

Avi Fiegenbaum/Dovev Lavie/Aviv Shoham¹

The Competitive Positioning of Foreign MNEs in Domestic Markets: Theoretical Extensions and Evidence from the Israeli Market

Abstract

- The paper offers a model of the competitive positioning of foreign MNEs (FMNEs) in less-developed countries. The model acknowledges that FMNEs and their domestic counterparts engage in strategic interactions and reference-points positioning with the objective of maximizing customers' satisfaction, and that customers respond to this strategic behavior.
- The analysis is based on a survey of 406 Israeli customers of 104 FMNEs and domestic firms. A structural equations model suggests that industry attractiveness affects the competitive positioning of FMNEs, resulting in enhanced marketing effectiveness and consequently, higher customer satisfaction.

Key Results

- The results show that customer satisfaction is higher for FMNEs than for domestic firms due to the ability of the former to utilize their capabilities and marketing efforts in a way that enhances their positioning.

Authors

Avi Fiegenbaum, Associate Professor of Strategic Management and Associate Dean, Davidson Faculty of Industrial Engineering and Management, Technion–Israel Institute of Technology, Haifa, Israel.
Dovev Lavie, Assistant Professor, McComb's School of Business, The University of Texas at Austin, Austin, TX.
Aviv Shoham, Senior Lecturer of Marketing, Graduate School of Business, University of Haifa, Haifa, Israel.

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Introduction

Recent waves of globalization have dramatically changed the competitive landscape in many national markets. Dunning (1993) provided evidence that foreign direct investment (FDI) had doubled and even tripled in the last fifteen years in less-developed countries (LDCs), generating a tremendous impact on the economic development and welfare of these countries. Yet, less attention has been given to the role that domestic customers and domestic competitors play in shaping the strategic behavior and performance of foreign MNEs (FMNEs) in the targeted markets. The current study examines the strategic positioning of FMNEs and their domestic competitors by supplementing traditional supply-side perspectives with an approach that focuses on demand-side marketing strategy and customer satisfaction perspectives.

In an attempt to provide insights into FMNE strategies in domestic markets, Prahalad and Doz (1987) offered the global integration – local responsiveness framework. This framework considered the effectiveness of FMNEs in employing national resources, their global strategies and capabilities, the competitiveness of domestic firms, and local demand characteristics. Yet, domestic customers played a passive role in guiding FMNE action, with customer preferences, rather than customer satisfaction and reaction, serving as the focal construct of interest. Furthermore, the competitiveness of domestic firms was considered a given factor rather than a variable that changes as a result of competitive interactions. Such an approach is typical of most of the existing literature, which advocates a supply-side MNE theory. For instance, MNE expansion has been associated with exploitation of economies of scale (Caves 1971, Hymer 1960) and scope (Teece 1980, Porter 1986, Prahalad/Doz 1987), exploitation of geographical advantages through global configuration of activities (Porter 1986, Caves 1971), and network advantages that provide MNEs with access to unique resources and manufacturing opportunities, which ultimately lead to higher performance (Buckley/Casson 1976). These approaches relied on FMNE characteristics rather than on competitive interactions or domestic customers' reaction.

The current study extends existing perspectives by emphasizing demand-side aspects in the analysis of the strategic management of FMNEs. It incorporates competitive interactions (Henderson/Mitchell 1997) between the external environment, competitive strategy, and derived marketing activities. In particular, it evaluates the strategic positioning and competitive behavior of FMNEs in a domestic market and incorporates marketing theories pertaining to customers' perceptions in the assessment of FMNE operations.

In accordance with prior research that used customer satisfaction to explain the strong association between MNEs' strategic capabilities and their market capitalization (Morck/Yeung 1991, 1992), this study considers customer satisfac-

tion as an important measure of long-term sustainable performance (Day 1990). We therefore call for consideration of domestic customers as influential stakeholders and argue that in LDCs, FMNEs can enhance customer satisfaction by deploying strategic capabilities more effectively than domestic counterparts. Consequently, domestic customers' satisfaction can serve as an important intangible asset of the FMNE and should be incorporated into managerial mind-sets when developing global strategies and making entry decisions (Murtha/Lenway/Bagozzi 1998).

The entry of FMNEs to Israel in the mid 1990's provides an ideal setting for this study. FMNEs' massive entry to Israel occurred only after the regional peace process had been initiated and the Israeli government implemented economic reforms, adjusting its policies toward foreign investors, thus leading to enhanced foreign investment and significant changes in the domestic competitive landscape. The tremendous growth of the Israeli economy (a 7.1% growth in GNP in 1995) and the fact that only few FMNEs competed in the Israeli market prior to 1992, enhanced the attractiveness of the Israeli market during the study's time period. Despite its small size, the Israeli market was ranked #18 in the list of most attractive markets for FDI activity in the 1996 Yearbook of the Institute for Management Development (IMD). A 1995 Euromoney survey indicated improvement in the risk-based ranking of Israel from #62 to #31 and identified Israel as one of the most attractive countries for foreign investors during the years 1993–1995. Indeed, FDI activity in Israel increased from \$ 140 million in 1992 to \$ 930 million in 1995 (Lavie 1997).

This pattern of FMNE activity differs from Aharoni's (1966). Whereas Aharoni suggested that FDI activity in Israel was led by American Jews, who often invested in Israel for sentimental rather than for pure economic reasons, entering FMNEs in the mid 1990s included prominent firms such as McDonald's, Pepsi, Unilever, Danone, Nestle, L'Oreal, Johnson & Johnson, Toys 'R' Us, Siemens, Hewlett Packard, and Microsoft. FMNEs entered Israel to leverage its natural resources, human capital, and emerging technologies as well as for engagement in domestic market competition. We focus exclusively on FMNE activities directed to competition in the Israeli market. Fiegenbaum, Shaver, and Yeung (1997) used a broader perspective and, explored the strategic capabilities of US MNEs that entered the risky Middle-East region during 1986–1990. They compared the characteristics of these MNEs to non-entering MNEs, but did not evaluate their strategic positioning and performance relative to their domestic competitors; nor did they provide a theoretical framework to evaluate the success of the entering FMNEs. Few other studies have examined FDI activity of Israeli firms in foreign markets (cf. Almor/Hirsch 1995). However, to date, the issues of globalization and FDI in the Middle East have remained under-researched. This study provides evidence on FMNE activity in the Middle East; bridges the theoretical gap in the MNE literature by adopting the competitive interactions paradigm (Hender-

son/Mitchell 1997); and uses strategic reference points (SRP) theory (Fiegenbaum/Hart/Schendel 1996) as a theoretical framework to describe FMNEs' competitive strategy.

The following section extends MNE theory by applying the competitive interactions paradigm to study FMNEs and their domestic counterparts. Then, we conjecture about the relative positioning of FMNEs and its implications for customer satisfaction.

Theory development

Competitive Interactions and Competitive Strategy

Henderson and Mitchell (1997) called for modeling competitive strategy by incorporating industry structure, competitive strategy, and performance simultaneously. Industry structure affects strategy development over time, which, in turn, affects performance (Arora/Gambardella 1997, Ingram/Baum 1997). In line with the competitive interactions paradigm, Fiegenbaum et. al. (1996) suggested a comprehensive framework based on the SRP space, to formulate business strategy. The SRP framework identifies three competitive dimensions: internal, external, and time.

The *internal* SRP dimension builds on motivation theory and the resource-based view of the firm (Wernerfelt 1984, Barney 1991). It emphasizes the importance of internal organizational orientations for developing and exploiting competitive advantage and includes inputs and outputs of strategic decisions. Strategic inputs are internal capabilities, developed for specific functions or value-added activities (Porter 1985). Firms can develop superior functional capabilities in technology, product development (Takeuchi/Nonaka 1986), production (Cohen/Zysman 1987), or distribution (Zeithaml/Parasuraman/Berry 1990). Strategic outputs indicate different facets of the performance targets set by firms (Rappaport 1986).

The *external* SRP dimension follows the industrial economics (Porter 1980, Scherer/Ross 1990), resource dependence (Pfeffer/Salancik 1978), and institutional (Hannan/Freeman 1979) theories. Industrial economics focuses on firms' positioning relative to industry competitors; resource dependence theory highlights the constraints imposed by suppliers and customers; and institutional theory emphasizes the pressures placed on firms by organizational stakeholders. Hence, external SRP pertains to three external groups: customers (Shapiro 1988, Cornish 1988), stakeholders (Anshen 1980, Freeman 1984, Davis 1991), and competitors (Porter 1980).

The *Time* SRP dimension follows the theory of strategic intent (Hamel/Prahalad 1994), which identifies time as a critical competitive dimension. Current strategies are path-dependent and future-intended. Organizational learning studies show that knowledge accumulation can become a source of competitive advantage (Levitt/March 1988, Shaver/Mitchell/Yeung 1997), suggesting that past positions affect the current position of the firm. However, path-dependent decision making can also constrain the viable strategic options of the firm. Therefore, a future orientation also serves an important purpose (Hamel/Prahalad 1994).

In sum, the SRP framework provides a comprehensive view of competitive strategy along the internal, external, and time dimensions of the competitive space. Normatively, successful strategies would achieve simultaneous strategic superiority (relative to competitors) on all three dimensions. The internal dimension stresses the importance of building strategic capabilities; the external dimension emphasizes the importance of satisfying customers, responding to stakeholders, and being better than competitors; and the time dimension emphasizes the importance of a dynamic organizational orientation.

Industry Characteristics and Competitive Strategy

We apply the competitive interactions paradigm to study FMNEs. The characteristics of the domestic industry affect the strategic behavior of FMNEs and their domestic counterparts. Previous studies explored the mechanisms that explain the interaction between industry structure and strategic behavior. For instance, Makadok and Walker (1996) argued that firms continuously seek to respond to the threats and opportunities in domestic markets; Stuart and Podolony (1996) viewed niche selection as an appropriate response of firms to their industry environment; and Schul, Davis, and Hartline (1995) provided a model relating extended rivalry to organizational strategies and subsequent performance in support of the theorized role of strategy in mediating the effects of the environment on performance. Thus, the nature of targeted industries should affect competitors' strategic positioning. In particular, FMNEs and domestic firms are motivated to enhance their strategic efforts in highly attractive industries.

Hypothesis 1 (H₁): The more attractive the target industry, the greater the efforts of FMNEs and their domestic counterparts to improve their overall competitive strategy.

Competitive Strategy, Marketing Effectiveness, and Product Positioning

Being a functional area, marketing strategy is derived from the overall competitive strategy of the firm, and marketing activities are derived from firms' mission

and goals. For example, Kotler (2000) relates product planning and positioning to overall firm strategy. Similarly, Porter (1980) identified generic strategies that directing marketing activities and product positioning. Specifically, cost leadership entails lower prices, whereas differentiation involves improvements in product attributes and quality of services offered to customers.

To better evaluate this relationship, we distinguish between two marketing constructs: (a) marketing effectiveness, which pertains to the effect of marketing policies, such as pricing, promotion, and advertising, on customer behavior; and (b) product positioning, which refers to the price and quality attributes that characterize firms' products and services, ultimately determining the relative positioning of these products and services relative to those offered by competitors. By making this distinction, we demonstrate how the effectiveness of marketing policies mediates the relationship between overall competitive strategy and functional marketing strategy in terms of positioning of products and services.

A key aspect of demand-side theories advocated by marketing research is that customers serve as the focal unit of concern when devising firm strategies (Kotler 2000). Such an approach is justified because "perceived marketing efforts play a more direct role in customer psychology than actual marketing efforts" (Yoo et al. 2000, p. 200). Hence, customer behavior can be better explained when considering the perceived prices and qualities of products as well as customers' subjective perception of advertising and promotion activities. This study follows the aforementioned approach by conjecturing about the relationship between competitive strategy and perceived marketing-related constructs. We expect a positive impact of firms' competitive strategy in terms of the three SRP dimensions on perceived marketing effectiveness. Enhanced competitive strategy should provide better guidelines for the marketing activities resulting in enhanced marketing effectiveness. Similarly, enhanced marketing effectiveness will have a positive impact on perceived product positioning in terms of price and quality. Formally:

Hypothesis 2 (H₂): The greater the efforts invested by FMNEs and domestic counterparts in improving overall competitive strategy, the greater their perceived marketing effectiveness.

Hypothesis 3 (H₃): The greater the perceived marketing effectiveness of FMNEs and domestic counterparts, the higher the perceived product positioning.

The competitive interactions paradigm can also explain how competitive strategy affects marketing strategy, which in turn affects firm performance. While the strategy literature provides evidence that superior strategies lead to higher performance (cf. Arora/Gambardella 1997, Ingram/Baum 1997), it mostly follows a supply-side rationale and operationalizes performance with measures such as profits, revenues, and market share. By incorporating a demand-side perspective, we focus on customer satisfaction as a key performance measure. Thus, marketing theories are integrated into the competitive interactions paradigm to

provide additional support to the relationships among competitive strategy, marketing strategy, and customer satisfaction.

According to the principle of cognitive consistency, customers value harmony between thoughts, feelings, and actions (Hawkins/Best/Coney 1995). Due to the impact of cognitive dissonance (Festinger 1957), they are motivated to maintain consistency between these components and change the inconsistent one when inconsistencies arise. Applied to our study, to the extent that customers have more positive beliefs about the activities of FMNEs or their domestic counterparts, they will be motivated to adapt their behavioral tendencies accordingly, resulting in higher customer satisfaction. This result is also expected according to self-perception theory (Bem 1972), suggesting that customers use their behavioral patterns to infer their attitudes. Finally, congruity, another type of consistency-explaining theory (Solomon 1996), advocates a positive relationship between attitudinal components. Positively evaluated marketing activities and product positioning of FMNEs (or domestic firms) will result in higher customer satisfaction. Formally:

Hypothesis 4 (H₄): The greater the perceived marketing effectiveness and the higher the perceived product positioning of FMNEs and domestic firms, the higher the customer satisfaction.

So far, we established the chain-effects of industry characteristics on competitive strategy and marketing efforts, which in turn affect customer satisfaction for both FMNEs and domestic firms. In order to better understand the prospects of FMNEs versus domestic firms in LDCs, the SRP framework may be applied in the assessment of firms' relative positioning in terms of competitive strategy, marketing effectiveness, product positioning, and customer satisfaction.

The Competitive Positioning of FMNEs

The SRP framework emphasizes the simultaneous movement of firms' strategic actions along the internal, external, and time dimensions. FMNEs from developed countries should differ from domestic competitors along these dimensions when entering LDCs. The MNE literature indicates that the superior capabilities of FMNEs from developed countries enable them to exploit potential advantages in LDCs (cf. Caves 1996, Chapter 9). These capabilities are enhanced due to economies of scale and scope (Caves 1971, Hymer 1960, Teece 1980, Porter 1986, Prahalad/Doz 1987), network advantages (Buckley/Casson 1976), and learning from cross-national operations (Mitchell/Shaver/Yeung 1992). Superior intangible assets (e.g., technological knowhow, marketing ability, and effective management) are additional factors enabling FMNEs to overcome the liabilities of foreignness and out-position domestic competitors in LDCs (Hymer 1960, Caves 1971, Dunning 1973, Kim/Hwang/Burgers 1989, Jarilo/Martinez 1990). These superior capabilities form the internal SRP dimension and are reflected in

functional areas such as R&D, production, marketing, and human resource management.

In addition to advantages on the internal dimension, FMNEs from developed countries enjoy advantages along the external and time dimensions, allowing them to better adapt to changing competitive conditions and respond to domestic customers' needs. Unlike domestic firms in LDCs, FMNEs can respond adequately to multiple competitive threats and opportunities that can arise from the three categories of the external dimension, namely customers, stakeholders, and competitors (Knickerbocker 1974). They enjoy flexibility and availability of strategic options (Kogut 1985) and are accustomed to locally responding to diverse demand characteristics (Prahalad/Doz 1987). These advantages also enable FMNEs to reveal more dynamic strategic behavior and make multidimensional adjustments in their competitive strategy. Given that the vast majority of FMNEs entering Israel originated from developed countries (Fiegenbaum et al. 1997), FMNEs are expected to demonstrate a better competitive strategy relative to that of domestic firms. Therefore, the formal hypothesis states:

Hypothesis 5 (H₅): In LDCs, the overall competitive strategy of FMNEs originating from developed countries will be better than that of their domestic counterparts.

Integrating H₅ with H₂₋₃, which proposed that marketing activities are driven from the overall competitive strategy, we suggest that a superior competitive strategy of FMNEs will be reflected in greater marketing effectiveness and a higher product positioning. FMNEs with superior SRP advantages on the internal, external, and time dimensions can devise better marketing activities in terms of pricing, promotion and advertising policies, as well as design products and services, which are positioned higher than those of domestic firms in terms of price and quality.

Previous research supports our assertion by indicating that the marketing effectiveness and product positioning of FMNEs in LDCs are superior to those of domestic firms. For instance, Appiah-Adu (1999) demonstrated that FMNEs are superior to domestic firms in promotion and customer orientation activities. More generally, in an eight-country study, Papadopoulos and Heslop (1990) found that customer perceptions of products are related to the degree of industrial development of the country of origin, leading to a preference of foreign products over domestic products in LDCs. We propose that the superior marketing policies and product positioning of FMNEs in terms of price and quality account for the findings concerning superior evaluation of foreign products relative to domestic ones in LDCs (cf. Al-Sulaiti/Baker 1998). We extend existing arguments by offering the SRP framework as a theoretical mechanism that supports these empirical findings. Formally:

Hypothesis 6 (H₆): In LDCs, the perceived marketing effectiveness and product positioning of FMNEs originating from developed countries will be superior to those of their domestic counterparts.

Integrating H_6 with H_4 , which linked the marketing effectiveness and product positioning constructs to customer satisfaction, we posit that FMNEs will enjoy higher customer satisfaction than domestic firms in LDCs. FMNEs offer superior marketing mix reflected in better pricing, promotion and advertising policies (marketing effectiveness), and better product positioning. Consequently, domestic customers are expected to be more satisfied with foreign products and with aspects of the purchasing process such as the interaction with the firm's representatives. This prediction is consistent with the existing strategic management literature that has explored the impact of functional strategies on firm performance. We supplement previous studies that included traditional firm-level performance measures by focusing on customer-oriented measures, namely customer satisfaction (Day 1990).

Hypothesis 7 (H_7): In LDCs, domestic customers will be more satisfied with FMNEs originating from developed countries than with their domestic counterparts.

Methodology

Sample and Data Collection

Defining the firm as the unit of analysis, the sample included data on 104 firms, of which 48 were FMNEs and 56 were Israeli counterparts (a list of firms is available from the authors). Since no comprehensive data sources about FMNE entry to Israel existed, the identification of FMNEs in Israel was a major effort of this study. We scanned the Israeli press for reports on marketing efforts of FMNEs in Israel. Then, we interviewed top executives in numerous industries and generated a second list of domestic firms and FMNEs. Thus, we identified seven major industries (product types), namely: textile (fashion clothing and apparel), electronics (consumer electronics, hardware, and software), chemicals (plastic and rubber products, organic intermediates, cleaners, paints, oil, and gas), food (food, beverages, and fast food chains), toiletries & cosmetics (fragrances, perfumes, personal care, and bath products), retailing (home improvement, office, toys, books, and general retail), and aviation (airlines). Consistent with prior literature (Horst 1973), only a handful of FMNEs in our sample had local, export-oriented R&D and production activities in addition to marketing activities targeting the domestic market.

Questionnaires about firms from the two lists were administered to MBA students (respondents), who served in two roles: (a) as informed raters who received appropriate training and access to business information, enabling them to

evaluate industry characteristics and strategic aspects of firms' operations; and (b) as knowledgeable domestic customers who evaluated the impact of firms' marketing activities and product attributes on their purchasing behavior and satisfaction. The questionnaire included items confirming that respondents were experienced customers, who purchased products of the firms they evaluated. The reliance on experienced customer responses minimized country-of-origin effects that may otherwise result in preference of FMNEs or domestic firms' products regardless of their intrinsic attributes. Prior research suggests that experienced customers, who are more informed about the products and services that they consume, are less influenced by country-of-origin information (Erickson/Johansson/Chao 1984, Cordell 1992). Respondents' age averaged 34.5 years. Respondents for domestic firms and FMNEs did not differ demographically. The use of a homogenous group of students enhanced construct validity at the expense of external validity. While the accuracy of customers' perceptions of some constructs can be questioned, using customers as respondents provided important merits in the context of this study. First, our outcome measure (customer satisfaction) required customers' evaluations (Day/Wensley 1988). Second, Day (1990) advocated the use of customers' judgments for other components of our model. Third, we found additional support in the academic marketing literature for the use of customers' evaluations in estimating various dimensions of firm-level marketing decisions. Specifically, we adopted the approach of Yoo, Donthu and Lee (2000), who constructed scales for perceived rather than actual marketing mix elements. Finally, such perceived measures ensured that customers' judgments pertain to the overall rather than individual elements of the marketing mix activities, and thus enable cross-sectional comparison even when the sample of firms is drawn from diverse industries.

Each firm in the sample was assigned to several respondents to enhance the reliability of the measures. A total of 406 respondents returned questionnaires, providing four observations on average for each of the 104 firms. The multiple responses were then averaged to generate a single firm-level observation for each item.

Questionnaire and Measures

The questionnaire was used to evaluate firms' strategies and marketing efforts, resulting customer satisfaction, and respondents' purchasing experience (Fiegenbaum et. al. 1996). Respondents were instructed to focus on the strategies and marketing efforts directed toward the domestic market and ignore export-oriented activities. A pretest involving top executives of four firms (two FMNEs and two domestic firms) and a group of their customers served to improve the readability and comprehension of the questionnaire. The final questionnaire included several

7-point Likert items (1 = strongly disagree to 7 = strongly agree) to measure perceptions of the competitive interactions components. Table 1 provides descriptive statistics and reliability coefficients for the scales used, while a full list of the items is provided in the Appendix. Averaged scales were used as indicators of the constructs to economize on degrees of freedom. We used a two-stage approach in our analyses (Anderson/Gerbing 1988). Regarding scales' reliability, α coefficients of the scale ranged between 0.60 and 0.84, which are considered acceptable for early-stage research that uses a limited number of items per scale (Nunnally 1967). Additionally, we examined the correlation coefficients between each item and its corresponding scale. In all cases, these coefficients exceeded 0.40, suggesting that the items indeed correspond to their respective scales, thus providing evidence for convergent validity. We tested the discriminant validity of the seven scales by examining the correlation coefficients for every pair of scales. All correlation coefficients, \pm two standard deviations, were lower than 1.0, thus supporting the argument for discriminant validity (Anderson/Gerbing 1988).

The first three constructs pertain to FMNEs and domestic firms' overall competitive strategy based on the three SRP dimensions (Fiegenbaum et. al. 1996). Four items measured firms' strategic capabilities in marketing, R & D, production, and human resources along the internal dimension (denoted as A1). Two items measured the external SRP dimension (denoted as A2) by referring to a firm's perceived effort to satisfy customers' needs (Day 1990) and to its competitive adaptability relative to competitors (Porter 1980). The time dimension (denoted as A3) was operationalized by two items measuring a firm's ability to adjust its strategy incrementally and continuously as well as act simultaneously on several strategic dimensions (Miller/Friesen 1980).

The next two constructs referred to marketing effectiveness (denoted as B1) and product positioning (denoted as B2). Customers appraised the effectiveness of the marketing function by three items noting how advertising, pricing, and promotion activities affected their behavior. Two items referring

Table 1. Correlation Coefficients

	Mean (S.D.)	Alpha	A1	A2	A3	B1	B2	C	D
A1. Internal SRP	4.48 (0.97)	0.84	1.00						
A2. External SRP	4.95 (0.97)	0.74	0.76	1.00					
A3. Time SRP	4.65 (0.91)	0.78	0.49	0.61	1.00				
B1. Marketing effectiveness	4.20 (1.08)	0.67	0.41	0.33	0.39	1.00			
B2. Product Positioning	4.54 (0.98)	0.60	0.59	0.40	0.29	0.21	1.00		
C. Customer Satisfaction	4.89 (0.76)	0.68	0.49	0.47	0.36	0.21	0.34	1.00	
D. Industry Attractiveness	5.16 (1.00)	0.62	0.33	0.23	0.33	0.12	0.19	0.28	1.00

to product price and quality relative to competitors measured product positioning (Day 1990). Customer satisfaction (denoted as C) was evaluated by three items that assessed customers' satisfaction with the service provided by salespeople, their enjoyment of the purchase process, and their assessment of the courteous service they received from the firm. Finally, industry attractiveness (denoted as D) was measured using two items assessing the perceived profitability and innovation in the industry. In addition to controlling for variation in attractiveness of different industries, this construct played an important role in enhancing the external validity of our findings. The incorporation of this construct supports the applicability of our model for periods of deteriorating attractiveness of the Israeli market as well as for markets of other LDCs.

Analysis

Given the simultaneous relationships posited by H_{1-4} , we used LISREL 8 with maximum likelihood estimation. Because industry characteristics may affect customers' assessment of the future of the industry and hence, their purchase decisions, we controlled for these potential effects by including a direct relationship between industry attractiveness and the perceived marketing effectiveness and product positioning constructs. As noted earlier, we averaged the scales and used the means as measures of the seven constructs. In line with Joreskog and Sorbom's (1993) recommendation, we fixed the error variance for each measure at $\{[1 - \alpha_{scale}] \cdot \text{variance}_{scale}\}$ and estimated the substantive model, which used all 104 firms in the sample to test H_{1-4} . Since several respondents rated each firm, we averaged these responses for each firm and set the sample size at 104.²

Although the means for the two sub-samples differed (see H_{5-7}), we included all firms in the model. Practically, the two sub-samples were small and their separate evaluation would have resulted in potentially biased estimates of the model's relationships. Standards for SEM models require at least five data-points for each estimated statistic (Hair et al. 1998). Statistically, we used Z' transformations to arrive at confidence intervals around the correlation coefficients for the two sub-samples (Neter/Wasserman/Kutner 1989). In all cases, based on the computed confidence intervals for the two sub-populations' correlation coefficients, we could not rule out the possibility that they were similar. Thus, we combined the two sub-samples at this stage.

The results are shown in Tables 2–3 and Figure 1. While the model's χ^2 was significant ($\chi^2 = 14.51$; 6 degrees of freedom; $p = 0.02$), other fit statistics were within the range of acceptable values (root mean square residual = 0.05; GFI = 0.96; NFI = 0.94; $\chi^2 / \text{degrees of freedom} = 2.42$; Hair et al. 1998).

Table 2. LISREL Model Estimates

	Standardized Direct Coefficients			Standardized Total Coefficients		
	BETA; GAMMA	t-value	p-value	BETA; GAMMA	t-value	p-value
Industry → Internal SRP	0.46	3.35	< 0.01			
Industry → External SRP	0.31	2.31	< 0.01			
Industry → Time SRP	0.52	3.38	< 0.01			
Industry → Marketing effectiveness	-0.43	-0.92	NS	0.26	1.58	0.06
Industry → Product Positioning	0.03	0.11	NS	0.34	2.24	< 0.01
Internal SRP → Marketing effectiveness	1.55	1.73	< 0.05			
External SRP → Marketing effectiveness	-1.37	-1.17	NS			
Time SRP → Marketing effectiveness	0.77	1.15	NS			
Marketing effectiveness → Product Positioning	1.23	3.41	< 0.05			
Marketing effectiveness → Customer Satisfaction	0.22	1.58	0.06	0.22	3.52	< 0.01
Product Positioning → Customer Satisfaction	0.47	3.60	< 0.01			

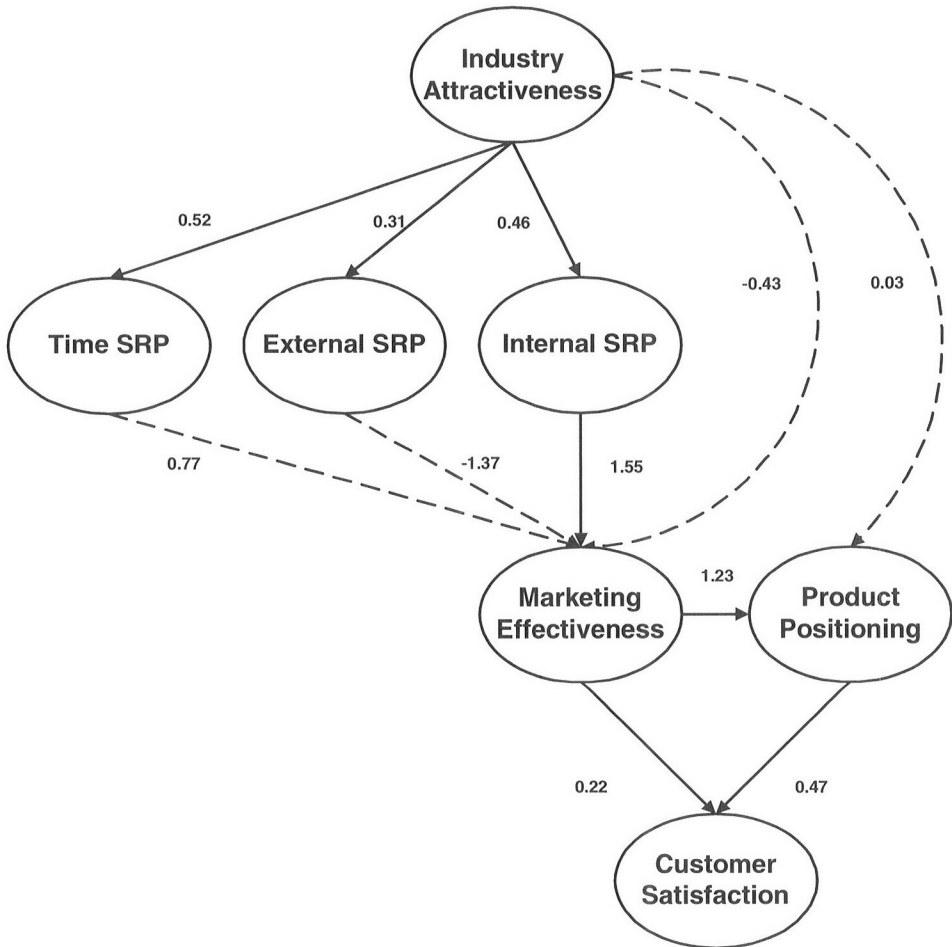
Chi-square = 14.51 (6 degrees of freedom; p = 0.02). Root mean square residual = 0.05. GFI = 0.96. NFI = 0.94.

Table 3. Statistics for Scales, MANOVA, and ANOVA Results for Complete and Split Sub-Samples

Scale	Mean (S.D.) Domestic	Mean (S.D.) FMNE	ANOVA F (1df)	p-value
A1. Internal SRP	4.09 (0.90)	4.94 (0.84)	24.72	< 0.01
A2. External SRP	4.61 (1.02)	5.36 (0.73)	17.88	< 0.01
A3. Time SRP	4.53 (1.00)	4.79 (0.79)	2.05	0.16
B1. Marketing Effectiveness	4.16 (1.08)	4.24 (1.09)	0.12	0.74
B2. Product Positioning	4.18 (0.88)	4.98 (0.92)	20.25	< 0.01
C. Customer Satisfaction	4.69 (0.80)	5.12 (0.64)	9.13	< 0.01
D. Industry Attractiveness	5.20 (0.96)	5.11 (1.04)	0.25	0.62

A significant MANOVA model for the seven scales (Wilks' Lambda = 0.686; F = 6.289 with 7 degrees of freedom; p < 0.01)

Figure 1. Structural Model Results



Solid lines denote significant direct paths ($p < 0.05$) and dotted lines denote insignificant direct paths. Numerical values are standardized path coefficients.

Results

FMNEs and Domestic Firms' Competitive Interactions (H_1-H_4)

H_1 stated that the higher the attractiveness of the industry, the more intensified the firms' efforts to improve their overall competitive strategy. The data support the hypothesized effect on all three aspects of competitive strategy. The impact of industry attractiveness on internal management of strategic capabilities (0.46, $t = 3.35$), external management (0.31, $t = 2.31$), and time management (0.52,

$t = 3.38$) were positive and significant ($p < 0.01$). A direct association between industry attractiveness and the marketing-related constructs is disconfirmed because the standardized direct impacts of the industry on marketing effectiveness (-0.43 , $t = -0.92$) and product positioning (0.03 , $t = 0.11$) are insignificant. Therefore, the impact of industry attractiveness on these two constructs is mediated by the competitive strategy of firms. Notably, the total impact (direct and indirect impact through internal, external, and time SRP; see Table 2) of industry attractiveness on marketing effectiveness is positive (0.26 , $t = 1.58$) and marginally significant ($p = 0.06$). The total impact of industry attractiveness on product positioning is positive (0.34 , $t = 2.24$) and significant ($p < 0.01$).

According to H_2 , marketing effectiveness should be affected by firms' overall competitive strategy in terms of SRP dimensions: internal strategic capabilities, external management, and time management. The data support the effect of internal SRP (1.55 , $t = 1.73$; $p < 0.05$). The higher the firm's competitive positioning (in terms of internal SRP), the higher the level of marketing effectiveness. Neither external (-1.37 , $t = -1.17$) nor time SRP (0.77 , $t = 1.15$) affected marketing effectiveness significantly. H_3 , which posited that higher marketing effectiveness would enhance product positioning, was supported by the data (1.23 , $t = 3.41$; $p < 0.05$).

H_4 , which suggested that marketing effectiveness would increase customers' satisfaction, was substantiated. The impact was positive (0.22 , $t = 1.58$) and marginally significant ($p = 0.06$). Additionally, the total impact – direct and indirect (through product positioning) – was positive and significant (0.22 , $t = 3.52$; $p < 0.01$). Finally, the data confirmed the expectation that enhanced product positioning would increase customers' satisfaction. The coefficient was positive (0.47 , $t = 3.60$) and significant ($p < 0.01$).

Competitive Strategic Positioning: FMNEs versus Domestic Firms (H_5 – H_7)

Table 3 details the results of MANOVA and ANOVA models used for testing H_{5-7} .³ Notably, the MANOVA model was significant (Wilks' Lambda = 0.686; $F = 6.289$, 7 degrees of freedom; $p < 0.01$). Thus, we examined the ANOVA models for the four scales, which differed across the two sub-populations (internal and external SRP, product positioning, and satisfaction).

H_5 focused on the superior competitive positioning of FMNEs relative to domestic firms'. As proposed, the mean for internal SRP of FMNEs (4.94) was significantly higher ($p < 0.01$) than domestic firms' (4.09). The competitive positioning of FMNEs on external SRP (5.36) was also superior to that of domestic firms (4.61; $p < 0.01$). In addition, the results provide weak support for differences on the time SRP dimension. The mean for FMNEs (4.79) was higher than

domestic firms' (4.53), but the difference was not significant ($p = 0.16$). In sum, H_5 was supported for two SRP dimensions (internal and external) and directionally supported for the third (time).

H_6 predicted that the marketing activities of FMNEs will be perceived as more effective and that their product positioning will be perceived as higher than domestic firms'. The mean for marketing effectiveness of FMNEs (4.24) was similar to that of domestic firms (4.16; $p = 0.74$). However, the data support the hypothesized differences in product positioning. The mean for FMNEs (4.98) was significantly higher from that of domestic firms (4.18; $p < 0.01$).

The results also support H_7 – FMNEs' customers were more satisfied than domestic firms' customers (averaging 5.12 and 4.69 respectively; $p < 0.01$). Comparison of the items⁴ in the satisfaction scale suggests that while customers of FMNEs were as satisfied with the service of the firms' salespeople as local firms' customers (4.81 versus 4.64), the former enjoyed the purchasing process (5.25 versus 4.49; $p < 0.01$) and service (5.32 versus 4.93; $p = 0.03$) more than the latter.

Importantly, the differences described above were not due to differences in industry attractiveness. Customers of FMNEs and domestic firms evaluated the attractiveness of the relevant industries similarly (FMNE = 5.11; domestic firms = 5.20; $p = 0.62$). In sum, all competitive positioning propositions were supported. Competitive strategy (H_5), marketing strategy (H_6), and customer satisfaction (H_7) were evaluated more positively by customers of FMNEs than by customers of their domestic counterparts.

Discussion and Directions for Future Research

FMNEs in Domestic Markets: Modeling Simultaneous Competitive Interactions

The first theme of this study suggests that FMNE research can benefit from modeling simultaneous competitive interactions (Henderson/Mitchell, 1997). In this study we considered the interactions of industry structure, competitive strategies, marketing activities, and customer satisfaction, thus covering industry-, firm-, and customer-level factors. The study provides empirical support to the competitive interactions paradigm and extends it by considering the active role of individual customers. Specifically, it demonstrates how firms' competitive strategies are affected by industry characteristics, and in turn, guide marketing policies that affect customer satisfaction. The system was modeled simultaneously

and allowed for direct *and* indirect effects such as the industry impact on marketing activities via competitive strategy and the marketing effectiveness impact on customer satisfaction via product positioning.

In general, the findings mostly support the hypotheses – the more attractive the industry, the better the competitive strategy of FMNEs relative to domestic firms' in terms of the simultaneous development of the three SRP dimensions. Firms that attempt to improve marketing effectiveness need to succeed in managing the internal, external, and dynamic dimensions of their competitive strategy. The direct impact of industry attractiveness on marketing effectiveness and product positioning was insignificant, but the total impact was significant, in support of the competitive interactions argument. Hence, in more attractive industries, both FMNEs and domestic firms design competitive strategies that allow them to introduce premium products and services as well as employ more effective advertising, pricing, and promotion policies.

We further explored the impact of competitive strategy on marketing strategy. Whereas development of internal capabilities was significant, management of external stakeholders and dynamic management were not. This result is consistent with internalization and resource-based theories that emphasize the role of capabilities in determining the strategic behavior of firms (Barney 1991). This study demonstrates how supply-side strategic capabilities in marketing, R & D, and production shape the marketing effectiveness of FMNEs and domestic firms in terms of advertising, pricing, and promotion policies. Future research may examine whether firms can achieve superior performance by developing externally-oriented and time-consistent strategies that satisfy customers and suppliers in a better way than their competitors.

We found a positive impact of marketing effectiveness on product positioning and of product positioning on customer satisfaction. These expected results indicate that superior marketing effectiveness is needed for premium products with high-price/high-quality positioning. Because the results also show that a high-price/high-quality positioning increased customer satisfaction compared to a low-price/low-quality positioning, we infer that customers in Israel are relatively sensitive to the quality of products, and therefore prefer high-positioned products. Indeed, Lichtenstein, Bloch, and Black (1988) found that high prices are more acceptable to less price-consciousness customers. Thus, pricing affects customers' price/quality schema, which affects consumption. Future research should test this explanation by examining price consciousness and price/quality schema for products at both ends of the quality/price continuum.

Finally, this study demonstrates that marketing effectiveness increases customers' satisfaction directly *and* indirectly. Hence, domestic customers are more satisfied when the pricing, advertising, and promotion activities of firms are effective and when the perceived quality of products and services is high. The potential advantage of FMNEs over domestic firms can be therefore explained

by strategic decisions of these competitors rather than by simply assuming inherent propensity of customers to prefer products from more developed countries (Papadopoulos/Heslop 1990).

FMNEs in Domestic Markets: Competitive Positioning Approach

The second theme of this study suggests that the consideration of FMNEs' positioning relative to that of domestic firms can complement traditional perspectives of MNE theory. In line with industrial economics (Porter 1980) and the resource-based view of the firm (Wernerfelt 1984, Barney 1991), which emphasize the impact of supply-side competitive strategy on firm performance, the study reveals that FMNEs were better positioned than domestic firms in terms of internal capabilities, the ability to address customers' needs, and the ability to adapt to competitive threats.

Although the study does not support FMNEs' superiority in terms of marketing effectiveness, it does show superiority of product positioning. Since FMNEs have superior strategic capabilities, they can position themselves as providers of high-price/high-quality products. Furthermore, the claim that FMNEs' superior positioning should lead to higher customer satisfaction is supported. FMNEs customers were more satisfied and enjoyed the purchasing process and courteous service to a greater extent than customers of domestic firms. The positive association between product positioning and customer satisfaction when the two sub-samples of FMNEs and domestic firms are pooled, suggests that domestic customers derive their satisfaction from similar marketing activities and product characteristics in respect to FMNEs versus domestic firms. The extent to which customer purchasing decisions are influenced by marketing policies versus inherent propensity to favor foreign products can be a subject for future research studying country-of-origin effects (cf. Al-Sulaiti/Baker 1998).

In sum, this study integrates supply- and demand-side perspectives of FMNE strategic management. In particular, we corroborate and extend studies of MNE capabilities (cf. Morck/Yeung 1991), which assumed that the superior competitive capabilities of MNEs could be successfully employed overseas. We show how FMNEs better manage their subsidiaries relative to their domestic counterparts in terms of strategic capabilities, responsiveness to external stakeholders (customers and competitors), and dynamic adjustments. The superior competitive strategy of FMNEs results in greater marketing effectiveness and a high-quality/high-price positioning, which enhance customer satisfaction relative to that of domestic firms. These results support the inclusion of demand-side aspects in addition to supply-side aspects of competitive strategy when developing theories concerning the strategic management of MNEs in markets of interest.

MNE Theory: Domestic Customers' Satisfaction and Evaluations

Previous research used performance measures such as financial ratios, revenues, market share (Mitchell/Shaver/Yeung 1994), and stock market reaction to FDI activities (Morck/Yeung 1992). However, sustained customer satisfaction should be an important long-term performance goal of FMNEs. FMNEs' performance should be evaluated in view of customer satisfaction in multiple host countries. Customer satisfaction is important especially for FMNEs due to the need to deal with strategic issues of configuration, coordination, and resource allocation (Porter 1990, Prahalad/Doz 1987, Bartlett/Ghoshal 1989).

In addition, we suggest moving beyond the analysis of supply-side performance on the integration-responsiveness matrix, by including a complementary demand-side aspect of local responsiveness that considers customer satisfaction in local markets. Hence, this study highlights the importance of integration (measured in terms of MNE strategic capabilities) and local responsiveness (measured in terms of marketing activities and customer satisfaction).

Moreover, we show that domestic customers can provide important information to FMNEs since they can trace the factors that affect customer satisfaction. Such information may allow MNE executives to better diagnose and respond to interaction and fit among industry characteristics, competitive strategy, and marketing activities, resulting in improved long-term performance in terms of customer satisfaction. Customer satisfaction is a key performance measure because of its direct impact on the profits and market capitalization of MNEs (Morck/Yeung 1991). By considering customers' evaluations of FMNEs, this study complements Fiegenbaum et al.'s (1997) study of MNE entry that was conducted from the perspective of the entrant. This new approach is under-researched and deserves more attention in studies of MNE market entry and positioning.

Limitations and Directions for Future Research

Beyond the theoretical extensions advanced in this study and the directions for future research that we already identified, we recognize some methodological limitations that can be addressed in future studies. First, our results are based on responses of Israeli customers, who evaluated a sample of domestic firms and FMNEs. The use of MBA students was motivated by the need for respondents to provide informed evaluations of strategic issues. Knowledgeable corporate informers should be able to provide more accurate assessments of certain issues than external raters or customers. Future research should also examine the hypothesized relationships with representative samples of customers.

Second, most of the scales were based on 2–3 items, preventing us from testing the uni-dimensionality of constructs. Further work is needed to improve the measures of the seven constructs. Third, we believe that our findings can be generalized to other LDCs. The consideration of industry attractiveness as an integral part of the model facilitates the generalization to other countries. However, further research may be useful for exploring the nature of relationships in countries with different levels of development and geopolitical environments. For example, our findings suggest that the more attractive the industry, the more advanced the competitive strategies employed by competitors and the higher the positioning of products in the domestic market. Considering the fact that intensified geopolitical tensions in the region have detracted from the attractiveness of the Israeli market after 1997, it may be interesting to examine how the competitive positioning of FMNEs has changed.

Fourth, our marketing-oriented approach suggests that our findings depend to some extent on customer behavior in the targeted market. Future research may explicitly measure the impact of country-of-origin effects and idiosyncratic values of customers in various countries. For example, cross-country comparison of social values has revealed that Israeli customers achieve relatively lower scores for feelings of enjoyment and warm social relationships (Kahle/Rose/Shoham 1999). Future research should explore whether country-specific values of customers moderate the relationship between product positioning and customer satisfaction.

Finally, this study focused exclusively on marketing strategies designed to enhance competitive positioning of FMNEs in a domestic market of a less-developed country. Future research may extend the proposed framework by considering R&D and production activities that leverage the resources of less-developed countries with the objective of enhancing the global competitive positioning of FMNEs in various other countries. Despite its limitations, this study introduces an important integration of strategic management and marketing perspectives and offers a robust model for analyzing the competitive positioning of FMNEs and the prospects for economic growth in LDCs.

Appendix. List of Scales (1 = strongly disagree, 7 = strongly agree)

Question	Mean (S.D.)
A1. Internal SRP	Alpha = 0.84
1. The firm's marketing capability is better than competitors'	4.71 (1.28)
2. The firm's R & D capability is better than competitors'	4.41 (1.34)
3. The firm's production capability is better than competitors'	4.62 (1.15)
4. The firm's employees' quality is better than competitors'	4.19 (0.89)
A2. External SRP	Alpha = 0.74
1. The firm invests in satisfying my needs as a customer	5.29 (1.00)
2. The firm's competitive adaptability is better than competitors'	4.62 (1.16)
A3. Time SRP	Alpha = 0.78
1. The firm adjusts incrementally all the time	4.63 (0.94)
2. The firm adjusts simultaneously on several dimensions	4.67 (1.07)
B1. Marketing effectiveness	Alpha = 0.67
1. The firm's advertising affects my purchase decision	4.32 (1.39)
2. The firm's pricing affects my purchase decision	3.69 (1.45)
3. The firm's promotion policy affects my purchase decision	4.59 (1.32)
B2. Product Positioning	Alpha = 0.60
1. The firm's prices are higher than competitors'	4.37 (1.27)
2. The firm's products are of higher quality than competitors'	4.72 (1.05)
C. CUSTOMER SATISFACTION	Alpha = 0.68
1. I am satisfied with the service of the firm's salesman	4.72 (0.99)
2. I enjoy the purchasing process	4.84 (1.01)
3. I receive courteous service from this firm	5.11 (0.92)
D. INDUSTRY ATTRACTIVENESS	Alpha = 0.62
1. Industry profitability is high	5.28 (1.12)
2. Industry innovation is high	5.03 (1.21)

Endnotes

- ¹ The authors are listed alphabetically and contributed equally to this research effort. The first author acknowledges the support of: Technion Institute of Management (TIM) Fund and the "Idud" Fund of the Technion. All three authors appreciate the helpful comments of Miles Shaver, Oded Shenkar, Shlomo Maital, Yoram Zeira, and two anonymous *MIR* reviewers.
- ² We could have used customers as the basic unit of analysis for our model. However, we believe that firms should serve as the unit of analysis. Statistically, averaging customers' responses on the scales should serve to reduce measurement error. Substantively, our theory and model deal with firm-level phenomena. Thus, we believe that the advantages of our approach outweigh its disadvantages.
- ³ Arguably, we could have used SEM (rather than MANOVA) to test for multi-group differences. Unfortunately, given the small sub-sample sizes, this would have resulted in potentially biased estimates, a point discussed further in the limitations section of this paper.
- ⁴ Because of space limitation we haven't inserted this table. It is available by request from the authors.

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