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The Impact of Peripheral Product Adaptation on Small and Medium Size Firm Export Performance

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Abstract

What can small and medium size firms (SMFs) do to improve their export performance? In this study, a strategy is identified that SMFs may use when exporting products to new international markets. In particular, SMFs that adapt the visible peripheral attributes of their products to comply to host market norms are hypothesized to experience higher levels of export performance than those that adapt the physical product or use some other strategy. Empirical support was found for the proposed peripheral product strategy identified in this study using a sample of small and medium size U.S., Chinese, and Romanian exporters. The results also suggest that this strategy works for both small and medium size emerging market and developed market firms. Managerial implications and findings are discussed.

Keywords: International product strategy, Export performance, Small and medium size firms

Introduction

When entering new international markets, firms often face unfamiliar environments that threatens their ability to succeed. This requires them to expend substantial resources to understand and conform to host market norms (Brouthers, Brouthers & Werner, 2008). One potential way to address these resource demands is to imitate the successful strategies of other exporting firms (Abrahamson & Rosenkopf, 1993) such as developing global brands (Samiee & Roth, 1992) and complying to local product stereotypes (Brouthers, Werner & Matulich, 2000). Multinational enterprises (MNEs) have successfully employed these strategies to improve their export performance. But will these strategies also work for small and medium size firms (SMFs)?

In contrast to MNEs, SMFs typically do not have established global brands. Moreover, SMFs frequently lack the international expertise and resources (Hitt, Dacin, Levitas, Edhec & Borza, 2000; Steensma, Tihanyi, Lyles & Dhanaraj, 2005) required to customize products in a way that will allow them to be accepted by host market consumers. Therefore, changing products to conform to local market norms, a strategy used by MNEs to improve export performance, may not be feasible for SMFs due to their resource limitations and the high costs associated with modifying products (Walters & Toyne, 1989).

Given these limitations, what can SMFs do to improve their ability to successfully export products? In their study of emerging market firms (EMFs), Brouthers, O'Donnell, and Keig (2013) identify one potential strategy. They found that EMFs can improve their export performance by modifying the non-physical aspects of their products (or what they called, the peripheral product attributes) rather than the physical product itself. This would allow them to create an alignment (Aldrich, 1979; Katsikeas, Samiee & Theodosiou, 2006; Porter, 1980; Venkatraman & Prescott, 1990) between their products and host market norms without substantially increasing costs.

In this paper, it is proposed that like EMFs, SMFs may improve their export performance by adapting two peripheral product attributes, the brand name and the packaging, to conform to host market norms rather than the more expensive and commonly practiced approach of modifying the physical product. The performance impact of this strategy is tested using a sample of small and medium size U.S., Chinese, and Romanian exporters.

Theory and Hypotheses

Imitating the decisions of other successful firms (e.g., mimetic isomorphism) is one approach that would allow firms to cost-effectively address uncertainty (Carroll, 1993; Cyert & March, 1963) (Dobrev, 2007; Fombrun & Shanley, 1990; Haveman, 1993; Haveman & Rao, 1997; Lieberman & Asaba, 2006). By doing so, they are able to use the collective knowledge of other firms to improve their own performance outcomes (Heugens & Lander, 2009).

Mimetic isomorphism has been used in previous studies (Brouthers et al., 2013; DiMaggio & Powell, 1983; Hannan & Carroll, 1992; Meyer & Rowan, 1977) to predict and explain firm performance outcomes. Consistent with these studies (and as suggested by Brouthers et al. 2013), this study examines whether imitation may be used by SMFs to adapt products in a less expensive, less resource dependent way thereby improving their export performance.

Peripheral Product Adaptation and Export Performance

By matching product attributes to the expectations of target international markets, product adaptation enhances market penetration (Calantone, Cavusgil, Schmidt & Shin, 2004). However, as Walters and Toyne (1989) point out, adapting products, especially the physical attributes, is often expensive to do. Though adaptation costs are relevant to all firms, they are especially important to SMFs because of their experience and resource limitations (Hitt et al., 2000; Hoskisson, Eden, Lau & Wright, 2000; Newman, 2000; Steensma et al., 2005). So, is there a way for SMFs to adapt their products in a less expensive way?

One approach involves the notion of the extended product. According to Peter and Donnelly (1991), products consist of core and peripheral attributes. Core attributes involve the components and ingredients making up the physical product whereas peripheral attributes are the product's non-physical characteristics. Modifying the core product is typically expensive to do because it requires a high level of market knowledge as well as extensive resource investments (Keegan, 1969; Walters & Toyne, 1989). In contrast, imitating peripheral attributes requires fewer resources and is typically less expensive than adapting core product attributes (Keegan, 1969; Walters & Toyne, 1989). Therefore, imitating the peripheral attributes of host market products may provide a way for SMFs to cost effectively increase their export sales.

But this leads to the question of what peripheral product attributes should SMFs imitate? Consistent with Brouthers et al. (2013), it is proposed that they imitate the peripheral attributes that are visible to consumers. This is because consumers have expectations regarding the appearance of products (Garber, 1995; Veryzer, 1993; Veryzer & Hutchinson, 1998). These expectations are developed from existing products which establishes visual norms for that market (Hill & Still, 1984; Smith & Park, 1992; Veryzer, 1999). Products that have visual characteristics that comply with these local norms are more likely to be accepted by consumers (Carson, Jewell & Joiner, 2007; Creusen & Schoormans, 2005; Garber, 1995; Veryzer & Hutchinson, 1998) thereby increasing the likelihood of their being purchased.

The brand name and the packaging are two visible peripheral product attributes that consumers are first exposed to and as such, are used by them when making purchasing decisions (Dawar & Parker, 1994; Klein, 2002; Rao & Monroe, 1989; Roullet & Droulers, 2005; Smith & Park, 1992; Underwood, 2003; Underwood & Ozanne, 1998). In a purchasing situation, consumers compare product alternatives to local norms (Garber, 1995; Veryzer & Hutchinson, 1998). Products that conform to these norms will be accepted by consumers and as such, more likely to be purchased than those that do not (Carson et al., 2007; Creusen & Schoormans, 2005; Veryzer & Hutchinson, 1998). For instance, Elango and Sethi (2007) and Zeugner-Roth, Diamantopoulos, and Montesinos (2008) suggest that local brand names offset negative country of origin effects and are easier for host market consumers to pronounce and understand (Onkvisit & Shaw, 1989) leading to more positive product perceptions (Thakor & Pacheco, 1997). Moreover, similarities between packaging aesthetics and host country norms have been found to positively affect product evaluation (Garber, 1995; Underwood, 2003; Underwood & Ozanne, 1998). For this reason, the export performance implications of peripheral product adaptation were tested via examining these two visible peripheral attributes. Therefore, the following hypothesis is proposed:

Hypothesis 1: SMFs that adapt the peripheral attributes of their products will, on average, have higher levels of export performance than those that adapt their core products or use some other strategy.

The above hypothesis evaluates the positive impact that peripheral product adaptation has on SMF export performance. Since the sample of SMFs consists of both EMFs and developed market firms (DMFs), it is important to consider whether the above hypothesis applies to both types of firms. For this reason, the previously proposed peripheral adaptation strategy needs to be evaluated to see if it works for both small and medium size EMFs and DMFs. Therefore, the following hypotheses are proposed:

Hypothesis 2: Emerging market SMFs that adapt the peripheral attributes of their products will, on average, have higher levels of export performance than those that adapt their core products or use some other strategy.

Hypothesis 3: Developed market SMFs that adapt the peripheral attributes of their products will, on average, have higher levels of export performance than those that adapt their core products or use some other strategy.

Data And Methology

Data were collected in the U.S., Romania, and China. The U.S. was used to represent developed markets because it is one of the largest global markets with an income per capita that is comparable to other developed markets (Terpstra & Sarathy, 2000). Romania and China were selected because they represent two distinct types of emerging markets with respect to market size and growth rate. Moreover, reliable and knowledgeable interviewers were available in both Romania and China allowing for the collection of quality data.

Surveys were used to collect data in the U.S., China, and Romania. The same measures were used in all three countries so that comparisons could be made across these three country samples. In the U.S., the U.S. Postal Service was used to distribute and collect surveys. However, in China and Romania, because of postal service reliability concerns, respondents were contacted and asked to participate in this study and if they agreed, questionnaires were hand delivered and collected.

In China and Romania, consistent with Lee and Miller (1999), researchers from local universities were used to deliver and collect surveys to address respondents' concerns that their firm's data would end up in their competitor's hands (Hoskisson et al., 2000; Roy, Walters & Luk, 2001; Wang, Zhang & Goodfellow, 1998). Because of their reluctance to share financial data, respondents were asked to provide perceptual rather than objective firm performance data (Osland & Cavusgil, 1996). Moreover, several single item measures were used to increase the response rates in both China and Romania which were very high at 42.93 and 51.85 percent respectively. The response rate for the U.S. sample was comparable to previous mail surveys at 22.06 percent (Dhanaraj & Beamish, 2003; Julien & Ramangalahy, 2003; Westhead & Wright, 2001).

Pretest of Survey Instrument

The survey was translated into Romanian and Chinese. Seven Romanian and eight Chinese executive MBA students with relevant work experience were used to pretest both surveys. These surveys were revised based on their feedback. To make sure that the meaning of the English version of the survey was retained, these two surveys were back translated into English.

Sampling Methodology

In the U.S., the data collection process was managed internally whereas in China and Romania, project managers were hired to manage data collection. The Chinese and Romanian project managers used seven and five graduate students respectively to personally distribute and collect surveys.

The final sample consisted of sales or export managers of U.S., Chinese, and Romanian firms. In the U.S., the sampling frame consisted of 476 small and medium size manufacturing firms. The survey along with a cover letter was mailed to each firm's CEO or to the manager who had direct responsibility for their firm's export activities. One hundred and five surveys were returned (i.e., a 22.06 percent response rate) of which 72 were used in this study resulting in a final response rate of 15.13 percent. This response rate is similar to other studies that used mail surveys (Dhararaj & Beamish, 2000; Julien & Ramangalahy, 2003; Westhead & Wright, 2001). The U.S. sample had an average export experience of 25.18 years ranging from 2 years to 105 years. To evaluate for the potential of non-response bias (Armstrong & Overton, 1997), early respondents were compared to late respondents with respect to export experience. Non-response bias was not considered a problem because no significant difference was found.

In China, the sampling frame consisted of 390 privately held export firms that had sent managers to an international trade training seminar. Every other firm in the sampling frame was systematically chosen resulting in a sample of 195 firms. Eleven firms no longer existed so the actual number of field visits was 184. Local researchers attempted to provide surveys to each of the sample's Chinese firms. Seventy-nine managers expressed interest in completing the survey (i.e., a 42.93 percent response rate) of which 66 were used for a final response rate of 35.87 percent. This response rate was comparable to or better than previous Chinese studies (Isobe, Makino & Montgomery, 2000; Lou & Peng, 1999; Peng & Lou, 2000). The Chinese sample had an average export experience of 10.35 years ranging from 1 years to 40 years.

In Romania, an extensive list of export firms was not available. For this reason, Romanian newspapers were examined and various government and export agencies were consulted to create a list of firms. Ninety-three Romanian export firms were identified of which 12 no longer existed resulting in a total of 81 field visits. Of these field visits, 42 surveys were obtained (i.e., a 51.85 percent response rate) with 31 being used for a final response rate of 38.27 percent. The Romanian sample had an average export experience of 7.61 years ranging from 2 years to 25 years.

Since the Chinese and Romanian surveys were hand delivered, the export experience of the firms that participated in this study were compared to those that did not using t-tests (Churchill & Iacobucci, 2002). Non-response bias was not considered a problem because no significant differences were found.

Variable Identification and Measurement

***Dependent Variable*.** Based on previous studies (Brouthers, Brouthers & Werner, 2003; Luo, Shenkar & Nyaw, 2001; Nitsch, Beamish & Makino, 1996; Woodcock, Beamish & Makino, 1994), perceptual measures of firm performance were used. Perceptual performance measures are often used when managers are not willing or able to provide financial data (Woodcock et al. 1994). Moreover, prior research (Dess & Robinson, 1984; Geringer & Herbert, 1991) suggests that perceptual and objective firm performance measures are correlated.

Three 10-point scale items (with 1 = "very dissatisfied" and 10 = "very satisfied") were used to measure perception of firm performance. Managers were asked "how satisfied are you with the performance of your firm with respect to (1) sales, (2) achieving market share targets, and (3) overall export performance." The dependent variable, *Satisfaction with Export Performance*, was developed by adding each manager's responses to these three items (Cronbach's alpha = .857).

***Independent Variables*.** The independent variable was the firm's product adaptation strategy. To identify which strategy a firm employed, managers were asked to identify their firm's primary export strategy by requesting that they select one or more strategies that included (1) changing some ingredients, features, or components of the product, (2) altering the packaging of the product, (3) developing a new product, (4) changing the name of the product or brand, (5) undertaking any other product modification, and (6) making no product modifications. Firms whose primary adaptation strategy was to change the name of the product or brand and the packaging of the product were identified as those that used a *peripheral adaptation* strategy. Firms whose primary adaptation strategy was to change the ingredients, features, or components of the product were identified as using a *core adaptation* strategy. Of the 169 firms in the sample, 37 pursued a peripheral adaption strategy, 34 a core adaptation strategy, and 98 an alternative strategy.

***Control Variables*.** Five control variables were used in this study: *experience, low price, target market, Romania*, and *China*. Consistent with earlier studies (Gatignon & Anderson, 1988; Padmanabhan & Cho, 1999), *experience* was evaluated by having respondents identify the year that their firm started exporting products.

Because previous research studies (Aulakh, Kotabe & Teegen, 2000; Brouthers & Xu, 2002) found that firms that pursued a low-price strategy had lower export performance than those that did not, *low price* was included in the model. Firms whose primary selling strategy was to be the low-price provider were coded as one; all other firms were coded as zero. Consistent with Brouthers and Xu (2002), *target market* was defined as a firm's export sales to developed countries (e.g., the U.S., Canada, Japan, and the European Union) divided by its total export sales. To control for country differences, two dummy variables, *Romania* and *China*, were included in this study. Romanian firms were coded as one while all other firms were coded as zero. Similarly, Chinese firms were coded as one; all other firms zero. Therefore, U.S. firms were used as the base.

Because the data were obtained from single respondents, the potential for common methods variance was evaluated. Podsakoff and Organ (1986) suggest that common methods variance may be a problem if the variables load on a single factor that explains a high percentage of the variance. The unrotated factor matrix developed from performing a factor analysis on the variables consisted of four factors with the largest explaining only 23.43 percent of the variance. Therefore, common methods variance was not considered a problem.

Analysis

To assess the potential for multicollinearity, the correlations among the independent variables were examined (Hair, Anderson, Tatham & Black, 1995). As shown in Table 1, no unreasonably large correlations were found for any of the independent variables. The largest variance inflation factor (VIF) for the independent variables was 2.171 (for the *China* variable). Since the largest VIF score was less than 10 as specified by Neter, Kutner, and Nachtsheim (1996), multicollinearity did not appear to be a problem.

TABLE 1. CORRELATION MATRIX

Variable	Perform	Romania	China	Experience	Low Price	Target Market	Peripheral Adaptation	Core Adaptation
Mean	16.08	0.18	0.39	16.17	0.30	44.59	0.22	0.20
Std. Dev.	6.41	0.38	0.49	16.01	0.46	39.94	0.42	0.40
Performance	1.00							
Romania	0.20**	1.00						
China	0.09	-0.38**	1.00					
Experience	-0.07	-0.25**	-0.29**	1.00				
Low Price	-0.21**	-0.24**	0.56**	-0.22**	1.00			
Target Market	0.13*	0.28**	0.30**	-0.31**	0.11	1.00		
Peripheral Adaptation	0.44**	0.12	0.05	-0.05	-0.10	0.07	1.00	
Core Adaptation	-0.04	0.48**	-0.25**	-0.08	-0.17*	0.12	-0.27**	1.00

* $p < .05$; ** $p < .01$; N = 169. All variables have no missing values.

Ordinary least squares (OLS) regression was used to examine the relationship between the two adaptation strategies of interest (*Peripheral Adaptation* and *Core Adaptation*) and *Satisfaction with Export Performance* while controlling for variables that have been found to be related to performance (*Romania*, *China*, *Experience*, *Low Price*, and *Target Market*).

In addition to the fore-mentioned regression model, two additional analyses were performed to examine if the proposed peripheral adaptation strategy applied to both EMFs and DMFs. Therefore, two separate OLS regression models were developed, one for the EMFs in the sample and the other, for the DMFs. The EMF model was similar with the SMF model identified earlier (e.g., to test hypothesis 1) except that the *China* variable was excluded because the EMF sample consisted of Romanian and Chinese firms and for this reason, only required one country control variable. The DMF model excluded both the *Romania* and *China* variables because the DMF sample consisted only of U.S. firms and as such, did not require a country control variable.

Findings

The regression results of the effect of the control variables (*Romania*, *China*, *Experience*, *Low Price*, and *Target Market*) and the product adaptation strategies of interest (*Peripheral Adaptation* and *Core Adaptation*) on *Satisfaction with Export Performance* are shown in Model 1 of Table 2.

TABLE 2. REGRESSION RESULTS: PERIPHERAL PRODUCT ADAPTATION AND EXPORT PERFORMANCE

Satisfaction with Export Performance

	Model 1 Total Sample	Model 2 EMF Sample	Model 3 DMF Sample
Intercept	0.00	0.00	0.00
Romania	0.23*	0.02	-----
	(2.45)	(0.19)	-----
China	0.34**	-----	-----
	(3.54)	-----	-----
Experience	0.03	0.18†	-0.09
	(0.40)	(1.91)	(-0.89)
Low price	-0.31**	-0.35**	-0.30**
	(-3.77)	(-3.19)	(-2.85)
Target Market	-0.02	0.13	-0.16
	(-0.24)	(1.44)	(-1.57)
Peripheral Adaptation	0.37**	0.29**	0.47**
	(5.05)	(2.73)	(4.58)
Core Adaptation	-0.01	-0.09	0.03
	(-0.17)	(-0.68)	(0.26)
R-squared	0.301**	0.277**	0.367**
Adjusted R-squared	0.271	0.229	0.319
Sample Size	169	97	72

† $p < .10$; * $p < .05$; ** $p < .01$. For each variable, the reported values are standardized betas with corresponding t-values in parenthesis.

Model 1 had an R-squared of 30 percent and was significant at a $p < 0.01$ level. Significant differences in export performance satisfaction were found among emerging market and developed market managers (*Romania* and *China* were significant at a $p < 0.05$ and $p < 0.01$ level respectively). Also, consistent with Brouthers and Xu (2002), the results suggest that pursuing a low-price strategy negatively affects SMF export performance ($b = -.31$, $p < 0.01$). Finally, as hypothesized, a positive and significant relationship was found between peripheral product adaptation and SMF export performance ($b = .37$, $p < 0.01$). No relationship was found between core product adaptation and SMF export performance ($b = -.01$). These results support hypothesis H1: *SMFs that adapt the peripheral attributes of their products will, on average, have higher levels of export performance than those that adapt their core products or use some other strategy*.

Model 2 (for the EMFs in the sample) and Model 3 (for the DMFs in the sample) were developed to determine if the export performance results found for peripheral and core product adaptation in Model 1 applied to both EMFs and DMFs.

Model 2 had an R-squared of 27 percent and was significant at a $p < 0.01$ level. Similar with Model 1, the results indicated that pursing a low-price strategy had a negative impact on EMF export performance ($b = -0.35$, $p < 0.01$). Moreover, export experience was found to have a positive effect on EMF export performance ($b = 0.18$, $p < 0.10$). Finally, peripheral product adaptation had a positive and significant impact on EMF export performance ($b = .29$, $p < 0.01$). No relationship was found between core product adaptation and EMF export performance ($b = -0.09$). These results support hypothesis H2: *Emerging market SMFs that adapt the peripheral attributes of their products will, on average, have higher levels of export performance than those that adapt their core products or use some other strategy*.

Model 3 had an R-squared of 36 percent and was significant at a $p < 0.01$ level. The results indicated that pursing a low price strategy negatively impacts DMF export performance ($b = -0.30$, $p < 0.01$). Similar with Model 2, peripheral product adaptation was positively related to DMF export performance ($b = 0.47$, $p < 0.01$). No relationship was found between core product adaptation and DMF export performance ($b = 0.03$). These results support hypothesis H3: *Developed market SMFs that adapt the peripheral attributes of their products will, on average, have higher levels of export performance than those that adapt their core products or use some other strategy*.

Therefore, the results suggests that, by pursuing peripheral product adaptation rather than core product adaptation or some other strategy, SMFs can improve their export performance.

Discussion

Can SMFs improve their export performance by adapting products in a cost-effective manner? This is an important question because SMFs typically face resource limitations that hinder their ability to succeed in new international markets. It was hypothesized that SMFs may improve their export performance by adapting the visible peripheral attributes (in this case, the brand name and the packaging) rather than the physical attributes of their products.

A sample of U.S., Chinese, and Romanian exporters was used to test this proposed product adaptation strategy. As hypothesized, the results suggest that SMFs that adapt the peripheral attributes of their products will experience higher export performance satisfaction than those that adapt the physical product or used some other strategy. Moreover, this study indicates that small and medium size EMFs and DMFs also stand to benefit by following this product adaptation strategy.

Limitations

This study has a few limitations. First, because the sample was made up of U.S., Chinese, and Romanian firms, the results of this study may not generalize to SMFs from other countries. Second, this study was cross-sectional in nature. Future studies may attempt to evaluate if this study's proposed adaptation strategy is supported longitudinally.

Third, consistent with previous research (Brouthers et al., 2013; Lou et al., 2001; Nitsch et al., 1996; Woodcock et al., 1994), a subjective rather than an objective measure of export performance was used due to the difficulties associated with obtaining objective performance data in Romania and China. Fortunately, as found in prior studies (Dess & Robinson, 1984; Geringer & Herbert, 1991), objective and subjective firm performance measures have been found to be correlated.

Fourth, this study focused on the export performance implications of two specific peripheral product attributes, the brand name and the packaging. Hopefully, future studies will be conducted to investigate the performance implications of adapting other product attributes. Finally, the SMFs used in this study exported manufactured products. Future research is needed to determine if adapting the peripheral product will also improve the export performance of service providers.

Managerial Implications

In closing, SMF managers are recommended to consider modifying the visible peripheral attributes of their products to reflect local norms when exporting to new international markets. In this study, empirical support was found for the notion that SMFs can realize improved export performance by adapting the visible peripheral attributes rather than the physical attributes of their products.

With respect to our knowledge about the relationship between export performance and product adaptation, this study makes two contributions. First, only 15 percent of DMFs and 27 percent of EMFs in the sample employed peripheral product adaptation even though the results suggest that firms that did so experienced improved export performance. This indicates that the export performance benefits of adapting the peripheral product are not well known. Second, this study represents an important contribution to the international product literature by identifying and empirically evaluating the performance implications of specific product adaptation strategies (Calantone et al., 2004).

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