

# Crafting strategy for international marketing: outside-in or inside-out?

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## Abstract

**Purpose** – Drawing on the resource-based view, dynamic capabilities and exploration literatures, the purpose of this paper is to simultaneously investigate the impact of outside-in (OI) and inside-out (IO) strategic approaches on international strategic performance.

**Design/methodology/approach** – A survey-based quantitative study was used. The final sample consisted of 202 internationally active SBUs of Israeli firms. Data were analyzed using structural equation modelling.

**Findings** – OI approach to strategy enhances international performance more than IO does. OI is antecedent of exploratory marketing capabilities (MCs), while IO is antecedent of exploratory technological capabilities (TCs). The direct positive effect of exploratory MCs on performance is twice as strong as exploratory TCs are. Additionally, exploratory MCs positively impact performance through product adaptation.

**Practical implications** – To enhance international performance, managers should devote attention to an OI approach by incorporating a market orientation with responsive flexibility. Managers should be aware that exploratory MCs are more important in an international context than exploratory TCs are. Stakeholders such as venture capitalists can use the OI-IO model to predict which international venture is more promising.

**Originality/value** – This paper contributes to the international marketing field by shedding light on the OI-IO debate, its transformation into exploratory capabilities and how it relates to the standardization-adaptation debate. New and broad OI-IO's conceptualizations are developed and new viewpoints for understanding how international marketing should work and what motivates firms to adapt are offered. Overall, an OI-IO typology helps to bring order to an otherwise confusing conceptual landscape.

**Keywords** Performance, Adaptation, Strategy, Marketing capabilities, Outside-in, Inside-out

**Paper type** Research paper

## Introduction

Managerial ideologies determine how firms act. Imagine a hypothetical scenario in which Jeff Bezos (Amazon's CEO) and the late Steve Jobs (previously Apple's CEO) sit in a meeting room. Suddenly, a man rushes in, calling out: "Did you hear about the new product Samsung just launched?" Bezos immediately asks: "What are consumers saying about it?" Almost in parallel, Jobs smiles and says, "I don't care. We are going to launch an innovative product soon!" This scenario exemplifies distinct ideologies: outside-in (OI hereunder) and inside-out (IO hereunder). OI proponents are externally oriented and focus on the market. They ask questions such as "What do our customers need?", "What are our competitors doing?" and "What capabilities do we need to win?" and aim to adapt to the market. IO proponents are internally oriented and focus on their unique technology. They deal with questions such as "How can we invent the future?", "How can we make innovative products?" and "What can we do with our capabilities?" They aim to change the market. It appears that although researchers and business leaders are aware of the differences between OI and IO

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perspectives, the literature is missing a theory-based empirical examination of the simultaneous impact of OI and IO strategies on international performance. In light of the above, the core research questions that this study addresses are as follows:

- RQ1. Are OI and IO equally beneficial for international strategic performance (SP)?
- RQ2. What are the dominant capabilities that are derived from OI and IO?
- RQ3. What will be the effects of OI and IO and their subsequent capabilities on the strategic decision of firms to adapt (or not) their products to international markets?

By addressing these questions, this study seeks to contribute to the international performance enhancement literature.

Miles and Snow (1994) stressed that “managerial ideologies create some of the largest barriers many firm face” (p. 81). One can certainly argue that both OI and IO have been used successfully in domestic contexts. However, we argue that there might be differences in international performance between firms with OI- or IO-dominant approaches. The former mainly modifies existing products, which have been successful domestically to international markets; the latter aims to introduce breakthrough innovations in international markets. For OI-based firms, the uncertainty they face is mainly derived from venturing away from home markets (known as marketing risks). However, in the IO case, additional uncertainty is derived from the newness of the technology (known as development risk). Thus, we argue that it matters if international firms craft strategy from OI or IO. Firms that fail internationally might be unaware of the fact that such failures result from the strategic approach they implemented. A review of the strategic management and international marketing literatures reveals several shortcomings limiting our understanding of the OI–IO consequences.

First, Sousa *et al.* (2008) and Chen *et al.* (2016) suggested that despite the advances in international performance research, there is a need to move towards comprehensive frameworks and conceptualizations that explain international performance more comprehensively. Relatedly, Chen *et al.* (2016) recommended to integrate the resource-based view (RBV) with other theories such as dynamic capabilities (DC) to address RBV's shortcoming as static. However, the current literature provides fuzzy OI/IO conceptualizations using terms such as market driven vs driving markets or market vs technology driven, leading to narrow conceptualizations. Some papers were purely theoretic (e.g. Day and Moorman, 2010; Jaworski *et al.*, 2000), whereas others relied on narrow OI and IO foci such as using a binary variable to differentiate OI from IO (Hao and Song, 2016). Importantly, existing research has used bounded conceptualizations built either on strategic orientations (Hortinha *et al.*, 2011) or DC (Wilden and Gudergan, 2014) as OI and IO differentiators. Relatedly, Yalcinkaya *et al.* (2007) called to incorporate a broader range of marketing and technological resources to the study of capability development.

Second, as international performance has become a fundamental goal for many firms, researchers have explored its drivers. Two publications reviewed research on antecedents of international performance. Sousa *et al.* (2008) and Chen *et al.* (2016) identified more than 40 possible determinants. Most were internally oriented including export marketing strategy (e.g. marketing mix), firm characteristics (e.g. orientations and capabilities) and management characteristic (e.g. commitment and innovativeness). While Sousa *et al.* (2008) identified market orientation as an important driver of performance, Chen *et al.* (2016) identified scholarly interest in other strategic orientations as well. Notably, Cadogan (2012) pointed out that matching performance outcomes to strategic orientations should be done with care. He recommended that “when building models of the consequences of strategic orientations, researchers need to decide early on in their theorizing what sort(s) of international performance they are interested in and build theory accordingly” (p. 342). Indeed, according to Katsikeas *et al.* (2016), the most widely used performance measures (e.g. profit and sales) are not always appropriate.

Third, Ketchen *et al.* (2007) noted that mediating variables are often overlooked and that simple resources–performance links lack face validity. In an international context, Morgan (2012) suggested that while resources may be beneficial, firms also need complementary capabilities to deploy resources and drive performance. Recognizing that capabilities are a central driver of performance, scholars have called for examinations of the roles of capabilities as mediators for the strategic orientation–performance relationship (Murray *et al.*, 2011; Chen *et al.*, 2016; Hao and Song, 2016).

Fourth, Asseraf and Shoham (2014) proposed that marketing capabilities (MC) and technological capabilities (TC) affect firms' decisions about the extent to which products should be adapted to meet local needs. This is interesting as only few studies provided theoretical bases to explain why firms choose to standardize or adapt (Schmid and Kotulla, 2011). Thus, studying the effects of OI–IO through MC and TC on product adaptation contributes to the literature that has mostly ignored this line of thinking. This is important as product adaptation is a critical decision in designing international marketing strategies (Buckley *et al.*, 2018) and the relationship between product adaptation and international performance is the most widely researched marketing strategy element (Leonidou *et al.*, 2002).

These limitations of the strategic management and international marketing literature leave gaps in academics' and practitioners' understanding of how OI and IO drive performance. Filling these gaps is important for two reasons. First, as it makes it possible to theoretically understand how to leverage OI and IO through exploratory capabilities. Second, it can provide managers with guidelines as to whether they should leverage OI and IO simultaneously or independently while taking into consideration the trade-offs involved in terms of core capabilities such as exploratory MCs and exploratory TCs. Thus, this paper's core aim is to shed light on a theoretically and practically underexplored phenomenon – the simultaneous impacts of OI and IO on SP. An understanding of OI's and IO's impacts will advance the body of knowledge on firm's international SP.

In sum, our study provides the following contributions. First, we developed a novel, symmetric and integrative model. In parallel, we provide clear conceptualizations for OI- and IO-based approaches in international contexts and test the relative explanatory power of OI and IO with respect to SP using data from 202 senior managers in internationally active Israeli firms. Specifically, we conceptualized OI and IO as matching pairs of strategic orientations and DC. OI comprises market orientation and its matching DC of responsive flexibility, while IO comprises innovation orientation and proactive flexibility. Second, we assessed the impact of OI and IO on a specific and crucial international outcome – international SP, which captures the strategic aspects of international performance. This is important as the long-term strategic nature of this construct is less susceptible to short-term market shifts (Dong *et al.*, 2013). Using SP, a specific outcome, is in line with Katsikeas *et al.*'s (2016) call to avoid operationalizations of performance as an “overall” construct. Third, our OI–IO model allows us to consider exploratory capabilities as crucial action components, which serve as mediators between resources and performance. We argue that OI, which emanates from market knowledge, mainly drives MC. In contrast, IO, which is based on firms' desire to innovate, leads them to develop TC. Finally, this paper is the first to theoretically relate the OI–IO debate with the adaptation–standardization debate. Specifically, we provide a new viewpoint for understanding what motivates firms to adapt products to international markets and answer the call of Chen *et al.* (2016) to consider the mediating effect of export marketing strategies to improve research accuracy.

In sum, the OI–IO model we developed brings order to an otherwise confusing conceptual landscape. Below, we describe the theoretical background and research hypotheses, followed by a discussion of the methodology, findings and their implications. We conclude with research limitations and avenues for future research.

**Theory and hypotheses development***Framework and theory*

OI and IO are under ongoing discussion in the strategy and marketing disciplines and can be described as the “market-oriented” and “technology-oriented” schools of thought. Table I provides examples from studies that have addressed these perspectives under different labels. Jaworski *et al.* (2000) used the term market driven (OI) to mean a business orientation based on understanding and reacting to the preferences and behaviours of market players. In contrast, they argued that driving markets (IO) implies influencing the market and the behaviour of its players in a direction that enhances the position of the firm.

Other scholars have described the OI–IO dichotomy using labels such as market vs resource driven (Agic *et al.*, 2016) or market vs technology driven (Hao and Song, 2016). However, while Agic *et al.* (2016) focussed solely on the market-driven perspective, Hao and

Source	External perspective	Internal perspective	Focus on	Comments
Current study	<i>OI</i> views external market forces, reflected by customers' preferences and competitors' acts, as a starting point to design strategy. Aiming to adapt to the market, <i>OI</i> is reflected by market orientation, which emphasizes analyses of market intelligence and responsive flexibility, which underlies reactions to shifts in the market	<i>IO</i> views distinct internal ability, reflected in products and technology, as a starting point to design strategy. Seeking to change the market, <i>IO</i> is reflected by innovation orientation, which emphasizes a drive towards technological superiority, and proactive flexibility ability, which underlies the use of new methods	OI and IO, exploratory capabilities and international marketing outcomes	Quantitative study, which simultaneously tests both approaches
Jaworski, Kohli and Sahay (2000)	<i>Market driven</i> Learning, understanding and responding to the preferences and behaviours of players within a given market structure	<i>Driving markets</i> Changing the composition and/or roles of players in a market and/or behaviour(s) of players in the market	Market orientation	Theoretical paper
Day and Moorman (2010)	<i>OI strategy</i> Start with the market when designing strategy. View everything a firm does through customers' eyes. What customer value is delivered? With what capabilities?	<i>IO strategy</i> Start internally when designing strategy. What the firm is good at? What are the firm capabilities and offerings? Where the firm can apply its new technology?	Customer value imperatives	Theoretical book. Narrow view of IO as operational perspective
Saeed <i>et al.</i> (2015)	<i>OI orientations</i> Centres on knowledge and resources that reside outside the firm: customers, suppliers and competitors	<i>IO orientations</i> Focusses on firm-specific internal resources and capabilities	Meta-analysis. Focusses on strategic orientations	Limited scope of an OI perspective
Agic <i>et al.</i> (2016)	<i>Market driven</i> Compete on the ability to sense market trends ahead of competitors	<i>Resource driven</i> Start with a firm's internal resources and ask what the market can do for itself	Market driven and marketing capabilities	Focus solely on an OI perspective
Hao and Song (2016)	<i>Market driven</i> Market orientation focussing on customers, competitors and market conditions	<i>Technology driven</i> A focus on R&D activities as the source of future products	Technology-driven strategy	Limited by the use of a binary variable to differentiate market driven from technology driven

**Table I.**  
OI–IO typologies

Song (2016) focussed on technology-driven strategy. Interestingly, Saeed *et al.*'s (2015) meta-analysis concluded that IO's impact on innovation performance exceeded that of OI whilst OI's impact on firm performance was stronger than IO's. Nevertheless, data and scope limitations led these authors to suggest that future research should use an expanded view of OI rather than binary variables.

International marketing scholars have also investigated OI and IO. Hortinha *et al.* (2011) tested the impact of customer and technology orientations on capabilities and export performance. However, their model focussed only on innovation capabilities as mediators between orientations and performance and did not assess key capabilities such as MC or TC as possible mediators. Boso *et al.* (2012) examined the complementary effects of entrepreneurial and market behaviours on performance and concluded that seeking complementarity between orientations is a useful strategy.

Importantly, while several papers investigated different combinations of orientations as representatives of OI and IO, their underlying assumptions have been criticized as overlooking the process through which orientations affect performance. This led Ketchen *et al.* (2007) to emphasize that firms can achieve better performance only with strategic action components that capitalize on their orientations. Similarly, Hao and Song (2016) stated that orientation may affect performance indirectly through intervening variables. In other words, simply assessing a direct orientations–performance link disregards the importance of capabilities. This is a gap since orientations only enhance performance to the extent that they give rise to effective behaviours through capabilities. Accordingly, a few studies recognized that orientations affect performance indirectly with capabilities as mediators. Murray *et al.* (2011) focussed on MC as an actionable concept between market orientation and export performance. Likewise, Hao and Song (2016) examined how capabilities mediate the effect of technology-driven strategy on performance.

The exploration and exploitation literature suggest a different perspective on the strategic direction firms take to enhance performance (Hortinha *et al.*, 2011). Exploitation capability relates to a focus on existing markets, existing technology/products, short-term orientation and relatively low levels of uncertainty risk. The consequence is incremental innovations. In contrast, exploration means developing new competences (Danneels, 2008). Accordingly, exploration capabilities relate to a focus on new markets, new technologies/products, long-term orientation and high levels of uncertainty/risk. The result is breakthrough innovations. Recent research demonstrates mixed results regarding the impact of exploitation and exploration on international performance. Building on the DC perspective, Yalcinkaya *et al.* (2007) investigated how marketing and technology resources convert into exploitation and exploration capabilities, respectively. Interestingly, they found that exploration was related to product innovation and performance, whereas exploitation was negatively related to product innovation and did not impact performance. Hortinha *et al.* (2011) found that in general, customer orientation is more important when developing exploitative innovation while technology orientation is more important when developing exploration innovation. In contrast to Yalcinkaya *et al.* (2007) and Hortinha *et al.* (2011), Lisboa *et al.* (2013) found that exploitation was positively related to export performance, while exploration was negatively related to export performance. However, in their moderation analysis they revealed that in volatile environments, exploration enhances export performance. These complex findings led them to call for new research to examine the impact of additional exploration capabilities such as marketing and technology on export performance. Similarly, Hortinha *et al.* (2011) called researchers to investigate the trade-off between customer and technology orientations as they lead to different types of exploratory innovation. Following these calls and the findings of Yalcinkaya *et al.* (2007) regarding the superiority of exploratory capabilities in relation to performance, we focussed on the relations between OI–IO and exploratory MC (the ability to explore new markets) and

exploratory TC (the ability to explore new technologies). In sum, an examination of coexistence of OI and IO with exploratory MC/TC as action mechanisms can help identify which approach is more beneficial for international performance (Figure 1).

Finally, Katsikeas *et al.* (2016) argued that studying a distinct aspect of performance is more appropriate than measuring a latent global variable because it makes research more coherent. We chose SP as our performance outcome for several reasons. First, the long-term strategic nature of SP is less susceptible to short-term fluctuations (Dong *et al.*, 2013). Second, our research deals with strategic approaches that set the directions firms pursue in international markets. These approaches sometimes persist for decades after firms' founding (Boeker, 1989). Hence, given our emphasis on directions that might be rooted in the past but impact future payoffs, SP's long-term view was favoured. Third, SP is based on capturing the strategic outcome of exporting (Zou *et al.*, 1998). The notion is that firms should have a set of strategic goals (e.g. market share) beyond mostly shorter-term financial ones.

*Conceptualizing OI and IO*

Using RBV as a theoretical lens, we view OI and IO as bundles of two resources. The first includes strategic orientations, high-level resources that reflect firms' willingness to act in a certain way. The second includes DCs, less-abstract resources that reflect ability to act in the chosen direction. Metaphorically, we see orientations as roads firms choose to drive on and DCs as the vehicles they use. These conceptualizations are more integrative than using solely orientations as representations of OI and IO. Our approach answers Murray *et al.*'s (2011) call for future research that should capture the domain of such constructs with richer and more detailed items. It is also in line with the recognition that firms' performance depends on possessing a given resource and on how that resource is deployed (Doyle and Armenakyan, 2014; Hult *et al.*, 2003). We represent OI by market orientation and by the DC responsive flexibility, which refers to a readiness to adapt quickly to market shifts. IO is represented by innovation orientation, and by the DC proactive flexibility, which refers to movement towards change. This view of OI and IO follows Hult and Ketchen (2001) and Hult *et al.* (2003), who combined four first-order constructs (market orientation, innovativeness, organizational learning and entrepreneurship) into a high-order concept. Notably, they used the terms capabilities and orientations interchangeably. Such joining of orientations and capabilities under a high-order concept follows Barney and Clark's (2007) view of RBV (p. 250): "that this theory is called 'Resource-based' is something of an historical accident. It could as easily have

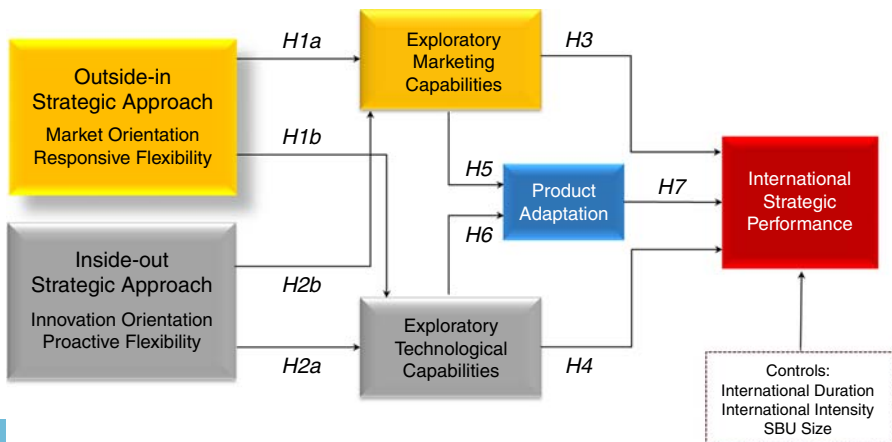


Figure 1. Research model



been called ‘capability-based’ or ‘competence-based’ – the underlying theory would have remained the same”. Our OI-IO conceptualizations answer Hult and Ketchen’s (2001) call to investigate the potential intricacies of the relationships within their four components. In addition, by matching orientations and DCs, we follow Teece’s (2007) view that DCs are extensions of firms’ resource base. This conceptualization enabled us to test the unique pathways through which OI and IO are developed into MC/TC. Moreover, Day and Moorman (2010) argued that OI is a natural evolution of market orientation. However, they noted that it is not sufficient to design strategy from the market’s vantage point. It takes investments in market intelligence and a commitment to act on the resulting market insights. Similarly, IO can be viewed as a natural broadening of innovation orientation requiring firms to act on the resulting technology. Thus, following scholars’ viewpoint that there is a need to go beyond orientation for representing OI and IO, we developed integrative conceptualizations for both based on the notion that both require two components which reflect the willingness and readiness to act in a certain way. In sum, we distinguished OI from IO and matched each orientation with its complimentary DC.

### *OI strategic approach*

OI focusses on identifying and answering customers’ needs and competitors’ activities. We posit that OI followers view external market forces, reflected by customers’ preferences and competitors’ acts, as starting points for designing strategy. Aiming to adapt to the market, OI is reflected by market orientation, which emphasizes analyses of market information, and responsive flexibility, which underlies reactions to market shifts. Campbell Soup’s entry into Russia exemplifies the need of OI to emphasize market orientation and responsive flexibility capability. For example, Campbell soups identified an opportunity in Russia given that Russians consume 32bn bowls of soup a year vs only 14bn in the USA (Jargon, 2011). However, Russians like to make their soup themselves. Thus, many did not buy Campbell’s soups and sales did not fare as well as the company hoped. Campbell failed to react to these signals and exited the Russian market after four years.

*Market orientation.* Market-oriented firms generate and disseminate market intelligence about customers and competitors. Murray *et al.* (2011) found that a market orientation enables firms to develop different MCs. Day (2011) noted that market orientation shifts a firm towards OI by making market sensing and customer linking into distinctive capabilities. Finally, Doyle and Armenakyan’s (2014) meta-analysis confirmed that market orientation is related to MC.

*Responsive flexibility.* Since markets are dynamic, firms need to frequently adapt strategies and competencies. Strategic flexibility, which we term responsive flexibility as it mainly deals with reaction to markets, denotes firms’ ability to respond to changing environments (Sanchez, 1995). Flexible firms can rapidly identify market changes and respond (Shimizu and Hitt, 2004). Thus, OI firms gather information about customers and competitors and develop the ability to react to changes such as entry of new competitors and shifts in customer preferences. Accordingly, OI should lead firms to develop exploratory MC such as assessing the potential of new markets, building relationships in new markets and studying new competitors and customers. Additionally, the external focus of OI should not affect TC as the collection of information is more general rather than being specific to technology.

Research has linked OI behaviour to MC. For example, Morgan *et al.*’s (2009) findings support Ketchen *et al.*’s (2007) viewpoint that orientations are only potential assets and indicate that market-based resources require complementary MC. Moreover, they emphasized that firms’ ability to respond to market intelligence is a key determinant of the firm’s performance. Similarly, Theodosiou *et al.* (2012) stated that the process of

implementing a market orientation-based behaviour facilitates the development of MC. Morgan (2012) noted that marketing resources are assets, which when transformed by MCs can lead to superior performance. Extending this view, Saeed *et al.* (2015) noted that OI's focus on the external environment enables firms to generate knowledge about customer needs, anticipate market requirements ahead of competitors and develop relationships with customers.

Arguably, OI can also enhance firms' TC as greater market knowledge empowered with strategic flexibility can lead firms to focus on relevant new technologies. While we do not ignore such a possibility, we believe that the external focus of OI will better guide MCs which are also external posture. It should do so to a higher degree than TC, which is an internal-resource-oriented posture less guided by market considerations (Agic *et al.*, 2016; Day, 1994). This line of thinking follows Day's (1994) capabilities' classification, namely, MC under OI external emphasis and TC under IO internal emphasis (see Figure 2 in the original paper).

In sum, we advance this stream of research by linking OI specifically to exploratory MC. Thus, we follow Yalcinkaya *et al.*'s (2007) call to incorporate a broader range of marketing and technological resources to the study of capabilities. In sum:

- H1. OI has a (a) strong positive influence on exploratory MC and (b) weaker influence on exploratory TC.

#### *IO strategic approach*

IO emphasizes internal competencies. Rather than watching competitors and customers, IO firms seek to understand what they excel in and utilize it. Thus, IO views distinct internal ability, reflected in products and technology, as a starting point to craft strategy. Seeking to change the market, IO is reflected by innovation orientation, which emphasizes a drive towards technological superiority, and proactive flexibility ability, which underlies the use of new methods. Tesla's electric car business provides an example for an IO approach. Elon Musk's (Tesla's CEO) aim is to revolutionize the car industry. Accordingly, Tesla implemented an innovation orientation as reflected by its creativity, risk-taking and forward-looking actions. Along this orientation, Tesla implemented a proactive flexibility capability, by skipping the conventional USA's dealer model and selling a highly differentiated car directly to customers in its own branded stores (Agassi, 2013).

*Innovation orientation.* Originally, innovation was associated with product leadership and was termed product or technology orientation (Grinstein, 2008). These terms refer to a fundamental drive to introduce new technologies. Thus, innovation orientation focusses on creativity, openness to change, foresight, proactiveness and risk-taking as key success factors. However, while innovation may be based on customer needs, scholars use the term to denote investment in new technologies. Therefore, innovative firms have been defined in terms of their technological superiority. Siguaw *et al.* (2006) criticized the narrow focus of the innovation literature on R&D and noted that performance relies more on an overall firm-level innovation orientation and less on specific innovations. Likewise, Shoham *et al.* (2012) found that innovation orientation enhances innovation performance. In sum, an innovation environment encourages experimentation using new technologies, which implies a TC emphasis.

*Proactive flexibility.* Resistance to change may reflect fear of the unknown, or a desire to adhere to old ways of working. "An organization of some size and age rests on layer upon layer of impacted knowledge and experience, encapsulated in routines" (Rumelt, 2011, p. 202). Such routines could lead to adherence to the familiar (inertia). Proactive flexibility combats inertia as it drives firms to introduce new methods and policies. Hence, innovation orientation and proactive flexibility are internal foci which emphasize the ability to capture technological opportunities early.



Research has linked IO to TC. For example, Hao and Song (2016) found that technology-driven strategy was positively related to TC. These findings are in line with Hsu *et al.*'s (2014) finding that technology orientation had a positive impact on TC and that TC mediated the technology orientation–performance relationship. In a similar vein, Saeed *et al.* (2015) found that IO has a stronger impact on innovation performance than OI. From a marketing perspective, Hortinha *et al.* (2011) found that the impact of technology orientation on exploratory innovation was positive and stronger than its impact on exploitive innovation. Accordingly, we posit that IO should lead firms to develop exploratory TC such as identifying and assessing new technologies. The situation is different for IO and MC. Here, as IO firms seek to change the market by introducing novel technologies, in many instances less emphasis is placed on customers and competition, which leads to a higher investment in TC and less so in MC. Indeed, Hao and Song (2016) found that technology-driven strategy was negatively related to MC. In sum:

H2. IO has (a) a strong positive influence on exploratory TC and (b) weaker influence on exploratory MC.

### *Exploratory MC*

MC's impact on performance has been the focus of past research. Drawing on RBV, Krasnikov and Jayachandran (2008) argued that MCs represent the ability to understand and predict customer's need better than competitors. In line with Vorhies and Morgan's (2005) finding that MC leads to superior performance, they found that MC had a greater impact on performance than R&D and operation capabilities did. Interestingly, Wilden and Gudergan (2014) found that MC is especially relevant in highly competitive environments. In an international context and anchored in the theory of competitive advantage, Tan and Sousa's (2015, p. 95) meta-analysis confirmed that "MC are powerful tools that can directly lead to export performance". According to them, firms should develop MC first, which will help them deliver superior products leading to superior performance. Relatedly, Danneels (2008) investigated the role of exploratory MC and found that firms with such capability can enter new market effectively while other firms are bound to current markets. Taking it together, capabilities enable firms to perform value-creating tasks effectively (Krasnikov and Jayachandran, 2008). Moreover, since international environments are highly uncertain, the positive role of exploratory MC should be especially crucial for achieving SP in terms of competitiveness, market share and strategic position. Thus:

H3. Exploratory MC and SP are positively related.

### *Exploratory TC*

Teece *et al.* (1997) referred to TC as the ability to develop new products and processes. Similarly, Krasnikov and Jayachandran (2008) used the term R&D capabilities to describe the processes that enable firms to invent new technologies. Notably, the common factor across TC/R&D conceptualizations is a focus on newness: developing new methods of production and new technologies. Importantly, markets reward strong TC, leading firms to treat TC as a core competency. For example, Krasnikov and Jayachandran (2008) meta-analysis found that the impact of R&D capability was positive. Likewise, Hao and Song (2016) documented a positive relationship between TC and firms' profits. The relationship is stronger in competitively stable environments than in highly competitive environments (Wilden and Gudergan, 2014). In an international marketing context, Eisend *et al.* (2016) investigated the differential effects of TC and MC as drivers of new product performance. They found that TC's impact is stronger in high- vs low-growth countries. Finally, based on

DC theory, Danneels (2008) documented the importance of exploratory TC, which he referred to as R&D competency – the ability to explore new technologies. In sum, in line with RBV/DC theories, exploratory TC is a source to leverage an IO approach; hence, it should play a key role in bringing innovations to markets (Hsu *et al.*, 2014). Hence, we hypothesize:

H4. Exploratory TC and SP are positively related.

#### *Product ADP*

Proponents of standardization (STD) and of adaptation (ADP) have been debating the benefits of each approach. While STD proponents emphasize economies of scale and consistent positioning, proponents of ADP emphasize accurate positioning and price discrimination. Schmid and Kotulla (2011) conducted a systematic analysis of the STD/ADP literature and found that only 5 per cent of the articles investigated why firms preferred to implement STD or ADP. Moreover, only four papers provided theoretical explanations as to why firms tend to standardize or adapt. Thus, they noted that more research is needed for understanding the decision to standardize or adapt.

Ryans *et al.* (2003) argued that studies should examine the degrees of STD/ADP along each dimension of international marketing strategy (Lages *et al.*, 2008). Likewise, Griffith (2010) argued for studying elements of the 4Ps separately. For example, Hultman *et al.* (2011) focussed only on the promotional adaptation dimension. Following this logic, we focus on the dimension deemed most relevant to our research context. Given our emphasis on OI–IO, we included the product dimension, which refers to the degree to which firms standardize or adapt products to customers' tastes (Griffith, 2010).

After developing MC and TC, the question arises as to how firms intend to compete in their target markets (Day and Wensley, 1988). Asseraf and Shoham (2014) proposed that MC, derived from OI, should encourage firms to pursue product ADP. This follows the recognition that high-MC firms gain detailed market knowledge and identify new needs, which will lead them to adapt their products. Similarly, Day and Moorman (2010) argued that firms need an OI viewpoint, which provides an optimal balance between global reach and local presence. OI helps firms to adapt in areas, which are important to local customers. Hence:

H5. Exploratory MC and product ADP are positively related.

Lages *et al.* (2008) proposed that firms' focus on technical aspects instead of consumer aspects and high cost of adaptation are favour standardization. Since exploratory TCs lead firms towards riskier and costlier new technologies (at least short term), high exploratory TC firms would prefer standardization or limited adaptation based on changes of only necessarily legal aspects of the products. Additionally, Asseraf and Shoham (2014) proposed that IO-based TC leads to favouring STD as firms seek to spread their unique new technologies. IO leads firms towards a quest for innovation, which results in product innovativeness (Renko *et al.*, 2009). Accordingly, we expect that a TC focus will lead to less favourable attitude towards product ADP. The case of Apple's refusal to adapt its iPhone warranty policy for the Chinese market exemplifies this approach (He, 2013). In sum:

H6. Exploratory TC and product ADP are negatively related.

Adaptation can take form in product' aspects such as positioning, design, branding and characteristics (Lages *et al.*, 2008). Such localization changes become important if they are based on difference between the home and the focal country. Specifically, Griffith (2010) noted that product ADP allows firms to address cross-border differences in needs and wants. Implementing such a strategy can yield a "better product-market match" (Leonidou *et al.*, 2002, p. 61). He found that product ADP was related with superior export performance

across time and geographic contexts (Leonidou *et al.*, 2002). The marketing wars between Alibaba, eBay and Yahoo in China and Japan provide examples for the importance of product ADP. According to Erisman (2015), eBay's mistake in the Chinese market was its thinking that every country in the world should operate using the same platform. Therefore, eBay froze all local websites and by doing that, it eliminated localized features that Chinese internet users enjoyed. Hence, by arrogantly using its US model in China, eBay "was not in a position to build a product that truly fit the local market" (Erisman, 2015, p. 117). This led Alibaba to conclude that "No American Internet company is in the lead in China [...] this has more to do with product localization and speed to market than anything" (Erisman, 2015, p. 119). In contrast, Yahoo! Japan thrive by generating localized context that better fits Japan's unique conditions, leading Yahoo! Japan into a leadership position. Indeed, Cavusgil and Zou (1994) found that export performance is enhanced when management adapts products to customer needs. Therefore, we hypothesize:

H7. Product ADP and SP are positively related.

## Methodology

### *Research context and scales*

We tested our model in Israel, which is heavily dependent on international sales. We adopted a quantitative research design and concentrated on manufacturing firms as they play a central role in Israel's exports. Using a multi-industry design allows greater variability in SBUs' strategies and capabilities and reduces the likelihood of sampling bias (Morgan *et al.*, 2012). Accordingly, data were collected from 202 senior managers of small and medium-large SBUs. All items were measured on a five-point scales (1 = strongly disagree to 5 = strongly agree; see the Appendix).

We used existing measures for all constructs after a comprehensive review of the literature to ensure our measures were content valid. We adapted them to the international context when necessary. All constructs show satisfactory levels of composite reliability. We operationalized OI as two constructs: market orientation and responsive flexibility. We adopted the measure of market orientation in international markets developed in previous studies (Cadogan *et al.*, 1999) and validated by Murray *et al.* (2011). This scale was validated across samples of the UK, Dutch and Chinese exporters. The scale's three dimensions are intelligence generation, intelligence dissemination and intelligence responsiveness and it contains 13 items. Respondents were asked about the extent to which they agreed with the statements regarding their SBU's activity in its major foreign market. Two items were dropped during item purification due to low factor loadings. The responsive flexibility scale was measured by six items based on Theoharakis and Hooley's (2003) scale that was later adopted and validated by Santos-Vijande *et al.* (2012). This scale measures the reactive ability to changes in international markets. Respondents were asked to rate to what extent their SBUs were able to respond rapidly to new market and competitive conditions compared to their major competitors in their main international market. Two items were dropped during item purification due to low factor loadings. Finally, the composite reliability for the high-order OI was 0.71.

We operationalized IO as two constructs: innovation orientation and proactive flexibility. For innovation orientation, we used a 21-item scale developed by Shoham *et al.* (2012) and validated across cultures (Ruvio *et al.*, 2014). This scale consists of five dimensions: creativity, openness, future orientation, risk aversion and proactiveness. Respondents were asked to what extent they agreed with the statements regarding their SBU's activity in its major foreign market. One item was dropped during item purification due to a low factor loading. We measured proactive flexibility by a reverse-coded version of Bennett and Kottász's (2011) five-item inertia scale. The reported Cronbach's  $\alpha$  in the original study was 0.88. The items

were reverse coded to reflect movement towards change as opposed to change-averse. Finally, the composite reliability for the high-order IO was 0.75.

For exploratory MC and TC, items were taken from Danneels (2008). These scales were validated by Danneels (2016) and MC was validated by Lisboa *et al.* (2013). Each scale was measured using four items. Respondents were asked the following: different companies are good at different things. Please assess the skills of your SBU in its major foreign market relative to your competitors (five-point scale ranging from 1 (not at all) to 5 (to a great extent)). The composite reliability was 0.81 for MC and 0.85 for TC.

To measure SP, we adopted Zou *et al.*'s (1998) three-item scale. This scale was validated by many international marketing studies (e.g. Zou and Cavusgil, 2002; Dong *et al.*, 2013) and it assesses the degree to which the SBU has achieved strategic goals, such as attaining market dominance in terms of global competitiveness, strategic position and market share. The composite reliability for SP was 0.89.

Product ADP was measured by Lages *et al.*'s (2008) ten-item scale. They conceptualized product ADP as the degree to which product characteristics (e.g. positioning, design and branding) differ across the domestic and export markets. Two items were dropped during item purification due to low factor loadings. The composite reliability for product ADP was 0.91.

Following typical international marketing studies (Hultman *et al.*, 2011), we included three control variables which could influence SP, namely, "international intensity" (export sales/total sales), "international duration" (number of years engaged in international activities) and "SBU's size" (measured via the total number of full-time employees).

#### *Pre-tests and data collection*

Preparation for the study took place over three phases. The first comprised the construction of a preliminary questionnaire, with all items translated from English to Hebrew using a standard back-translation procedure. Four marketing academics assessed the appropriateness and face validity of the items. In Phase 2, the questionnaire was pretested with data collected from 35 managers to determine face validity, clarity and relevance of the measures. This led to minor changes. A second pre-test of the adjusted scales with a different set of 20 managers comprised the third phase. All pre-test data were excluded from subsequent analyses.

*Key informants and survey.* To ensure variation in SP, we gathered samples from two frames, one comprising medium-large firms and the other, small firms. In the spirit of Morgan *et al.* (2012), we created the large exporters sample by compiling a list of Israel's 300 largest manufacturing firms based on Dun and Bradstreet's database, a source that is regularly updated and provides information on firm demographics. To ensure that respondents would be managers with responsibility for international marketing decisions, we eliminated R&D centres of firms whose headquarters are not located in Israel. This led to a sampling frame of 240 firms. Next, we used LinkedIn to find relevant contact details. We approached one manager in each SBU. Following two follow-up reminders, 182 managers opened the survey and 107 provided usable responses. The response rates were 45 per cent (completed surveys divided by number of managers who were invited by mail from the authors) or, alternatively, a response rate of 59 per cent (completed surveys divided by number of managers who opened the invitation). We excluded five questionnaires to avoid duplication at the SBU level, leaving 102 useable questionnaires. To collect data from small exporters, we collaborated with Israel Export and International Cooperation Institute (IEICI). Consequently, 297 managers from IEICI database (975 managers) responded to invitation. Two qualifying questions were then asked (pertaining to the respondent's familiarity with and confidence in addressing the international issues). Of the initial group of respondents, 104 surveys were complete and usable. The response rates were 11 per cent

(completed surveys divided by number of managers who were invited by mail from IEICI) or 35 per cent (completed surveys divided by number of managers who opened the invitation). A possible explanation for the relatively lower response rates for the small firm's sample is that managers might be more willing to participate in a survey with researchers they know through social networks (such as our use of LinkedIn to find contact details) rather than to "cold call" mailings such as an official mail from IEICI, which might look like spam and end up in the SPAM folder (Cycyota and Harrison, 2006). This is in line with Baruch and Holtom's (2008) notion that many firms are flooded with questionnaires and therefore are fatigued and refuse to respond to non-essential questionnaires. In sum, after excluding four respondents to avoid duplication at the SBU level, this sample included 100 questionnaires.

Next, we pooled the two samples into a sample of 202 respondents. This is justified for three reasons. First, the two samples were similar in the type of respondents used (managers in internationally active Israeli firms). Second, we examined the samples for differences in the spirit of Magnusson *et al.* (2013) and applied a Bonferroni correction to counteract the problem of multiple comparisons (increasing the likelihood of witnessing a rare event). We found no significant mean differences. Finally, we aimed to follow the rule of thumb that considers 200 (Iacobucci, 2010) respondents as a requisite sample size to ensure stable weights for a covariance-based SEM.

*Validation of data.* To guarantee a high level of knowledge and reduce potential informant bias, we included two five-point items to assess respondents' familiarity with and confidence in addressing the international issues covered. Respondents with low levels of confidence and familiarity (below 4 on a 1–5 scale) were not allowed to answer the questionnaire. Thus, respondents' averages on these items were high (familiarity = 4.55, confidence = 4.50). Respondents' senior positions provide another measure of confidence as 165 (82 per cent) were senior executives. Finally, a comparison of early with late respondents showed no significant differences.

*Descriptive statistics.* The industry breakdown (Table II) is in line with public data showing the important roles of the high-tech and health industries as major contributors to Israeli exports. Given the broad array of industries and targeting large and small firms, SBUs ranged in sizes, years in business and financial metrics. Regarding sales, 43 per cent had less than \$50m, 64 per cent had sales of less than \$100m and 8 per cent had turnover above \$1bn. With respect to the scope of international operations, data are in line with statistics from IEICI (2014) showing the USA as a leading focal country for Israeli exports.

*Controlling for common method bias.* We used *ex ante* and *ex post* strategies to minimize CMV concerns. Several *ex ante* strategies were used. First, the measures were developed via a systematic process to ensure clarity. Second, the questionnaire was carefully designed and administered and was divided into ten sections, some of which contained items from different scales. Respondents were not allowed to return to previous questions and the progress along the questionnaire was controlled such that respondents could not move forward to new sections before answering all questions in previous sections. These procedures make CMV less likely as it is not simple to combine related items to "create" the correlation needed to produce a biased pattern of responses (Chang *et al.*, 2010). Respondents were asked to concentrate on one major SBU in responding to the survey to minimize potential retrospective bias. Finally, respondents were told that the questionnaire had no right or wrong answers, that they should answer as honestly as possible and that they were guaranteed anonymity and confidentiality.

With respect to *ex post* strategies, as CMV is more likely to emerge in models that are overly simple, we used a relatively complex mediation model. Furthermore, we used several statistical approaches to test CMV. First, we conducted a Harman single-factor test. The first factor accounted for a low 31.78 per cent of the variance, suggesting an absence of CMV.

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**Table II.**  
Characteristics of  
respondents

	%
<i>Industries</i>	
High tech	22
Health	21
Consumer goods	17
Chemicals	17
Defence	6
Other	17
<i>Main scope of international operations</i>	
USA	49
Europe	23
Asia	24
Worldwide	9
<i>Respondents positions</i>	
CEOs	23
SBU managers	6
Marketing directors	24
Sales directors	15
Business development directors	14
Other management roles	18
<i>SBU characteristics</i>	
Age	2 to 125 years (mean = 31.73; SD = 22.70)
Number of employees	3 to 45,000 (mean = 1,440; SD = 4,343)
Annual turnover	1 to \$20,000m (mean = \$483; SD = 1,766)
International duration	1 to 60 years (mean = 21 years; SD = 13.44)
International intensity	75% of turnover

We then employed a confirmatory factor analysis (CFA), in which all the items were modelled as indicators for a single factor representing method effects. The results suggest an unsatisfactory model fit:  $\chi^2 = 597.73$ ,  $df = 150$ ,  $\chi^2/df = 3.96$ ,  $p = 0.000$ ,  $IFI = 0.74$ ,  $CFI = 0.73$ ,  $RMR = 0.08$  and  $RMSEA = 0.12$ . Thus, the CFA offers no evidence to suggest that common method bias poses a concern. Third, we used an item predetermined to be unrelated to the model constructs for a marker variable test (Lindell and Whitney, 2001). Its correlations with these constructs were low and not significant ( $-0.11$  to  $0.09$ ). Finally, to test for multicollinearity, we examined the variance inflation factors (VIFs). The highest VIF was 2.02, well below the critical value of 5 (Hair *et al.*, 2010).

## Analysis and results

### Measurement model

After dropping indicators that performed poorly (see the Appendix), all the purified scales contained loadings  $\geq 0.65$ . Following Morgan *et al.* (2012) and due to sample size restrictions, we used parceling for the IVs but not for MC, TC and SP, which were specified using the full data set (i.e. not parcelled). We ran a CFA model and its fit statistics ( $\chi^2 = 195$ ,  $df = 118$ ,  $p = 0.00$ ,  $IFI = 0.95$ ,  $CFI = 0.95$ ,  $RMR = 0.04$  and  $RMSEA = 0.06$ ) suggest an acceptable model.

### Convergent and discriminant validity

All factor loadings in the measurement model were significant, providing evidence for convergent validity (Gerbing and Anderson, 1988). In addition, all average variances extracted (AVE) estimates exceeded 0.50 (Table III), further supporting convergent



validity (Bagozzi and Yi, 1988). We calculated 99% confidence intervals for the correlation coefficients for all pairs of constructs. In no case did the intervals include the value of  $\pm 1.0$  (Anderson and Gerbing, 1988). Additionally, the discriminant validity condition of Fornell and Larcker (1981) was met (Table IV) as the square root of the AVE for each construct was greater than the construct's correlation with other constructs. Finally, composite reliability values ranged from 0.71 to 0.91, suggesting that the reliability of the constructs is adequate.

*Tests of hypotheses*

After establishing the scales' psychometric properties, we tested the hypothesized model. The goodness-of-fit indices for the hypothesized full model suggest a good overall fit ( $\chi^2 = 239.05$ ,  $p$ -value = 0.000, IFI = 0.94, CFI = 0.94, RMR = 0.05 and RMSEA = 0.06). The importance of OI and IO is indicated by the relatively high  $R^2$  values for the variance explained of MC, TC and SP (0.62, 0.55 and 0.41, respectively). As can be seen in Table V, in support of *H1a*, OI and MC are related positively ( $\beta = 0.74$ ,  $t = 2.63$ ,  $p = 0.008$ ). Supporting *H1b*, the relationship between OI and TC was weaker than that between OI and MC ( $\beta = 0.27$ ,  $t = 1.16$ ,  $p = 0.245$ ). The data support *H2a*, relating IO and TC ( $\beta = 0.50$ ,  $t = 2.18$ ,  $p = 0.029$ ). As hypothesized (*H2b*), the relationship between IO and MC was weaker than that between IO and TC ( $\beta = 0.06$ ,  $t = 0.22$ ,  $p = 0.829$ ). As expected, a positive relationship was found between MC and SP (*H3*;  $\beta = 0.43$ ,  $t = 4.49$ ,  $p = 0.000$ ). Supporting *H4*, the TC–SP relationship was significant ( $\beta = 0.22$ ,  $t = 2.52$ ,  $p = 0.012$ ). In support of *H5*, MC enhanced product ADP ( $\beta = 0.23$ ,  $t = 2.31$ ,  $p = 0.021$ ), while TC did not affect significantly product ADP ( $\beta = -0.11$ ,  $t = -1.09$ ,  $p = 0.276$ ) disconfirming *H6*. Finally, product ADP enhanced SP ( $\beta = 0.14$ ,  $t = 2.16$ ,  $p = 0.031$ ) in support of *H7*.

Regarding the controls, “international intensity” and SP were related ( $\beta = 0.15$ ,  $t = 2.40$ ,  $p = 0.016$ ). Neither “international duration” ( $\beta = -0.03$ ,  $t = -0.51$ ,  $p = 0.611$ ) nor SBU size ( $\beta = 0.00$ ,  $t = 0.03$ ,  $p = 0.980$ ) were related with SP.

**Table III.**  
Descriptive statistics

Construct	Mean	SD	Composite reliability	Loading range	AVE
OI	3.71	0.57	0.71	0.72–0.77	0.55
IO	3.41	0.64	0.75	0.65–0.89	0.61
Exploratory MC	3.56	0.75	0.81	0.66–0.79	0.52
Exploratory TC	3.56	0.84	0.85	0.65–0.82	0.59
SP	3.68	0.91	0.89	0.78–0.92	0.73
Product ADP	3.04	1.08	0.91	0.68–0.80	0.55

**Table IV.**  
Correlation matrix

Construct	1	2	3	4	5	6
1. OI	<i>0.74</i>					
2. IO	0.61**	<i>0.78</i>				
3. Exploratory MC	0.60**	0.56**	<i>0.72</i>			
4. Exploratory TC	0.55**	0.55**	0.45**	<i>0.77</i>		
5. SP	0.48**	0.49**	0.49**	0.40**	<i>0.85</i>	
6. Product ADP	0.15*	0.14*	0.14*	0.02	0.19*	<i>0.74</i>

**Notes:** Root of average variance is in italic on the diagonal. \*, \*\*Correlations are significant at the 0.05 and 0.01 levels, respectively (two-tailed)

**Table V.**  
Structural  
model results

Hypothesized relationships	Std. $\beta$	<i>t</i> -value	<i>p</i> -value
<i>H1a</i> : OI → exploratory MC	0.74	2.63	0.008
<i>H1b</i> : OI → exploratory TC	0.27	1.16	0.245
<i>H2a</i> : IO → exploratory TC	0.50	2.18	0.029
<i>H2b</i> : IO → exploratory MC	0.06	0.22	0.829
<i>H3</i> : exploratory MC → SP	0.43	4.49	0.000
<i>H4</i> : exploratory TC → SP	0.22	2.52	0.012
<i>H5</i> : exploratory MC → product ADP	0.23	2.31	0.021
<i>H6</i> : exploratory TC → product ADP	-0.11	-1.09	0.276
<i>H7</i> : product ADP → SP	0.14	2.16	0.031
<i>Control links</i>			
Control 1: SBU international intensity → SP	0.15	2.40	0.016
Control 1: SBU international duration → SP	-0.03	-0.51	0.611
Control 2: SBU size → SP	0.00	0.03	0.980
<b>Notes:</b> $\chi^2 = 239.05$ , $df = 140$ , $p$ -value = 0.000, IFI/CFI = 0.94, RMR = 0.05, RMSEA = 0.06			

*Post hoc Analysis 1: first-order model*

In the spirit of Dong *et al.* (2013), we tested a competing perspective by comparing our original high-order model with one that assumes direct relationships between the four IVs (market orientation, responsive flexibility, innovation orientation and proactive flexibility) and the DVs (MC and TC). The  $\Delta\chi^2$  test between the high-order model and the competing model (first orders) was not significant ( $\Delta\chi^2 = 4.76$ ,  $\Delta df = 5$ ,  $p = 0.446$ ). In assessing this comparison, we follow Johnson *et al.* (2011, p. 242), who noted, "If multiple variables are indicators of a unitary construct, then it is more parsimonious to examine the source construct rather than the individual (and redundant) indicators". Hence, as our high-order model is equivalent to the first-order one in fitting the data, it is more parsimonious and should therefore be preferred. In addition, the correlation between the two dimensions of IO and the correlation between the two dimensions of OI are large and positive ( $r = 0.58$  for IO and 0.55 for OI), indicating that these dimensions converge on a common underlying construct (Cadogan *et al.*, 1999). Johnson *et al.* (2011) suggested that indicators of superordinate constructs should show loadings of approximately 0.70. Indeed, in our case, the loadings of market orientation and responsive flexibility into OI were 0.72 and 0.77, respectively, and the loadings of innovation orientation and proactive flexibility into IO were 0.90 and 0.65, respectively. Thus, we concluded that OI and IO are superordinate constructs.

*Post hoc Analysis 2: bi-directional model*

As reverse causality arguments have merit, we ran a competing bi-directional model. Specifically, instead of the regression arrows from OI to MC and IO to TC we drew covariance arrows. The goodness-of-fit indices for this model were inferior than those for our original model:  $\chi^2 = 369.37$ ,  $p$ -value = 0.000, IFI = 0.87, CFI = 0.86, RMR = 0.15 and RMSEA = 0.09.

*Post hoc Analysis 3: crosstab*

Our OI–IO model does not imply that these constructs are mutually exclusive. As can be seen by the OI and IO labels, both contain degrees of outside and inside thinking. The difference is their starting points. Note that our model enables a simultaneous execution of OI and IO and survey participants responded to both OI and IO items. We performed a crosstab analysis and split SBUs into low, medium and high levels of OI and IO to demonstrate that they co-exist simultaneously. As seen in Table VI, 38 SBUs exhibit high OI and IO levels, demonstrating that some firms combine OI and IO.

## Discussion and implications

Despite the increasing importance of international marketing as a strategic direction, OI–IO views in international contexts have received limited attention. Solberg and Durrieu (2008) commented that research on strategy development of international firms is still in its infancy. Accordingly, the underlying motive of this study was to shed light on the impact of OI and IO strategic approaches on SP through exploration capabilities.

Although there is a wide body of strategic management literature on the antecedents of firm capabilities, scholars agree that firms' resources serve as important determinants of their capabilities (Barney and Clark, 2007), which, in turn, are fundamental to firms' success (Murray *et al.*, 2011). Importantly, while there is variety of resources (e.g. physical and financial), strategic orientations gain recognition as an important input of firms' capabilities (Morgan, 2012). Therefore, "to drive performance, strategic orientations require complementary organizational capabilities" (Theodosiou *et al.*, 2012, p. 3). Hence, scholars suggest that strategic orientations impact performance through the route: orientations → capabilities → performance (Chen *et al.*, 2012; Ketchen *et al.*, 2007). For example, in an international context, Murray *et al.* (2011) showed that market orientation serves as antecedent to MC, while Hortinha *et al.* (2011) showed that customer and technological orientations impact innovation capabilities.

Taking it together, this research advances the RBV/DC literature. First, we follow Yalcinkaya *et al.*'s (2007) and Hao and Song's (2016) recommendations to broaden the range of resources that impact capabilities as we integrate strategic orientations and DCs to build OI and IO strategic approaches. By combining market orientation and responsive flexibility into OI we advanced previous work such as Grewal and Tansuhaj (2001), who treated market orientation and strategic flexibility as separate elements. Importantly, our first *post hoc* analysis demonstrated that conceptualizing OI and IO as superordinate constructs is preferable to viewing OI's and IO's dimensions as independent first-order concepts. The case of Starbucks failure in Israel (Buckley *et al.*, 2018) provides an example for a broadened range of OI resources. Yes, Starbucks conducted market research before the launch. However, it underestimated the challenges created by the competitive nature of the Israeli market and relied on standardization and a partner with no market experience. Consequently, the company's weak reaction to the warning signals led it to withdraw from the market.

Second, the findings of our OI–IO model provide support to the view that scholars should include mediating capabilities between strategic approaches and performance (Murray *et al.*, 2011; Hortinha *et al.*, 2011). As was noted above, strategic orientations impact performance through actionable capabilities (Ketchen *et al.*, 2007).

Consequently, this study shows the simultaneously distinct impacts of strategic approaches in international context: OI impacting exploratory MC but not TC and IO impacting exploratory TC but not MC. This is important as with a clear understanding of which trade-off of strategic approach leads to which specific type of exploration capability, managers would be able to make more precise decisions on the strategic directions of the firm.

	OI strategic approach		
	Low	Medium	High
<i>IO strategic approach</i>			
Low	41	14	12
Medium	21	30	17
High	6	23	38

**Table VI.**  
Crosstab analysis

Moreover, Tan and Sousa's (2015) meta-analysis revealed that MCs play a crucial role in explaining international performance. Our OI-IO model strengthens this conclusion as we found that exploratory MCs are relatively more important to international marketers than exploratory TC. By doing that, we extend the literature that mostly investigated the relative impact of exploration vs exploitation and answered the call of Yalcinkaya *et al.* (2007) and Lisboa *et al.* (2013) to examine the impact of additional exploration capabilities on international performance.

Finally, international marketing strategy variables have been among the most investigated antecedents of international performance and important mediators that bridge the relationship between internal/external factors and export performance (Chen *et al.*, 2016). Leonidou *et al.*'s (2002) meta-analysis found that the relationship between product ADP and export performance was the most widely researched marketing strategy element and confirmed its impact on export performance across different time frames and geographic contexts. Nevertheless, researchers have mostly concentrated on providing recommendations regarding firms' standardization and adaptation while neglecting the question why firms tend to adapt their products. Even Schmid and Kotulla (2011) admitted that their meta-analysis is limited and cannot serve as a basis for explaining or predicting in which way firms actually standardize or adapt product strategies across nations. Against this background, our OI-IO model allowed us to assess the distinct impact of OI and IO on firms' tendency to adapt its products. By doing that we advance the literature on STD and ADP and link this international marketing debate to the strategic management OI-IO debate while offering a new explanation on why firms adapt their products.

#### *Strategic approaches and exploration capabilities*

OI was a strong predictor of MC, which, in turn, was a positive antecedent of SP. Hence, being heavily invested in gathering data on customers and competitors and responding to market shifts enhances exploratory MC. In turn, such MC enables firms to closely assess new international markets, build new relationships and set up an outstanding sales force for these territories. In contrast, IO was a strong predictor of TC, which also enhanced SP but less than MC. Hence, being proactively invested in innovative new projects lead to TC, which enables firm to assess the feasibility of promising new technologies. Nevertheless, it is evident from findings that an OI approach did not help firms to develop TC, while IO approach did not help firms to develop MC. In international context, our findings suggest that OI enhances performance through MC and IO enhances performance through TC. This is extremely important given firms are challenged to allocate limited resources between possible strategic approaches (Cadogan, 2012; Hortinha *et al.*, 2011). Thus, this study contributes by offering a better understanding of the black box between strategic approaches and firms' SP.

#### *The superiority of OI and exploratory MC*

Based on our findings and assuming limited resources, firms seeking to maximize SP are better off emphasizing OI. Interestingly, while the TC-SP relationship was significant, TC exhibited a weaker impact on SP than MC did. Several new insights, which extend previous studies (Wilden and Gudergan, 2014; Eisend *et al.*, 2016), emerged from the finding that exploratory MC is superior to TC. First, we focussed on exploratory MC/TC, while Wilden and Gudergan (2014) referred to operational capabilities, which are exploitive by nature. Second, Eisend *et al.* (2016) focussed on the relative advantage of MC over TC and concluded that it depends on the institutional forces in a given country. However, they used new product performance as an outcome. Our findings demonstrate that the advantage of exploratory MC over TC is doubled when SP is the outcome. Therefore, MC is even more crucial in international environment. By that we reinforce and advance their argument that

“MC lead to better performance than TC” (p. 43). Third, we demonstrated the differential effect of the OI and IO as drivers of exploratory MC and TC. Specifically, OI leads to MC and IO leads to TC. Hence, beyond the need to build exploratory MC for competing internationally, we showed that the path to do so is by enhancing OI rather than IO. Thus, an emphasis on market orientation and responsive flexibility would serve to build MC. Finally, we demonstrated that MC and TC have distinct impacts on product ADP (discussed below). This finding supports Asseraf and Shoham’s (2014) proposition.

### *Exploratory MC and product ADP*

Importantly, this study speaks to the issue of why firms standardize or adapt their products. The findings reveal that MC leads firms to product ADP. In contrast, no relationship was found between TC and product ADP. This finding may simply underscore the relative power of marketing departments over R&D departments in international contexts. As noted earlier, product ADP enhanced SP. This effect increases the importance of MC’s indirect effect beyond its direct effect on SP, as it implies that knowledge gathered on new markets and customers is likely to bolster arguments within firms for greater product ADP which impact firms’ international performance indirectly.

The findings also indicate that MC acts as antecedent for product ADP. Thus, well-developed OI results in strong MC, which allows firms to better understand the nature of their international markets and adapt their products accordingly. Hence, MC’s direct and indirect impacts are important for managing international marketing.

Why do breakthrough innovations, which result from IO, might progress slowly in international markets? Looking at Table VII, our model’s IO leads to less familiarity with international market data, less developed relationships with customers, smaller customer base, less awareness of the competition as it might be more indirect (substitutes) than direct, less adapted products to local market needs, higher level of uncertainty and higher risks derived from two resources (marketing and development risks). Future research could target other outcomes suggested above of OI and IO behaviours. Nevertheless, based on our model’s logic and empirical findings we believe that it should not be surprising that OI is the more effective approach for managing international context projects.

### **Managerial implications**

Previous studies provided limited conclusions about the OI–IO debate as they stressed the need to adopt both approaches. In contrast, our empirical paper provides clearer recommendations. First, we offer an answer for the OI–IO debate in international contexts. Specifically, we suggest that it is crucial for managers, who aim to gain superior SP, to devote attention and resources to OI approach rather than to IO. To do it right, they should

	OI consequences	IO consequences
Market	More familiar with market information	Less familiar with market information
Customers	Developed relationships with customers, wider customer base	Less developed relationships with customers, smaller customer base
Competition	Known competitors, direct competitive products	Less awareness of competitors, competing with substitute products
Innovation	More incremental	More breakthrough
Adaptation	More adapted products	More standardized products
Uncertainty	Relatively low: due to activity in researched international markets and known technologies	Relatively high: due to activity in unknown international markets and new technologies
Risks	Lower. Mainly the risk of reliance on mature products with adaptations	Higher. Mainly the risk of investing in new technologies and innovation

**Table VII.**  
OI–IO consequences

rely on market orientation and incorporate it with the ability to respond rapidly to new competitive conditions such as entry of new competitors and emergence of economic changes, as well as routinely detect threats and opportunities in their markets. Hence, this study confirms that managers of international ventures, entrusted with managing ever-changing new markets, relationships and environments, should develop an OI.

Second, according to our findings, managers should be aware that MCs are more important than TCs in international contexts. Given that we controlled for SBU's international duration, intensity and size, it is important for managers in most firms and industries to understand that building relationships and understanding the potential of new markets through analysis of competition and customers is more crucial than to launch new technologies internationally. Specifically, managers in technology-oriented firms need to pay attention to our finding that shows that IO impacts TC but not MC. This means that these managers cannot rely on an IO approach and are expected to develop MC. The way to do it is through the development of an OI approach.

Third, we demonstrate that there is a relation between the ongoing IO–IO and STD–ADP debates. Specifically, it is imperative for managers to understand that OI impacts the tendency of firms to adapt their products, which contribute to superior SP. Moreover, implementing product ADP will indirectly leverage the benefits of MC on SP.

Fourth, our findings are relevant for stakeholders, who are involved in funding international ventures such as venture capitalists. Our demonstration that there is an alignment across firms' decisions ranging from choice of a strategic approach to the decision to adapt or not, should help to predict which venture is more promising. Additionally, our model points to what needs to be changed to improve the chances of successful entries into international markets. This should provide stakeholders with leverage in discussing firms' directions.

Fifth, our crosstab analysis showed that although OI and IO represent distinct means for crafting strategy, firms could use both simultaneously. Hence, these approaches are not necessarily mutually exclusive; managers can attempt to develop both, albeit at varying levels. As for the question of when and how to use OI and IO simultaneously, we call future research to focus on moderators which represent “on and off” constructs, which can help determine when each pathway will be more appropriate (Palmatier, 2016). Adapting a holistic view and given that OI and IO follow unique and outcomes, we believe that the answer lies in acknowledging and understanding the clear benefits of each approach. Specifically, we believe that OI should be the starting point when crafting strategy for international markets. Our advice to managers is to “zoom out” and use a birds-eye view of their international markets. Once they develop a good sense of the “big picture”, painted by a deep understanding of potential customers and competitors, they can “zoom in” internally to add an IO viewpoint with a focus on their unique competencies as a means towards winning and potentially changing their markets. Put differently, if a firm is already active, successful and with high market recognition, bringing new products to international markets based on IO might be beneficial.

### Conclusion

International marketing entails more risks and uncertainty than domestic marketing. Cadogan (2012) highlighted the need to focus research attention on the question whether strategic orientations have the same value in domestic marketing and the more complex international marketing arena. Paraphrasing his words, given that firms have finite access to resources, a major question that international marketing researchers need to address is how businesses should manage their different strategic approaches. This paper provides a theory-based empirical answer. While successful examples exist for both OI and IO in domestic contexts, OI is the more effective approach in international contexts. There is a famous quotation (anonymous source): “research is to see what everybody else has seen



and think what nobody has taught". Relatedly, most of today's managers have not been taught the logic of OI-IO, but they must be, if they wish to operate successfully in international markets.

### Limitations and further research

This research has limitations, which represent fertile directions for future research. First, our data are cross-sectional and multi-industry. Future research could validate our model across industries. Second, we followed the logical progression from strategic approaches to capabilities. Arguably, reverse causality issues are often problematic to deal with in many strategy studies, and reverse causality arguments have some merit. While our *post hoc* testing of the bi-directional model reveals that our logic is sound, future research should address this issue more deeply.

Third, testing our model in other countries and using other methodologies (e.g. in-depth interviews for identifying antecedents of OI-IO) can be interesting. Fourth, in the spirit of Shoham *et al.* (2017), we note that firms with an excessive OI may fall into the "inertia trap". In such cases, success is brought about by lucky novel ideas. Alternatively, due to introduced innovation being incremental, performance is only improved marginally. In contrast, an excessive IO emphasis might fall to the "experimental trap" and end up following uncertain innovations. While it is hard to find a general sweet spot of OI and IO, it is evident that the "too much of a good thing" is something that should be taken into considerations. Finally, it will be interesting to test the impact of OI and IO on exploitation capabilities. Specifically, future studies should control for marketing tactics not modelled here, such as international sales force management competence, international sales force autonomy, marketing planning, pricing, communication and marketing implementation. This is important as missteps in any such decisions can have a severe effect on performance.

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### Further reading

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### Appendix

#### Market orientation (Murray *et al.*, 2011)

##### Generation

- (1) We periodically review the likely effect of changes in our export environment (e.g. technology and regulation).
- (2) In this company, we generate a lot of information concerning trends (e.g. regulation, technological developments, politics and economy) in our export markets.
- (3) We generate a lot of information in order to understand the forces that influence our overseas customers' need and preferences.
- (4) We constantly monitor our level of commitment and orientation to serving export customer needs (dropped).
- (5) We are slow to detect fundamental shifts in our export environment (e.g. technology, regulatory, economy) (dropped).

*Dissemination*

- (1) Information about our export competitors' activities often reaches relevant personnel too late to be of any use.
- (2) Important information concerning export market trends (regulatory, technology) is often discarded before it reaches decision makers.
- (3) Too much information concerning our export competitors is discarded before it reaches decision makers.
- (4) Information that can influence the way we serve our export customers takes forever to reach export personnel.
- (5) Important information concerning our major export customers is disseminated right down to the shop floor.

*Responsiveness*

- (1) If a major competitor were to launch an intensive campaign targeted at our foreign customers, we would implement a response immediately.
- (2) We are quick to respond to significant changes in our competitors' price structures in foreign markets.
- (3) We rapidly respond to competitive actions that threaten us in our export markets.

**Responsive flexibility (Santos-Vijande *et al.*, 2012)**

- (1) Entry of new competitors.
- (2) Change of customers' product/service preferences (dropped).
- (3) Radical technological changes or the anticipated obsolescence of current technologies (dropped).
- (4) Important economic changes.
- (5) Detection of new business threats.
- (6) Detection of new business opportunities.

**Innovation orientation (Shoham *et al.*, 2012)**

*Creativity*

- (1) Creativity is encouraged here.
- (2) Managers here expect us to be resourceful problem solvers.
- (3) We are constantly looking to develop and offer new or improved services.
- (4) Our ability to function creatively is respected by the leadership.
- (5) We are encouraged to use original approaches when dealing with problems in the workplace.

*Openness to change*

- (1) Is always moving towards the development of new answers.
- (2) Assistance in developing new ideas is readily available.
- (3) Is open and responsive to changes.
- (4) People here are always searching for fresh, new ways of looking at problems.



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*Future orientation*

- (1) Establishes a realistic set of future goals for itself (dropped).
- (2) Effectively ensures that all managers and employees share the same vision of the future.
- (3) Conveys a clear sense of future direction to employees.
- (4) Has a realistic vision of the future for all departments and employees.

*Risk-taking*

- (1) Believes that higher risks are worth taking for high payoffs.
- (2) Encourages innovative strategies, knowing well that some will fail.
- (3) Likes to take big risks.
- (4) Does not like to “play it safe”.

*Proactiveness*

- (1) We are constantly seeking new opportunities for the organization.
- (2) We take the initiative in an effort to shape the environment to our advantage.
- (3) We are often the first to introduce new services.
- (4) We usually take the initiative by introducing new administrative techniques.

**Proactive flexibility based on Bennett and Kottász (2011)**

- (1) The organizational culture of this SBU encourage the introduction of new and/or different management methods, policies and strategies.
- (2) People in this SBU are constantly on the lookout for new and better management methods, policies and strategies.
- (3) This SBU actively encourages and rewards innovative and/or unconventional approaches to management.
- (4) These SBU policies, systems and management methods are continually being updated.
- (5) There is enthusiasm for change among the managers of this SBU.

**Exploratory MC based on Danneels (2008)**

- (1) Assessing the potential of new markets.
- (2) Building relationships in new markets.
- (3) Setting up a new sales force.
- (4) Researching new competitors and new customers.

**Exploratory TC based on Danneels (2008)**

- (1) Learning about technology it has not used before.
- (2) Assessing the feasibility of new technologies.
- (3) Recruiting engineers in technical areas it is not familiar with.
- (4) Identifying promising new technologies.

**Product ADP (Lages *et al.*, 2008)**

- (1) Positioning.
- (2) Design/Style.
- (3) Quality.
- (4) Features/Characteristics (dropped).
- (5) Brand/Branding.
- (6) Packaging.
- (7) Labelling.
- (8) Service.
- (9) Warranty (dropped).
- (10) Items/models in product line.

**SP (Zou *et al.*, 1998)**

- (1) Has improved our global competitiveness.
- (2) Has strengthened our strategic position.
- (3) Has significantly increased our global market share.

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