furthermore, though extant exporting literature provokes that export performance consists of both financial and strategic aspects (Cavusgil and Zou, 1994; Morgan *et al.*, 2004; Yang *et al.*, 2012; Zou *et al.*, 1998), few international competitive strategy researches have investigated the latter performance in their investigation scope (Namiki, 1988; Aulakh *et al.*, 2000; Julien and Ramangalahy, 2003; Knight and Cavusgil, 2005; Murray *et al.*, 2011). Most of the existing studies focus on the former aspect of export performance, including sales growth and profitability, and conclude that a higher degree of international competitive strategy usually

results in a desirable financial performance. The lack of exploration of strategic performance (e.g. gaining foothold in the market, increasing product and firm awareness and responding to competitions) in the international competitive strategy-export performance investigation is significant, as prior research suggests that financial and strategic performance represent two varied, but correlated, aspects of performance (Zou and Cavusgil, 2002; Zou *et al.*, 1998).

Our study advances the findings concerning the contingent effect of business and political ties on the competitive strategies-performance conceptualization from a developing region (China; Li *et al.*, 2009) to a developed economic setting (i.e. the EU) in the context of exporting. Although these two ties are initially developed in the Chinese context (Peng and Luo, 2000), the functions of these ties have been recently applied to the EU context (Chung, 2012). It is suggested that these ties can also help firms to conduct their export management in the EU region. MTs with the EU businesses can help foreign firms to acquire market intelligence that can enforce their firms' competitive positioning in the EU host market. However, despite this development, recent EU research only focuses on these ties' effects on the factors such as export market orientation (EMO) and export performance. It is still unknown whether MTs can also be applied to other strategic marketing management components in the EU setting. By exploring the contingent functions of MTs in the international competitive strategy-export performance framework in the EU region, our study contributes to the extant literature in three key aspects. First, our new focus may advance the generalization of the underpinned theories for business ties (e.g. the social and organizational networking theories) (Gu *et al.*, 2008; Park and Luo, 2001; Chung, 2011) and the general competitive strategy literature (Li *et al.*, 2009). By comparing and contrasting the function of business ties in a different type of institutional environment (developed vs developing) and performance (financial vs strategic), our study significantly stimulates the theoretical development of business ties and their associated theories (North, 1990; Sheng *et al.*, 2011; Chung, 2012; Boso *et al.*, 2013).

Second, though recent research underlines the undesirable implications of political ties for exporting firms' strategic operation in a host market (Tsang, 1998; Gu *et al.*, 2008; Sheng *et al.*, 2011; Chung, 2011, 2012), empirical findings concerning these ties are still being developed. Acquah (2007) records a positive integrative effect of competitive strategy and political ties on business performance, and Li *et al.* (2009) report a negative influence of this combination on performance. These mixed results indicate that a cross-regional universal finding concerning the effect of political ties in competitive strategy-performance is yet to be established. By examining the influence of political ties in the international competitive strategy-export financial/strategic performance framework, in the context of a developed region, our study helps obtain a cross-regional generalization of these ties' effect on the general competitive strategy-performance dyad.

Last, our study explores whether a standardized or customized framework pertaining to MTs and international competitive strategy should be deployed for export financial and strategic performance. This new approach contributes to the extant international competitive strategy and export management literature by providing new guidance on when and how exporting firms can utilize their MTs to enhance the development of international competitive strategy and, more notably, how these alignments can be used to achieve financial and strategic performance. This new guidance can help exporting firms to better deploy and allocate their resources for their MTs, as well as for international competitive strategies (Namiki, 1988; Aulakh *et al.*, 2000; Salavou and Halikias, 2009).

To achieve the research objectives, we formulate two separated sets of frameworks, one for financial performance (*H1a-H4a*) and another for strategic performance (*H1b-H4b*). These frameworks are depicted in Figure 1. Details concerning the research hypotheses are discussed below.

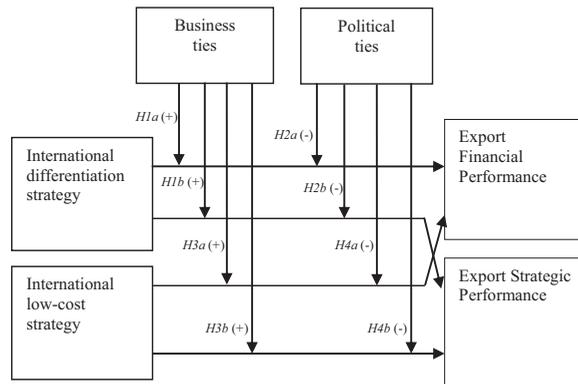


Figure 1.
Conceptual
framework and
research hypotheses

Literature review and research hypotheses

International differentiation strategy, business ties and export financial and strategic performance

The findings of organizational networking theory reveal that the information and resources derived from business networking can assist exporting firms to create a set of international differentiation strategies (Park and Luo, 2001; Chung, 2012). This assistance can enhance the achievement of international differentiation strategy on export financial performance. Existing evidence is based on the relational governance and organizational networking theories and established in the context of developing (Sheng *et al.*, 2011) and developed regions (Chung, 2012). To construct an effective international differentiation strategy, exporting firms operating in the EU region would need to have full knowledge of the current trends of consumption behavior in the host market, and business ties can assist exporting firms to meet this requirement. It is suggested that because of their close contacts with local consumers, business ties can provide information that can truly reflect genuine market situations (Chung, 2012). This critical intelligence can help exporting firms to formulate an international differentiation strategy that can be fully accepted by customers in the markets (Xin and Pearce, 1996; Tsang, 1998; Sheng *et al.*, 2011), thereby obtaining their financial performance objective. For example, a good relation with overseas buyer firms helps exporting firms understand the current and future needs and wants of local customers and stimulate their sales growth and customer loyalty, along with reliable payments. A close relationship with supplier firms can assist exporting firms in obtaining quality materials, good service and on-time delivery (Acquaah, 2007). A close association with competitor firms can also stimulate exporting firms to conduct information exchange, inter-firm collaboration and implicit collusion (Xin and Pearce, 1996; Li *et al.*, 2009). Therefore, the benefits of business ties can help exporting firms in the EU region to establish an international differentiation strategy that can lead to superior financial performance in areas such as sales growth.

Based on a different theoretical conceptualization, the available literature indicates the positive impact of the alignment effect of business ties and international differentiation strategy on export strategic performance in the context of EU. Chung (2012) reports that when operating in an unfamiliar host market, exporting firms operating in the EU region are suggested to use their business ties to help adopt a more active export differentiated strategy, such as EMO. The integration of business ties and EMO is reported to have a positive effect on strategic performance. It is cited that “ties with the business community

provide opportunities for shared learning, the transfer of inside information, and resource exchange to adapt to the unfamiliar market” (Li and Zhou, 2010, p. 858). A strong business tie provides the exporting firm with access to new sources of information and a network that can provide feedback. These supports help exporting firms to formulate an international differentiation strategy that can truly outperform their key competitors operating in the same market. The speed at which information is acquired and disseminated to managers via exporting firms’ business ties is also faster than the information acquired through formal channels (Davies *et al.*, 1995; Sheng *et al.*, 2011). Therefore, via the assistance of business ties, exporting firms operating in the EU region can develop an international differentiation strategy that can be promptly accepted by local customers and can be launched more quickly than their key competitors do. Under this circumstance, the alignment of international differentiation strategy and business ties is likely to result in a superior export strategic performance:

- H1a.* Business ties positively moderate the effect of differentiation on export financial performance.
- H1b.* Business ties positively moderate the effect of differentiation on export strategic performance.

International differentiation strategy, political ties and export financial and strategic performance

Unlike the positive effect of business ties, recent research focusing on political ties mostly agrees that political ties are associated with a number of dark side features that can dampen the effect of international differentiation strategy on export performance (Chung, 2012; Gu *et al.*, 2008; Luo *et al.*, 2008; Sheng *et al.*, 2011). The interactive effect of political ties and international differentiation strategy is likely to have a negative influence on export performance from the EU perspective (Li *et al.*, 2009; Chung, 2012).

The amount of time and resources that are used to develop a firm’s political ties may have a negative impact on the international differentiation strategy formulation and export financial performance. As reported in the literature, the cultivation of political ties is often time-consuming and involves a large amount of resources (Tsang, 1998; Chung, 2012; Park and Luo, 2001; Xin and Pearce, 1996). By devoting a large amount of investment to the development of political ties, exporting firms may have less resources available for their firms’ long-term strategic planning (Luo *et al.*, 2008). This feature has a significant influence on the development of an international differentiation strategy whose success is closely associated with a firm’s long-term resource commitment (Knight and Cavusgil, 2005). Firms need abundant resources for the development of their international differentiation strategy, such as building strong brand names and offering unique product and service features that can create superior value for their local customers. The downside of political ties is echoed by organizational and social networking research. It reported that “as political guanxi takes time and effort to build, developing a strong political guanxi network might draw away effort and resources needed to establish a firm’s competitive strategies” (Chung, 2011, p. 524). Therefore, political ties have a deep requirement in terms of time consumption and resources commitment, which is harmful to the development of an effective differentiation strategy (Li *et al.*, 2009). Consequently, when operating in a highly competitive environment such as the EU region, it is anticipated that the integrative effect of international differentiation strategy and political ties will result in a poor export financial performance (Chung, 2010).

In contrast, the negative contingent influence of political ties in the low-cost strategy-strategic performance framework may relate to another theoretical foundation in the EU setting. The negative impact of political ties on international differentiation strategy is related to the political entities' intention of avoiding being seen to be supportive of foreign firms and the amount of investment needed to develop political ties, as reflected in the research on social networking and differentiation strategy theories. Though having a high level of political ties, exporting firms may still not be able to acquire the most accurate information about the real situation in the EU host markets. This is mainly because political leaders and government officials often try to avoid being accused of supporting foreign firms. Thus, they may be under pressure to create as many barriers as possible for foreign exporting firms operating in the host markets (Boisot and Child, 1996; Li *et al.*, 2009). Under this circumstance, foreign firms operating in the EU area may acquire some unclear or even false information through their political ties. Lacking genuine information can obstruct the formulation of an effective differentiation strategy for the host markets. This downside to political ties has a negative impact on the development of international differentiation strategy as its vital market intelligence is less likely to be circulated. Without genuine market intelligence, the effectiveness of international differentiation strategy will be seriously limited. This political ties' constraint has a profound implication for the achievement of export strategic performance objectives in the EU host markets. An international differentiation strategy that is developed on the basis of false political ties' intelligence is likely to result in an inferior strategic performance because this strategy will not reflect the actual situation in the market. Without accurate and timely intelligence, an international differentiation strategy cannot truly and promptly respond to the challenges that are provoked by key competitive rivals when operating in the EU (Chung, 2012, 2010):

- H2a.* Political ties negatively moderate the effect of differentiation strategy on export financial performance.
- H2b.* Political ties negatively moderate the effect of differentiation strategy on export strategic performance.

International low-cost strategy, business ties and export financial and strategic performance
Studies conducted in the organizational networking domain suggest that business ties provide critical host market information and help obtain scarce resources that are closely related to the international low-cost strategy formulation. This result is important for firms operating in the EU region. Acquaah (2007) confirms that the interaction of managerial business ties and a low-cost competitive strategy has a positive impact on firm performance. Business ties can help firms obtain important low-cost strategy information, such as raw materials, ingredients and methods of manufacturing. Similarly, in a study of business channel networking, Luo *et al.* (2008) also reveal that via executives' ties with external business entities, foreign firms can acquire crucial market intelligence, such as methods for reducing distribution costs and efficient inventory systems. This type of information is critical to the design of an efficient low-cost strategy that can enhance an exporting firm's performance in the host markets. Business ties can help firms collect information that is needed to develop an interfunctional coordination orientation (Chung, 2011). Efficient internal coordination is a critical component for formulating an effective exporting cost leadership strategy. This is in line with recent research postulating the positive relation of the alignment of international low-cost strategy and business ties and financial performance (Chung, 2012; Boso *et al.*, 2013). In the context of EU, business ties are suggested to reduce

the investment of exporting firms when formulating their low-cost strategy for a host market. Business ties can help exporting firms search for a cheaper supply for raw materials and assist them in looking for a more efficient production facility and manufacturing procedure. As a result, the interactive effect of international low-cost strategy and business ties is expected to have a positive effect on export financial performance in the EU region.

However, the rationale behind the conjoint effect of low-cost strategy and business ties on strategic performance is different from that of relating to the financial performance. It is reported that with the assistance of business ties, a firm's low-cost strategy may be accepted by key customers more quickly and earlier than such a strategy from their key competitors (Li *et al.*, 2009; Acquaah, 2007). Research on the benefits of organizational networking suggests that a key advantage of business ties is *legitimacy* (Sheng *et al.*, 2011; Yang *et al.*, 2012). An international low-cost strategy is likely to gain a high level of legitimacy when it is introduced by key business network members with a high extent of credibility and a good reputation (Chung, 2011). Via the recommendation of business ties, an exporting firm can be accepted swiftly as a reliable cost leadership supplier in the EU host market (Chung, 2012). Accordingly, the endorsement from business ties networking in the EU region can help an international low-cost strategy to gain rapid market acceptance, enabling the achievement of key strategic performance objectives, such as awareness creation and the gaining of a foothold in the market:

H3a. Business ties positively moderate the effect of low-cost strategy on export financial performance.

H3b. Business ties positively moderate the effect of low-cost strategy on export strategic performance.

International low-cost strategy, political ties and export financial and strategic performance

One key disadvantage of using political ties to help in the development of an international low-cost strategy is related to the frequent change in political network members (Tsang, 1998; Sheng *et al.*, 2011; Chung, 2011). This key characteristic has implications for the development of an international low-cost strategy and its subsequent influence on export financial performance when conducting business in the EU region. Once an exporting firm habitually relies on its key political contacts to seek the information and resources that are needed in the development of its low-cost strategy, the firm's low-cost leadership development process may be jeopardized when the key contacts in the political networking lose their original position. Losing a key political contact entails that exporting firms will no longer have sufficient information and resources to develop their international low-cost strategy. As political ties are often person-specific and not transferable (Yeung and Tung, 1996), it is difficult for exporting firms to locate another political associate in the network once the original contact is lost. Consequently, the interruption from losing key political contacts in the EU region has a severe impact on the export financial performance because the aggregated investment and commitment on low-cost production equipment and materials may not continue to be recovered in the future (Chung, 2010).

The reliance on key political contacts for assisting the development of international low-cost strategy may have another disadvantage. Relying too much on political contacts for intelligence and resources may reduce the exporting firms' motivation to establish their own low-cost capability (Li, 2005). Research indicates that an exporting firm's incentive to pursue its own cost-related advantage, such as improving production and marketing efficiency,

may be reduced when it relies on favorable treatment from the host government (Luo *et al.*, 2008; Chung, 2011). In the EU, lacking commitment and motivation to develop firms' own know-how and technology will seriously hinder the development of an effective international low-cost strategy. An insufficient investment will significantly compromise exporting firms' cost advantage positioning in the highly competitive EU markets and lead to unsatisfactory financial performance achievement in the EU markets (Li *et al.*, 2009; Cavusgil and Zou, 1994; Lages *et al.*, 2008).

Nevertheless, the dark side of political ties influences the effect of low-cost strategy on strategic performance from a different perspective. A negative effect of political ties is the lack of a common mechanism for long-term cooperation among political networking members (Gu *et al.*, 2008; Sheng *et al.*, 2011). Cross-party tensions and conflicts in the political networking are likely to bring some negative effects to the outcome of the cooperation venture (Fang *et al.*, 2011). Sheng *et al.* (2011) argue that members in the political ties network often have differing interest agendas, and it is difficult to have long-term cooperation within political networks. The government officials' primary interest is focused on developing their political career, while firms in the business communities seek to secure a desirable economic return. Lacking a long-term commitment from network members, it would be difficult for exporting firms in the EU region to use their political ties to enhance the continuous development of their international low-cost strategy. To maintain their strategic cost leadership positioning in the host market, exporting firms would need to keep an ongoing commitment to this strategy's development so that their products are kept away from the competition of key rivals (Zou and Cavusgil, 2002). As a result, lacking a common operational goal prohibits exporting firms operating in the EU region from using their political network to develop such a sustainable and competitive low-cost strategy that can help to achieve their export strategic operational objectives (e.g. responses to competitive pressure).

Moreover, a shortage of mutual compatibility among political network members may influence the effectiveness of international low-cost strategy on export strategic performance in the EU markets (Li *et al.*, 2009; Sheng *et al.*, 2011; Chung, 2012). For instance, exporting firms often intend to adopt market-oriented and efficiency-based strategies that can address the needs of local customers and sidestep competition (Li *et al.*, 2009; Chung, 2012). Yet, this strategy preference may be compromised once firms have heavily sought political ties for assistance because political entities often list their own political career development and other political purposes (e.g. less reliance on foreign imports) more highly than what is really needed in the host market. The incompatibility of the different mindset between parties is likely to disrupt exporting firms' efforts of pursuing cost leadership positioning in the host market (Shleifer and Vishny, 1998; Chung, 2012). Without a mutual mindset in the political networking, the design of an international low-cost strategy cannot be effective as it will not truly reflect the actual needs of local EU customers. An ineffective low-cost strategy will not help exporting firms in the EU region attain key strategic performance goals such as firm and product awareness creation and expansion into other industrial sectors or markets (Chung, 2012; Zou *et al.*, 1998):

- H4a.* Political ties negatively moderate the effect of low-cost strategy on export financial performance.
- H4b.* Political ties negatively moderate the effect of low-cost strategy on export strategic performance.

Research methodology

The postal survey method was adopted to collect the primary research data. A sampling frame of 380 New Zealand firms exporting to the EU region was selected from Kompass and Dun & Bradstreet's business databases. Most of the exporting firms operating in the EU region were listed in these commercial databases. The survey was completed by the executives who were in charge of their firms' exporting business in the EU markets with regard to their most important product in their most important EU host markets. This product-market (i.e. export market venture) practice is widely adopted by research on exporting sectors (Cavusgil and Zou, 1994; Morgan *et al.*, 2004). A total of 114 firms completed the questionnaires, yielding a response rate of around 30 per cent. The study utilized the wave response technique to explore its research non-response bias (Armstrong and Overton, 1977), with no significant differences detected between earlier and late respondent firms in key variables such as export performance, international competitive strategy, MTs, industry and international business experience. The wave response testing technique confirms that this study is free from the non-response bias issue (Knight and Cavusgil, 2005). Moreover, we performed a comparative analysis between our respondents and the non-respondent firms in firm size and international business experience (number of countries operating) variables. To do this, we randomly selected 150 non-respondent firms in the sampling frame and compared their firm size and international business experience with that of our respondents. Our results on both variables showed a non-significant difference between these two groups (firm size: 333 vs 384; international business experience: 15 vs 17). This analysis also supports that our research is free from the non-response bias issue.

This study adopted a number of practices suggested by recent research to reduce the impact of the common bias issue (Podsakoff *et al.*, 2003; Acquah, 2007). First, we adopted the mark variable (MV) technique as suggested by Lindell and Whitney (2001). We followed the guidance that is published in the MTs literature (Sheng *et al.*, 2011) (i.e. selecting the lowest positive correlation between the MV and other variables to adjust the construct correlations and significance level). Our chosen MV is the *technology development intensity* (1 = low intensity; 7 = high intensity), which we adapted from a recent study on channel relationship and export performance (Yang *et al.*, 2012). This variable is suggested to be theoretically unrelated to at least one of the scales in the analysis. As shown in Table II, the adding of the MV does not alter the exiting correlation values or their significance levels. To be more robust, we also used another MV (*publicity and public relations*) and repeated the same analysis process. This extra MV's results were very similar to those related to the technology development of MV variable (for reasons of duplication, this result is not listed in the table). Our MV analyses suggest that the common method bias is unlikely to exist in our study.

Second, we adopted the Harman's (1967) one factor method to explore the common method bias issue by entering all dependent and independent variables simultaneously. The results showed that among the ten factors formulated, the first factor only occupies 28 per cent of the total variance. This result suggests that this study is free from the common method bias issue.

Third, participants were guaranteed that this study is free from any ethical issues, as no individual's identity will be revealed anywhere in the report (Podsakoff *et al.*, 2003). This study also adopted the measurements widely validated by previous empirical research (Peng and Luo, 2000; Li *et al.*, 2009). Last, we conducted a post hoc interview with selected respondent firms to verify the information that was provided by survey respondents (Acquah, 2007). The original information was verified by other key executives of the survey firms and no variations in the information supplied are found.

Measurement

The financial performance is measured by export sales growth in percentages (Johnson and Arunthanes, 1995; Lages *et al.*, 2008). Prior research indicates that a firm's financial performance is better measured as an average over a period of time (Cavusgil and Zou, 1994; Styles, 1998). This practice can help reduce the effect of cross-year variation and can better represent the true export financial performance value. Thus, Cavusgil and Zou (1994) and Styles (1998) estimate their financial performance by using average sales growth over five years, while Chung (2010) assesses the sales growth as the average over a three-year period. Following this method, our sales growth is measured by the average sales growth of an export market venture over a three-year period.

A firm also usually initiates a number of strategic objectives for their operations in a foreign host market (Cavusgil and Zou, 1994). Strategic performance denotes a firm's competitive position in relation to its major rivals (Zou and Cavusgil, 2002). The achievement of a firm's strategic performance is an indication of the extent of strategic competitiveness and positioning in the host market. A high strategic performance achievement facilitates the introduction of new products and brands to the host market. Our strategic performance measurement incorporates gaining a foothold in the market, increased awareness of product/firm and the response to competitive pressure (Cavusgil and Zou, 1994; Styles, 1998; Chung, 2012). Though some researchers critique the appropriateness of these items (e.g. formative vs reflective; Cadogan and Lee, 2013) and others suggest that strategic performance should be in terms of the effectiveness of marketing strategies (distribution, promotion and pricing; Yang *et al.*, 2012), these items are well validated in the empirical research (Styles, 1998; Chung, 2012).

The differentiation strategy is measured by the building of a strong brand name, the offering of superior benefits to customers and the uniqueness of a product/service (1 = strongly disagree, 7 = strongly agree) (Li *et al.*, 2009; Song and Perry, 1997). Four items are used to measure the low-cost strategy; lower manufacturing costs than rivals, an internal operations system that lowers costs of production, economies of scale enabling achieving a cost advantage and achieving a cost leadership position in the industry in the host market (1 = strongly disagree, 7 = strongly agree) (Li *et al.*, 2009; Song and Perry, 1997).

MTs measurements are guided by the practice reported in the social capital and network theory literature (Peng and Luo, 2000; Acquaah, 2007; Chung, 2012). Though these items are initiated in the context of developing economies such as China (Sheng *et al.*, 2011), these measurements are validated by recent studies on firms exporting to the EU region (Chung, 2012). Business ties are estimated by executives' connections and ties with managers in the buyer, supplier, distribution, competitor and some other key firms in the industry in the host market (1 = very little, 7 = very extensive). Political ties are determined by executives' ties with political leaders at various levels of the government, officials in various industrial bureaus and officials in regulatory and supporting organizations, such as tax bureaus, banks and commercial administration bureaus, in the host market (1 = very little, 7 = very extensive) (Chung, 2012).

Firm size, industry sector, international business experience and export market environmental forces are initially included as control variables. However, to meet the parameter-to-observation ratio requirement, the former two variables are not included in the final models because of their insignificant effects in the models, as shown in the Findings section. Firm size is determined by the number of full-time employees (by logarithm), and international business experience is measured by the number of countries operated in. Industry sector is measured by product vs service (1 = product, 0 = service) (Li *et al.*, 2009). Export market environmental forces are measured by contrasting the extent of difference in

the external environments (infrastructure and competition) between the home and host markets (1 = very different, 7 = very similar) (Katsikeas *et al.*, 2006; O'Cass and Julian, 2003; Lages *et al.*, 2008). Details concerning the research measurements and their associated constructs are listed in Table I.

Reliability, validity and statistical analysis method

The research construct reliability and validity is evaluated using confirmatory factor analysis (CFA) and reliability assessment procedures recommended by Hair *et al.* (2010) and prior research (Aulakh *et al.*, 2000). Our results showed that all reliability indices measured by Cronbach's alpha are greater than 0.63, all factor loadings are greater than 0.65 and eigenvalues are greater than 1. These results indicate that the chosen factor items are properly matched to their designated constructs.

We have also utilized the partial least square SEM methods to evaluate the constructs' discriminant validity (Chin, 2010; Julien and Ramangalahy, 2003) due to a smaller sample size. The estimated composite reliability and average variance extracted (AVE) values of all constructs are greater than 0.7 and 0.5, respectively, suggesting high discriminant validity

	Loadings
<i>Strategic performance (1 = not achieved at all; 7 = completely achieved) ($\alpha = 0.90$, variance explained = 84%, eigenvalue = 2.51)</i>	
Gain a foothold in the market	0.85
Increase product/firm awareness	0.94
Respond to competitive pressure	0.90
Expansion to other markets	0.82
<i>Financial Performance</i>	
Sales growth (%)	1.00
<i>International differentiation strategy (1 = strongly disagree; 7 = strongly agree) ($\alpha = 0.63$, variance explained = 58%, eigenvalue = 1.73)</i>	
Build a strong brand name	0.66
Offering superior benefits	0.87
Product/service uniqueness	0.77
<i>International low-cost strategy (1 = strongly disagree; 7 = strongly agree) ($\alpha = 0.83$, variance explained = 66%, eigenvalue = 2.64)</i>	
Lower manufacturing costs than rivals	0.85
International operation system lowers cost of product	0.83
Economies of scale enables achieving of cost advantage	0.89
Achieving a cost leadership position	0.67
<i>Business ties (1 = very little; 7 = very extensive) ($\alpha = 0.86$, variance explained = 65%, eigenvalue = 3.25)</i>	
Managers at buyer firms	0.79
Managers at supplier firms	0.90
Managers at distributor firms	0.70
Managers at competitor firms	0.85
Managers of other key firms	0.77
<i>Political ties (1 = very little; 7 = very extensive) ($\alpha = 0.81$, variance explained = 72%, eigenvalue = 2.16)</i>	
Political leaders in various levels of governments	0.80
Officials in various industrial bureaus	0.89
Officials in regulatory and supporting organizations	0.86

Table I.
Measurement items
and validity
assessment results

among the measures used (Fornell and Larker, 1981). The value of the root square of the AVE of each construct is greater than its correlations with any other constructs in the framework. These outcomes indicate that a high discriminant validity exists within the constructs formulated.

We have used AMOS analysis to conduct our goodness of fit statistics. Our model with business ties, political ties, international low-cost strategy, international differentiation strategy and export strategic performance (i.e. those constructs with multiple items measurement) has a desirable goodness of fit in its statistics: $\chi^2(112) = 153.92$ ($p = 0.0005$), CFI = 0.95, IFI = 0.95, TLI = 0.93, RMSEA = 0.06. Our results are in line with those reported in the relevant literature (Li *et al.*, 2009; Yang *et al.*, 2012)

The correlation coefficient index is listed in Table II. The highest coefficient among the key variables is around 0.5, indicating that this research does not have a multicollinearity issue (Hair *et al.*, 2010). This study has adopted hierarchical regression analysis as the primary statistical analysis method. The interaction terms are conducted using the mean-center technique that is widely suggested in the literature (Aiken and West, 1991; Li *et al.*, 2009; Sheng *et al.*, 2011). The variance inflation factor (VIF) values of the models established in the regression analysis are also significantly lower than the suggested cut-off values (10.0) (our highest VIF is 3.70). These results indicate that the models formulated in the study have no multicollinearity issue (Hair *et al.*, 2010; Li *et al.*, 2009).

Findings

The average size of the respondent firms is around 384 employees. The average number of countries operated in is 17 and the average duration of operation in the host country is 10 years. The most important EU host countries include the UK, Germany, Spain, France, Italy, Ireland, The Netherlands, Switzerland, Finland and Portugal. The sample firms were operating in several industrial sectors, including electronic, communication, equipment, components, food, marine, wood, sporting, software, education and tourism. Around 70

Variables	1	2	3	4	5	6	7	8
Financial performance		0.053	0.227*	0.420**	-0.156	-0.121	-0.128	0.012
Strategic performance	0.062		0.370**	0.122	0.241*	0.258*	0.377**	-0.026
Business ties	0.235*	0.376**		0.540**	0.096	0.168	-0.020	-0.190
Political ties	0.426*	0.131	0.545**		0.142	0.077	-0.079	-0.147
International differentiation strategy	-0.144	0.249*	0.105	0.151		0.263**	-0.06	-0.271*
International low-cost strategy	-0.110	0.265*	0.176	0.086	0.270**		0.314**	-0.229
International business	-0.117	0.384**	-0.010	-0.069	-0.057	0.321**		0.134
Export market environmental forces	0.022	-0.016	-0.179	-0.136	-0.259*	-0.217	0.143	
Technology development (MV) +	0.154	-0.078	0.131	0.237*	0.214	0.017	0.010	-0.122

Notes: Following the suggestion of Lindell and Whitney (2001), our zero-order correlations are displayed below the diagonal and adjusted; correlations for potential common method variance are listed above the diagonal. +: We have conducted another round of the common method bias analysis using another MV (public relation and publicity) (1 = very different; 7 = very similar); and the results are highly consistent with those obtained using the “technology development” MV; * $p < 0.05$; ** $p < 0.01$

Table II.
Correlation coefficient matrix

per cent of respondents were operating in the product sector and 30 per cent of them were operating in the service sector.

As shown in Table III, the interaction of international differentiation strategy and business ties is suggested to have no significant effect on export financial performance ($\beta = 0.223$, $p > 0.1$). This result suggests that *H1a* is not confirmed. The integrative effect of international differentiation strategy and business ties is positively related to export strategic performance ($\beta = 0.289$, $p < 0.05$). This finding lends support to *H1b*. The aligned effect of international differentiation strategy and political ties is significantly and negatively related to export financial performance ($\beta = -0.568$, $p < 0.01$). This result suggests that *H2a* is supported. Nevertheless, the interactive effect of international differentiation strategy and political ties is not significantly associated with strategic export performance ($\beta = -0.131$, $p > 0.1$). This result indicates that *H2b* is not confirmed. The alignment between international low-cost strategy and business ties is indicated to be significantly and positively related to the export financial performance ($\beta = 0.333$, $p < 0.05$). This outcome indicates that *H3a* is also supported. The interactive effect of international low-cost strategy and business ties is confirmed to be significantly, but negatively, related to strategic export performance ($\beta = -0.488$, $p < 0.05$). Thus, *H3b* is refuted because this interactive effect is significant, but its proposed direction needs to be revised (Cavusgil and Zou, 1994; Chung, 2011).

The integration of international low-cost strategy and political ties is suggested to have a negative and significant influence on export financial performance ($\beta = -0.389$, $p < 0.05$).

Independent variables	Financial performance		Strategic performance	
	Main effect-beta (Model 1)	Full model-beta (Model 2)	Main effect-beta (Model 1)	Full model-beta (Model 2)
<i>Control variables+</i>				
International business	-0.062	-0.068	0.334***	0.321***
Export market environmental forces	0.036	0.048	0.095	0.261**
<i>Main variables</i>				
Business ties	0.005	0.016	0.296**	0.209
Political ties	0.387**	0.145	-0.085	-0.108
International differentiation strategy	-0.179	-0.133	0.148	0.176
International low-cost strategy	-0.078	0.005	0.159	0.163
International differentiation strategy \times business ties (<i>H1a</i> , b)		0.223		0.289**
International differentiation \times political ties (<i>H2a</i> , b)		-0.568***		-0.131
International low-cost strategy \times business ties (<i>H3a</i> , b)		0.333**		-0.448**
International low-cost strategy \times political ties (<i>H4a</i> , b)		-0.389**		0.066
<i>F</i> value	2.502**	4.995***	4.308***	4.013***
<i>R</i> ² value	0.221 ($p < 0.01$)	0.505 ($p < 0.01$)	0.291 ($p < 0.01$)	0.405 ($p < 0.05$)
Adjusted <i>R</i> ² value	0.133	0.404	0.223	0.304
ΔR^2 value		0.284		0.114

Notes: +: Initially, we have also included firm size and industry as our control variables. These two variables are not significant in all models, and the inclusion of these two control variables does not increase all hypotheses outcomes. They are not included in the models to meet the parameter-to-observation ratio; * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Table III.
Statistical analysis
results – whole
sample ($n = 114$)

This finding suggests that *H4a* is supported. The interactive effect of international low-cost strategy and political ties is revealed to have no significant effect on strategic export performance ($\beta = 0.066, p > 0.1$), indicating that *H4b* is not supported.

Robustness testing

To ensure that our results are robust, we conducted an additional round of regression robustness analysis. In the robustness analysis, we have randomly selected a sub-sample ($n = 80$). The results of the robustness testing are consistent with the overall sample size results. With the hypotheses examined, the results concerning *H1b*, *H2a*, *H3a*, *H3b* and *H4a* are significant and supported (not listed because of the content length limit). Thus, the robustness results demonstrate that the models established in our study are reliable and consistent (Hair *et al.*, 2010).

Discussion

Research implications and directions for future research

Our study's findings add a new contingent theoretical framework to the existing international competitive strategy and export performance literature (Zeithaml *et al.*, 1988; Chung *et al.*, 2012). This new insight advances those studies that only explore the direct effect of international competitive strategy on export performance (Namiki, 1988; Aulakh *et al.*, 2000; Julien and Ramangalahy, 2003; Knight and Cavusgil, 2005; Murray *et al.*, 2011). Our research reveals that business and political ties can both act as valuable contingent variables in the international competitive strategy-export performance framework when the direct effect of international competitive strategy on export performance is absent (Zeithaml *et al.*, 1988; Chung *et al.*, 2012). Our new theoretical conceptualization provides guidance on when and how these ties enhance (or dampen) the effect of international differentiation/low-cost strategy on export financial and strategic performance (Cavusgil and Zou, 1994; Morgan *et al.*, 2004; Knight and Cavusgil, 2005; Yang *et al.*, 2012).

Our study is among early attempts to reveal the functions of political ties from a developed region perspective (Chung, 2012; Boso *et al.*, 2013). Our results on political ties advance the theoretical conceptualization that is developed in the emerging market region (e.g. China) (Gu *et al.*, 2008; Li *et al.*, 2009; Sheng *et al.*, 2011). This advancement suggests that political ties' effects and their underpinned theoretical foundations (e.g. high resources requirement, lacking genuine information and common mechanism and frequent change of key political contacts) are conclusive across developed and developing regions. As a result, future research could focus on uncovering the dark side effect of political ties in the differentiation/low-cost strategy-financial performance investigation, regardless of whether their target market is located in an emerging or developed region and whether it is operating domestically or internationally (Gu *et al.*, 2008; Li *et al.*, 2009; Chung, 2012).

Similarly, our study also uncovers a positive effect concerning business ties' effects on the international low-cost strategy-export financial performance dyad. This finding progresses the results that have been uncovered in emerging markets (Acquaah, 2007; Li *et al.*, 2009). It is confirmed that the interactive effect of a low-cost strategy and business ties on financial performance can be generalized across developed and developing, and across domestic and international, operations (Li *et al.*, 2009; Park and Luo, 2001). Therefore, it is possible for future research to conduct a comparative research on firms operating in both developing and developed regions by using the same research conceptualization consisting of business ties, low-cost strategy and financial performance.

Nevertheless, our study is among an early group to reveal the negative and positive effects of international differentiation/low-cost strategy and business ties on strategic

performance. These findings suggest that future research should explore the dark and bright side effects of business ties in their investigation on these ties' contingent role in the competitive strategy-strategic performance framework. Because prior investigators have not focused on strategic performance in this conceptualization (Li *et al.*, 2009; Acquaah, 2007), our findings advance existing theoretical foundations by suggesting that future research should include this performance in their research scope. When exploring the competitive strategy-performance framework, it is important for future research to consider business ties' negative and positive contingent effects in the new conceptualization on a diverse set of context (developing vs developed regions and domestic vs international operations) (Li and Li, 2008; Li *et al.*, 2008, 2009).

Furthermore, our study represents an early effort in integrating the standardization/customization concept into the investigation of business/political ties, international competitive strategy and export performance (Chung, 2010; Levitt, 1983; Jain, 1989; Lages *et al.*, 2008). Research provokes a strong correlation between export financial and strategic performance, with some research considering both types of performances as a common construct (Cavusgil and Zou, 1994; Morgan *et al.*, 2004; Yang *et al.*, 2012). By advancing existing theoretical conceptualization, our results show that the conceptualization, relating to business/political ties, international competitive strategy and export performance, for leading to a desirable (or an inferior) export financial and strategic performance is dramatically different among exporting firms operating in the EU region. This suggests that exporting firms would need to adopt a separated and customized framework for each of their financial and strategic performance objectives because no common framework can be concurrently used for achieving both types of performance. As demonstrated below, this pioneering theoretical implication is important for future research on the business/political ties, international competitive strategy and export financial and strategy performance.

Collectively, though the key benefits such as economies of scale and cost-saving advantages are advocated by international standardization approach scholars (Levitt, 1983; Jain, 1989; Lages *et al.*, 2008; Chung, 2010), these benefits may not be realized in the research concerning business/political ties. For instance, it is unlikely when a type of external ties is useful for a framework (e.g. international differentiation strategy \times business ties \rightarrow strategic performance), the same ties can be transferred to another one (e.g. international differentiation strategy \times business ties \rightarrow financial performance). As demonstrated in our study, there is no overlap in terms of the common alignment effect between external ties and international differentiation/low-cost strategy on export financial and strategic performance. This indicates that business and political ties may have their unique functions in shaping international differentiation and low-cost strategy and their ultimate influence on export financial and strategic performance. In light of our results, future research should consider the concept of the standardization/customization process in their international competitive strategy-MTs-export performance framework formulation (Li *et al.*, 2009; Sheng *et al.*, 2011; Chung, 2012; Boso *et al.*, 2013). Particularly, future research should explore the individual roles of business/political ties in each specific performance scenario (e.g. business/political ties \times international competitive strategy \rightarrow export financial and strategic performance) before drawing a conclusion on their cross-scenario generalization.

Managerial implications

Our results suggest that by adequately matching the type of international competitive strategy and business ties, exporting firms' financial and strategic performance in the host market can be significantly enhanced. It is recommended that executives of exporting firms should devote effort to the business community in the host markets. Business ties in this

network can assist exporting firms in the formulation of international differentiation strategy, whereas this interplay has a significant effect on export strategic performance. Export managers adopting an international low-cost strategy should also develop their business ties because this combination can help firms achieve a higher level of export financial performance in the host market.

It is, however, important for export executives to be fully aware of the negative consequences of the MTs when utilizing their functions in the formulation of international competitive strategies. In particular, political ties are suggested to have a negative effect on the relation between international differentiation/low-cost strategy and export financial performance when operating in the EU region. These results are likely related to the high costs associated with establishing and maintaining these types of ties and the difficulty of achieving full cooperation from political networking (Chung, 2011; Tsang, 1998; Gu *et al.*, 2008; Luo *et al.*, 2008; Li *et al.*, 2009; Sheng *et al.*, 2011). Exporting executives should fully realize that the benefits accomplished through political ties are probably not sufficient to justify their deleterious effect in formulating an international differentiation and low-cost strategy. Equally, export executives need to be careful about the adverse effect of business ties (e.g. leaking key manufacturing and production information to business ties members) when they are aligned with an international low-cost strategy. This alignment is suggested to have a negative influence on export strategic performance.

Research limitations

Though it has established a number of new and interesting findings, this research has suffered from several key limitations, including the scope of MTs and the research measures used. Despite this study having explored the functions of two frequently cited MTs (business and political), recent research suggests that other forms of MTs, such as professional and community ties, might also provide a significant effect on the competitive strategy-performance framework (Acquaah, 2007; Geletkanycz and Hambrick, 1997). Thus, it would be worth exploring the function of other types of MTs by using the research settings outlined in this study.

Likewise, the validity of a study's finding is closely related to its sample size (Hair *et al.*, 2010). Because of the focus of our study on exporting firms operating in the EU region only, the availability of our sampling frame is constrained. The validity and reliability of our results can be substantially improved with a larger sample size. Similarly, it is important to evaluate whether the findings of this study can be confirmed by exporting firms operating in other developed regions such as North America and perhaps in emerging markets (e.g. Russia and China) (Geletkanycz and Hambrick, 1997; Batjargal, 2003; Li *et al.*, 2008). Last, though we follow leading literature by measuring our financial performance as an average value over a three-year period (Cavusgil and Zou, 1994; Styles, 1998; Chung, 2010), there is a possibility that the strategy employed in the current year may affect performance more in the following year. A possible remedy for this restraint is to measure the international competitive strategy and export performance by using the same time period statistics – i.e. current year strategy and current year performance (Lages *et al.*, 2008).

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