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Market Driving Strategies: Beyond Localization

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Market Driving Strategies: Beyond Localization

Abstract

Adaptation to local customer preferences may result in a more rapid market acceptance and market orientation studies often propound that firms need to closely monitor changes in the marketplace and adapt to customer needs in order to enhance firm performance Slater and Narver (1995). However, firms operating in multiple markets may choose minimal adaptation to local market trends in favor of introducing proprietary value propositions that satisfy customers' latent needs (Ghauri, Elg, Tarnovskaya, & Wang, 2011; Harris & Cai, 2002). Scholars have suggested that such firms are "market driving" (Jaworski, Kohli, & Sahay, 2000). This paper investigates how firms can be market driving in foreign markets. Findings suggest that market driving firms tend to possess certain capabilities in order to reconcile conflicting demands in the local markets and company strategies at the global level. Using network, knowledge transfer, branding and market orientation literature, the present study provides evidence on the capabilities that global firms possess in order to drive markets. Based on a survey of 110 international companies, this study shows that strong capabilities in configuration, networking, knowledge transfer and internal branding can lead to market driving behaviors. This study is the first to carry out a systematic investigation of market driving behavior in international firms.

Keywords: market driving, standardization, international marketing.

1. Introduction

Based on the resource based view, firms should focus on building distinctive competencies that can lead to sustainable competitive advantage. Market orientation is a firm's strategic behavior that places emphasis on understanding stakeholders such as customers and competitors for sustainable competitive advantage (Kohli & Jaworski, 1990; Lado, Maydeu-Olivares, & Rivera, 1998; Rogers, Ghauri, & George, 2005). Market orientation helps firms develop capabilities that support adaptation activities in order to more closely meet the needs of customers (Cadogan, Diamantopoulos, & De Mortanges, 1999; Kumar, 1997; Slater & Narver, 1998) and can lead to higher performance (Day, 1994; Jaworski & Kohli, 1993; Narver & Slater, 1990). However, implementing adaptation in different markets may mean modifying marketing activities, and this may hinder companies from focusing on globally consolidating a set of valuable, unique and inimitable capabilities for sustainable competitive advantage in the long term (Barney 1991; Barney & Hesterly, 2006; Sirmon, Hitt & Ireland, 2007). A firm that is constantly changing in order to adapt to the local market trends may lose long-term focus and find its competitive advantage eroded over time (Ghauri et al., 2011).

Narver, Slater, & MacLachlan (2004) suggest two forms of market orientation: responsive and proactive. Responsive market orientation consists of reacting to market changes and has been the focus of most research on market orientation. Proactive market orientation addresses latent needs. Narver et al. (2004) provide empirical evidence that responsive market orientation is insufficient for new product development. Global firms may seek a more standardized or market

driving approach to foreign markets, which consists of influencing consumers and changing market conditions to suit their unique business model (Carrillat, Jaramillo and Locander, 2004; Jaworski et al. 2000; Kumar 1997; Kumar, Scheer and Kotler 2000). Hi-tech firms such as Apple, manufacturers such as Swatch and DeBeers, and retailers such as IKEA, Starbucks and Wal-Mart have been able to drive rather than be driven by the market that they enter, thanks to the firms' innovative business systems (Harris & Cai, 2002; Jaworski et al., 2000; Kumar, Scheer, & Kotler, 2000). Pioneering change in the market and revolutionizing rather than responding to market trends create long-term value for the firm (Kumar et al., 2000). Kumar et al. (2000) describe market driving as implementing radically innovative business systems and creating a revolution in the customer value proposition. Jaworski et al. (2000: 47) define market driving as "changing the composition and/or roles of players in a market and/or behaviors of players in the market." Overall, market driving is a proactive market orientation approach (Narver et al., 2004) that emphasizes the development of latent trends in the foreign market. Market driving firms educate consumers and exert an influence on their values, norms and behavior so that consumers are open to the firm's business offering (Carrillat, Jaramillo, & Locander, 2004; Jaworski et al., 2000; Kumar et al., 2000).

Despite work on market driving behavior and performance in the hi-tech sector (Hills & Bartkus, 2007; Neuenburg, 2010), little is known about the antecedents of market driving behavior. Why are some firms more market driving than others? This paper studies the different capabilities that lead to market driving behaviors. Capabilities are important for developing a firm's

competitive advantage, because they reflect the unique skills and core competencies that distinguish one firm from another (Hall, 1993; Hitt & Ireland, 1985; Snow & Hrebiniak, 1980). Market driving firms implement radical business innovation (Kumar et al., 2000) and are therefore difficult to imitate. These firms do not seek to adapt to current market conditions or follow established set rules of competition. They appear to have distinct capabilities that they are able to leverage while taking into account the characteristics of the specific market that they enter (Narver et al., 2004; Tuominen, Rajala, & Möller, 2004).

Research on the antecedents to market driving behavior in international business development is still at an embryonic stage. Ghauri et al. (2011) provide a theoretical list of capabilities that market driving firms are likely to possess, such as learning, corporate branding, business configuration and networking capabilities. The authors call for further studies to empirically address the antecedents of market driving behavior, especially in the context of internationalization. This paper seeks to answer this call by studying the influence of capabilities on market driving behaviors, and firm performance. While market driving strategy is often discussed as a firm's marketing strategy (Jaworski et al., 2000; Narver et al., 2004), it should be viewed from a broader strategic perspective, as an overall corporate strategy (Hills & Sarin, 2003; Schindehutte, Morris, & Kocak, 2008). This paper develops scales to measure market driving capabilities based on Ghauri et al.'s (2011) theoretical propositions and on strategic marketing, organizational learning and international business literature. In particular, the paper explores the extent to which networking,

knowledge transfer, configuration and brand orientation capabilities influence market driving behavior and firm performance.

2. Theory and hypothesis development

2.1. Market driving strategy

Market driving strategy focuses on proactively influencing change in a firm's marketing environment, including customers, competitors and market structure (Jaworski et al., 2000). Market driving literature focuses on single markets and has not been studied in the internationalization context. With regards to customers, a firm pursuing market driving strategy will strive to educate customers and exert an influence on their values, norms and behavior in order to prepare the ground for the new, unique benefits that will be offered and will minimize adaptation (Carrillat et al., 2004; Jaworski et al., 2000; Kumar et al., 2000; Tarnovskaya, 2007). Changing customer perceptions is a proactive behavior that helps firms to create new markets (Hamel & Prahalad, 1994). For example, Starbucks can be regarded as partly responsible for driving coffee drinking habits and the taste for coffee in many markets (Kumar et al., 2000).

With regards to competition, Kumar et al. (2000) theorize that market driving strategy encourages firms to offer a completely different value proposition, thereby changing the rules of competition. For example, IKEA has defined and changed the rules of the competition by offering a

new value proposition based on DIY design furniture at affordable prices (Carrillat et al., 2004; Elg, Ghauri, & Tarnovskaya, 2008; Kumar, 1997).

In relation to changes in the market structure, Jaworski et al. (2000) highlight three approaches that demonstrate how market driving firms revolutionize the supply chain.

Deconstruction means that players or functions considered to be redundant are eliminated.

Construction involves the addition of complementary actors or a whole set of players that can do things differently. The authors show how Apple's web based distribution process can change the value chain in the music business. The third alternative is *modification* – i.e. shifting the tasks performed by different actors in the channel. Although Jaworski et al. (2000) does not discuss the international context, global retailers offer a number of examples of how a more powerful player can drive the structure of the value chain and remodel it (Ghauri, Tarnovskaya, & Elg, 2008; Kumar, 1997). For example, Wal-Mart, H&M and Zara, in developing their own brands, have led manufacturers to lose control of strategic activities such as branding and consumer relationships (Burt, 2000).

In the international context, firms may use lobbying in order to gain support for their interests (Jaworski et al., 2000). They may find it necessary to engage in political activities in order to change the conditions for their businesses (Oliver & Holzinger, 2008) and to create a better competitive position (Capron & Chatain, 2008; Hadjikhani & Ghauri, 2001). Elg et al. (2008) describe how IKEA's market driving strategy in foreign markets required interactions with governments to change regulations. By developing city centers and building large shopping malls,

IKEA changes the whole shopping environment. The IKEA example suggests that market driving strategy in the international context may require influencing regulations, norms and values on a societal level in the foreign markets.

The market driving literature argue that when adopting the market driving strategy, firms must leverage capabilities to support their distinctive business concept (Narver et al. 2004; Tuominen et al. 2004). However, the specific antecedents to market driving strategy is unclear. According to the resource-based view, resources and capabilities may be heterogeneous and imperfectly mobile within an industry (Barney, 1991; Hunt, 1997; Peteraf, 1993). Developing rare, inimitable, and valuable resources and capabilities can lead to sustainable competitive advantage (Barney, 1991). Ray, Barney and Muhanna (2004) suggest that in order to understand whether the resource-based view leads to competitive advantage, one should study whether a firm's capabilities translate effectively into activities and business processes. Hunt and Lambe (2000) also argue that the link between capabilities and marketing activities needs to be exploited in order to support more robust theory building. According to the resource based perspective, a firm's external market activities are a result of its internal set of capabilities. Two firms with the same resources may still have different performances because of the capabilities firms possess to combine and utilize these resources (Eisenhardt & Martin, 2000; Makadok, 2001). Market driving literature has focused on the nature of market driving activities, but not on the capabilities that lead to these activities. The purpose of this paper is to investigate the capabilities that can lead to market driving strategy.

Among the early supporters of the capabilities' approach to strategic management Teece, Pisano and Shuen (1997) argue that in order to achieve sustainable competitive advantage, firms need dynamic capabilities to quickly reconfigure and adjust competencies to adapt to changes in the environment. For example, in relation to customers, Teece et al. (1997) suggests that firms should develop dynamic capabilities to adapt to changes in consumer trends. This view of dynamic capabilities tends to describe market driven or market oriented firms that rely on market sensing and customer linking capabilities (Day (1994). However, market driving firms focus on developing a *forward sensing* rather than market sensing capability, because the aim is to achieve a discontinuous leap in customer value proposition (Kumar et al., 2000). Market driving firms with clear business propositions will seek to enter foreign markets without changing their overall business proposition; they attempt to mold market conditions to fit adequately with the firm's business model, rather than change and adapt to local circumstances (Carrillat et al., 2004; Harris & Cai, 2002; Jaworski et al., 2000; Kumar, 1997; Kumar et al., 2000), contrary to what is suggested by the description of dynamic capabilities in Teece et al. (1997).

Eisenhardt and Martin's (2000) definition of dynamic capabilities is more suitable to the study of market driving firms. Eisenhardt and Martin (2000) discuss dynamic capabilities as processes that utilize, combine and reconfigure resources in order to build value creating strategies leading to competitive advantages. The authors extend Teece et al.'s (1997) definition of dynamic capabilities to include the possibility that dynamic capabilities may enable a firm to "create market change" (Eisenhardt & Martin, 2000: 1107). The authors stress that dynamic capabilities help the

firm to cope with a turbulent environment as well as to change market conditions. This view of capabilities is more in line with the market driving concept. Market driving literature emphasizes that firms may avoid zones of existing competition (Kumar et al., 2000). Market driving firms are less concerned with survival in existing markets than with the creation of new ones. Hills and Sarin (2003: 17) find that market driving in high-tech industries consists of “a firm’s ability to lead fundamental changes in the evolution of industry conditions by influencing the value creation process at the product, market or industry levels”.

This paper tests four dynamic capabilities based on the conceptualization of market driving by Kumar et al. (2000) and Jaworski et al. (2000). First, a unique or proprietary business system (Kumar et al., 2000) through which a firm changes market behavior is a major factor behind a firm’s market driving strategy. Thus, the capability to configure a business system that can be introduced to different foreign markets and that instigates change in the mindsets of consumers may be a key antecedent to market driving behavior. Second, the market driving literature argues that developing a unique new business proposition often rests upon mobilizing other actors in the value chain (Kumar et al., 2000). This implies that networking capability should be a critical capability for a market driving strategy. Third, early internationalization studies (Johanson & Vahlne, 1977) as well as in newer research on international and global firms (Autio, Sapienza, & Almeida, 2000; Bartlett & Ghoshal, 2000) highlight the importance of knowledge and learning across borders in the internationalization process. The firm's capability to transfer knowledge to new markets appears to be critical for driving and substantially changing the conditions of new markets. Fourth, earlier

studies on market driving firms tend to highlight firms that have strong corporate brands as major assets (Tarnovskaya, 2007; Tarnovskaya, Elg, & Burt, 2008), implying that branding capability may be a basis for market driving strategy.

2.2. Configuration capability

Cuervo-Cazurra, Maloney, & Manrakhan (2007) argue that certain resources can lose their advantage or worse, create disadvantages, when transferred abroad. The market driving approach is a proactive market orientation approach that allows a firm to implement and maximize the benefits of its unique business concept in different markets, despite the complexity of specific local conditions (Narver et al. 2004; Tuominen et al. 2004). Therefore, developing the dynamic capability to transfer a business concept and to influence local market conditions to enable its implementation is essential for market driving firms. Luo (2002) highlights how some firms fare better than others in exploiting resources such as process technologies and organizational skills within culturally and structurally different settings. In this paper, configuration capability is a dynamic capability that allows a firm's proprietary business model to be operated in different foreign markets. The business model can include business processes, technologies, trademark and intellectual property, and management and organizational skills (Luo, 2002). A firm with strong configuration capability configures firm's existing resources in such a way that a firm's business concept can be accepted in international markets with minimal adaptation. Configuration capability is similar to the combinative capabilities described by Kogut and Zander (1992) insofar as combining local market knowledge with business know-how is concerned. (Kogut and Zander

(1992) describe combinative capabilities as the ability to find new applications for existing knowledge, for example, through the use of new technologies in the case of technology firms.) However, configuration is not only about combining knowledge resources, but also about having the ability to create flexibility into the business model as well as making market conditions favorable for its successful implementation in the foreign market. Successful implementation of the model is essential for creating and delivers a distinctive value proposition to the customer (Kumar et al., 2000, p. 130) in the foreign market. This conceptualization of configuration takes into account the difficulties in internationalization and stresses the capability of the multinational organization to increase the cross-border applicability and consistency of its business system and to develop resource advantages at home and abroad. Without configuration capability the firm may not be able to follow a market driving strategy. Configuration capability is a potential antecedent to market driving behaviors, thus,

Hypothesis 1: The greater the configuration capability of a global firm, the more market driving the firm.

2.3. Networking capability

Market driving strategy entails attempts to influence or change the current market structure and market behavior (Jaworski et al., 2000). Generating resources and support from a network of external actors can be a means to do this efficiently, especially in foreign markets (Buckley & Ghauri, 1999; Chetty & Blankenburg Holm, 2000; Dyer & Singh, 1998; Tuominen et al., 2004;

Turnbull & Valla, 1986). Network capabilities can positively influence radical product innovation (Story, Hart, & O'Malley, 2009) and performance (Walter, Auer, & Ritter, 2006). In particular, 'matching' refers to the identification of shared interests between a focal firm and external actors for the purpose of facilitating the focal firm's market entry (Elg et al., 2008; Ghauri & Holstius, 1996). Ghauri and Holstius (1996) identify two levels of matching – micro-level matching and macro-level matching.

Micro-level matching refers to an organization's capability to identify appropriate business partners. Previous network, strategy, and international business literature show that micro-level network relationships impacts foreign market entry process (Axelsson & Johanson, 1992; Blankenberg & Johanson, 1992; Coviello & Munro, 1997; Håkansson & Johanson, 2001; Gary Hamel, 1991; Turnbull & Valla, 1986), firm strategy (Contractor & Lorange, 1988; Elg, 2000; Gulati, 2007; Harrigan, 1988; Jarillo, 1988) as well as the degree of market orientation (Elg, 2002).

Market driving firms often outsource certain activities while retaining control over their partners and suppliers through shared norms and trust (Ghauri et al., 2008; Larsson et al., 2003). Given the innovative nature of market driving strategy, firms seeking to offer unique products and services to a foreign market need to know how to identify a set of external partners in the value chain and how to gain support for the novel business concept (Jaworski et al., 2000; Kumar et al., 2000). A firm that has strong micro-level matching capability would be able to build partnerships that can help expand the firm's presence in the foreign market. For example, De Beers expanded operations in China by identifying local jewelry providers and by gaining their support through the

provision of professional diamond knowledge and marketing training programs to them (Harris & Cai, 2002).

Firms entering foreign markets not only need to establish local partners, but may also need to engage in political activities to facilitate foreign market entry (Dicken, 1994; Ghauri & Holstius, 1996; Ghauri et al., 2008; Harris & Cai, 2002). Political activities can be perceived as part of a firm's overall strategy, and their effectiveness depends on a firm's capabilities to manage and implement these activities (Oliver & Holzinger, 2008). Macro-level matching refers to a firm's capability to engage effectively with governmental entities and other non-business actors. Macro-level matching capability can allow firms to gain access to scarce resources and consequently improve their competitive positioning (Capron & Chatain, 2008). As part of entry strategy, macro-level matching has been studied from various angles, such as the nature of firms' dependency on the state (Spencer, Murtha, & Lenway, 2005), cooperation and exchange of mutual benefits between firms and governments (Hadjikhani & Thilenius, 2005; Ring, Lenway, & Govekar, 1990), bargaining power in firm-government relations (Conner, 1991; Moon & Lado, 2000), new market knowledge and legislative change (Hitt, Bierman, Uhlenbruck, & Shimizu, 2006), and the understanding of local corruption (Rodriguez, Uhlenbruck, & Eden, 2005).

In relation to the implementation of market driving strategy, the probability that the firm is able to influence structures, beliefs and norms in a certain market depends on the firm's embeddedness in the institutional environment (Dicken, 1994; Uzzi, 1997) and the support from different stakeholders (Deephouse, 2000; Donaldson & Preston, 1995; Ghauri, Hadjikhani, &

Johanson, 2005; Hadjikhani & Ghauri, 2001). Sun, Mellahi, & Thun (2010) argue that political embeddedness is particularly important to firm performance in economies with strong non-market forces, but political embeddedness may become a burden to multinational organizations in the long run. Overall, the ability to carry out micro- and macro-level matching may determine the extent to which the firms can change market structure and market behavior for the benefit of implementing their radical business strategies in a new market. Therefore,

Hypothesis 2: The higher the degree of networking capability, the more market driving the firm.

2.4. Knowledge transfer capability

Stemming from the resource based perspective is the knowledge based view of the firm whereby the firm is viewed as providing mechanisms to integrate and synthesizing knowledge, a resource that is valuable and difficult to imitate (Grant, 1996; Nonaka & Toyama, 2003).

Knowledge is central to the firm's market activities and market understanding (Day, 1994) and to market orientated organizations in general (Baker & Sinkula, 1999; Hurley & Hult, 1998; Slater & Narver, 1995). Noble, Sinha, & Kumar (2002) discuss the importance of having the capability to use new knowledge or market insights in support of organizational change. Gaining knowledge about the specific capabilities that support the internationalization of the firm and entry to new and emerging markets remains an area of concern in international business as well (Hitt et al., 2006; Isobe, Makino, & Montgomery, 2000). In the international business literature, scholars investigate the interplay between knowledge development and increasing foreign market commitment

(Johanson & Vahlne, 1977, 1990) and how knowledge capability contributes to internationalization strategy and international growth (Barkema & Vermeulen, 1998; Bartlett & Ghoshal, 2000; Fletcher, 2001). The firm gathers an understanding of new foreign markets and develops its capability to compete and grow there (Autio et al., 2000). Moreover, internationalization knowledge is accumulated through multiple market entries and can be reused (Eriksson, Johanson, Majkgard, & Sharma, 1997; Eriksson, Majkgård, & Sharma, 2000). For example, Jonsson and Elg (2006) describe how IKEA's experienced executives move from one new market to another in order to share their internationalization knowledge with new native employees.

International business research has discussed a firm's ability to transfer unique assets and exploit them in new markets as a key capability (Jensen & Szulanski, 2004; Luo, 2002). Market driving is about implementing a standardized global approach by introducing changes in the local market rather than solely responding to existing market conditions. In order to achieve this, firms may need to leverage their international experience by transferring internationalization knowledge. Knowledge transfer capability appears to be an antecedent to market driving behavior because knowledge transfer allows strategic continuity from one market to another. Without knowledge transfer capabilities, the firm may not have a basis for standardization and influencing the market. Therefore,

Hypothesis 3: The stronger the knowledge transfer capability, the more market driving the firm.

2.5. Branding capability

The market driving literature does not specifically develop the concept of branding capability. The internationalization literature also gives little attention to branding as a driver of firms' internationalization strategy (Wong & Merrilees, 2007), although it has been recognized that shared goals and values amongst managers operating in different regions can help integrate foreign operations (Ghoshal & Nohria, 1989). However, one of the key characteristics of market driving firms is the power to influence the behaviors and structures in the market (Jaworski et al., 2000). Kumar et al. (2000) remark that the corporate brands of market driving firms often communicate positive associations with unique and innovative offerings. Other scholars argue that internal branding is important for driving the business concepts in foreign markets, because how much local employees understand and support the brand is likely to impact on how well they translate the unique values to make it meaningful within the local culture (Gong, 2003; Makhija & Stewart, 2002; Tan & Mahoney, 2006). The internal development of a clear identity of what the organization stands for aids in the communication of the firm's unique brand proposition to customers and other constituents (Balmer & Gray, 2003). A corporate brand can form the basis of a company's whole business model (Baumgarth, 2010; Hankinson, 2001; Urde, 1999), and as such, corporate branding may be used as a symbolic device for expressing long-term organizational values and providing a firm's identity with meaning for the employees (Kärreman & Rylander, 2008).

Aurand, Gorchels and Bishop (2005) especially investigate internal HR activities and their importance to foreign markets as a key aspect related to a firm's brand building. Larsson et al. (2003) show that the corporate brand can develop a strong corporate identity and consistent corporate image. In addition, Elg et al. (2008) show that recruiting new employees based on their affinity with the company's core brand values is a critical factor of success when developing a new market. Market driving firms often seek to influence or change the mindset and behaviors of consumers (Jaworski et al., 2000). This is more likely to occur if there is sufficient buy-in from organizational members (Balmer & Gray, 2003). Therefore, a firms' branding capability, as reflected by the efforts a firm makes in enhancing foreign market employees' understanding of brand values, may be an antecedent to market driving behavior. Thus,

Hypothesis 4: The greater the branding capability, the more market driving the firm.

2.6. Market driving behavior and performance

To date, the relationship between market driving behavior and international performance has not been tested, although single market studies suggest a positive market driving behavior-performance relationship. Two empirical studies on market driving behavior in the high technology sector, from Hills and Bartkus (2007) and Neuenburg (2010), show that market driving behavior such as customer driving behavior is positively related to competitive advantage and performance. Looking at the wider market orientation literature, a number of studies find that market orientation leads to greater profitability (Deshpandé, Farley, & Webster, 1993; Kohli & Jaworski, 1990;

Narver & Slater, 1990). However, some scholars argue that market orientation may not lead to increased market share (Jaworski et al., 2000) and that in dynamic economies and situations with few competitors or with stable market preferences, market orientation might not have an effect on business performance (Kohli & Jaworski, 1990). Based on the resource based view of the firm, competitive advantage can be more easily sustained through the use of valuable, rare, inimitable and non-substitutable resources and capabilities (Barney, 1991). A market driving strategy seeks to introduce novel business concepts in the foreign market and is likely to be an important source of competitive advantage (Jaworski et al., 2000; Kumar et al., 2000). Thus, market driving behavior should lead to better performance in international markets:

Hypothesis 5: The greater the firm's market driving behavior, the better the firm's international performance.

In addition, a key premise within the resource based view is that a firm is more likely to gain a competitive advantage by developing, maintaining, and managing a set of rare resources that are difficult for competitors to imitate or substitute (Barney, 1991; Grant, 1998; Sirmon, Hitt, & Ireland, 2007; Wernerfelt, 1984). Having a business concept that can be used in different markets means that the firm holds a certain expertise in the business concept. In order to succeed in the market driving approach, the firm has to develop a unique business model that allows it to compete on new grounds (Carrillat, Jaramillo, and Locander, 2004; Jaworski et al., 2000; Kumar, 1997; Kumar et al., 2000). If a firm's resources are rare and difficult to imitate in the foreign market, then its competitors may find it difficult to provide a similar offer to the customers. Hence, a firm is

likely to be even more successful when resources generated from the market driving approach are inimitable and non-substitutable. Should a firm's resources be easily imitated or substituted in a certain market, competitors may be able to put forward an equivalent business concept that then diminishes the effectiveness of the focal firm's market driving approach. Based on the resource based view, the more market driving behavior leads to the development of resources that are difficult for competitors to imitate or substitute in foreign markets, the better the international performance of the firm should be. Thus,

Hypothesis 6: Resource inimitability and non-substitutability in foreign markets mediate the relationship between market driving behavior and international performance.

Figure 1 here.

3. Research method

3.1. Questionnaire development and measurement

The research context consists of firms headquartered in Europe with more than 250 employees and a minimum of 25% of total sales coming from international sales. Measures for the constructs come from extant literature although wording may be adapted according to the research context.

Configuration capability. Configuration capability refers to how well a firm exploits its unique set of resources within different cultural and structural settings, and is measured by the capability exploitation scale in Luo (2002). Luo's (2002) scales look at the extent to which a firm

exploits rent-generating resources that are firm specific, difficult to imitate, and able to generate abnormal returns.

Networking capabilities. Micro-level matching is the capability to match the firm's resources with those of external partners in order to implement a unique business model in a foreign market. Network coordination scales from Walter et al. (2006) can measure micro-level matching because they focus on the overall capability of a firm to carry out micro-level matching. These scales look at a firm's ability to initiate, maintain, and utilize relationships with external partners. Peng and Luo (2000)'s scale on managerial ties is an alternative scale, but this scale focuses on external partners with which a firm has established ties and does not include the initial search. A number of other studies provide survey criteria for supplier selection or alliance partner selection (e.g. Choi & Hartley, 1996; Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004; Vonderembse & Tracey, 1999) but micro-level matching is not limited to suppliers or alliances.

Macro-level matching between a firm and socio-political entities is a relatively new topic. A number of studies have investigated this type of relationship, but they are mainly based on a conceptual or qualitative research approach. (e.g. Elg et al., 2008; Hadjikhani, Lee, & Ghauri, 2008; Oliver & Holzinger, 2008). Sinkovics, Yamin, & Bamiatzi (2008) developed scales for measuring macro-level matching based on the concepts from Ghauri and Holstius (1996). These scales look at the time and resources spent on creating contacts with socio-political entities in new markets, and the amount of involvement these entities have in a firm's market entry process. Peng

and Luo (2000) provide scales for measuring a firm's ties with government officials and adapt them to include other socio-political actors.

Knowledge transfer capability. Lord and Ranft (2000) develop scales on the transfer of local market knowledge to examine the transfer of local market knowledge within the diversified firm as its divisions expand into a new host country. Organizational practices and routines and the effective sharing of the same are fundamental sources of competitive advantage (Argote & Ingram, 2000; Gupta & Govindarajan, 2000; Jensen & Szulanski, 2004; D. J. Teece, 1977; Zander & Kogut, 1995). Lord and Ranft's (2000) scales are used to address how market driving firms learn from past internationalization experiences through cross-border knowledge transfer.

Branding capability. Internal branding capability of market driving firms relates to how a firm capitalizes on corporate brand identity and aligns local employees in international markets to key company values. Aurand, Gorchels, and Bishop's (2005) internal branding scales look at a firm's brand building activities, and Baumgarth (2010) corporate brand orientation value scale, emphasizes the importance of long-term brand consistency. Scales from these authors are combined to measure branding capability.

Market driving behavior is an average of customer driving, competitor driving, and channel driving behaviors (Ghauri et al., 2011). The scale of *customer driving behavior* should reflect the three main elements of customer driving behavior that have been introduced and discussed in previous literature: i) offering customers superior benefits as a way to change their values, norms and behaviors (Carrillat et al., 2004; Jaworski et al., 2000; Kumar et al., 2000), ii) introduction of

new products/services intended to change customers' tastes and preferences (Carrillat et al., 2004), and iii) developing products that satisfy latent rather than expressed needs (Jaworski et al., 2000; Narver et al., 2004). Neuenburg (2010) also developed a scale to measure the two main aspects of *competitor driving behavior*: i) changing the horizontal competitive structure and conditions such as establishing roadblocks for competition, introducing new practices to which competitors have to adapt, launching initiatives that start new rounds of competitive activities, changing the number of competitors in a market (Hills & Bartkus, 2007; Jaworski et al., 2000; Neuenburg, 2010), and ii) offering a completely different value proposition and therefore changing the relevance of different competitive advantages (Kumar et al., 2000).

With regards to *channel driving behavior*, three generic approaches drive the structure of a market when considering channel partners (distribution channels, intermediaries and suppliers): deconstruction, construction and functional modification of channel partners (Ghauri et al., 2008; Hills & Sarin, 2003; Kumar, 1997; Neuenburg, 2010). Neuenburg's (2010) scale on channel driving behavior appears to be suitable for measuring this domain. In relation to influencing the wider society, including regulators, media, educational institutions, and investors, Neuenburg (2010) scales of *multiplier-driving behavior* and *regulator-driving behavior* are used. These scales cover the following aspects: i) persuading regulators to pass favorable regulations and induce changes in the position of the industry group, ii) being in regular contact with political institutions and government bodies, iii) lobbying as a way to influence regulators, and iv) media presence to influence the perceptions of other stakeholder groups.

Performance. Performance is measured using subjective performance measures from Powell and Dent-Micallef (1997) and Li and Atuahene-Gima (2001). Respondents evaluate their degree of satisfaction with sales growth, profit growth, net income over the past year as well as the firm's overall financial performance and profitability in relation to competitors over the past three years.

Control variables. This study controls for industry sectors, firm size (number of employees worldwide), firm age, number of international markets, and number of years in international markets, as these may influence market driving behavior and performance. Furthermore, experiential knowledge of the firm is likely to have an impact on the firm's internationalization process (Eriksson et al., 1997) and is also a control variable.

Validity and reliability of measures. Given that scales have not been tested together previously, the authors use maximum likelihood to carry out an exploratory factor analysis, removing factors with low loadings (less than 0.4) or cross loadings. A principal component analysis shows nine items with eigenvalue greater than one, explaining 72.5% of the variance. The Kaiser-Meyer-Olkin measure of sampling adequacy is .852 and Bartlett's test of sphericity is significant ($\chi^2(780) = 4039, p=0.000$). Table 1 shows the factor loadings of the items for each construct identified using principal component analysis with Varimax rotation. Cronbach's alpha underlines a good reliability for all measures used. In addition, a cluster analysis show no outliers in the sample that need to be removed. In relation to common method bias due to single respondents (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003), Harman's single factor test show

that when loading all variables on a single factor, the single factor explains only 28.4% of total variance. The test suggests that common method bias is not a major problem in the study.

Table 1 here.

3.2. Data collection

The sample of European firms originated from Dun and Bradstreet UK, based on criteria of more than 250 employees and a minimum of 25% of total sales coming from international sales. This data source has been widely used in academic research and is considered reliable (Robson, Katsikeas, & Bello, 2008). The questionnaire was sent by post in the winter of 2013 following the Tailored Design Method (TDM) as suggested by Dillman, Smyth, & Christian (2008). Research design consisted of one questionnaire for each firm. The responses are mainly based on Likert-type scales with 1 for 'strongly agree' and 7 for 'strongly disagree'. The questionnaire was in English and directed to the CEO of the company. A total of 161 questionnaires were returned from 2300 firms after two mailings, of which 143 were usable. From the 143, 33 questionnaires were dropped in subsequent regression analyses using listwise deletion for missing data. Consequently, the analyses are based on 110 questionnaires (5% of total mailings).

4. Results

Table 2 shows the correlation matrix. Although some of the correlations are high, the variable inflation factors (VIF) in the regression analyses indicate that collinearity is not a problem with the

data; VIF scores are all less than 2.0, considerably below the suggested threshold of 5 recommended by De Vaus (2002).

Tables 2 and 3 here.

Table 3 shows the results of hypothesis-testing using ordinary least squares (OLS) regression. Missing values are treated using listwise deletion (n=110). Model 1 is the controls only model. The regression is significant ($p < 0.01$) and accounts for around 17 percent of the variance in market driving behavior (adjusted $R^2 = 0.17$).

The principal component analysis shows that the networking items load on two factors: micro-level matching and macro-level matching. Regression analysis show that micro-level matching was insignificant but that macro-level matching was significant. When dropping micro-level matching, the R-square value improves. Model 2 shows the regression results using networking capability in terms of macro-level matching only, along with configuration capability, knowledge transfer capability, and branding capability. Model 2 is significant ($p < 0.001$) and the improvement in explanatory power of 26 percent over Model 1 is significant ($p < 0.001$). All capabilities studied have significant relationships with market driving behavior ($p < 0.01$ for configuration and networking, and $p < 0.05$ for knowledge transfer and branding), supporting hypotheses 1, 2, 3, and 4. Model 2 shows that the independent variables and covariates explain 43% of the variance in market driving behavior.

Model 3 is the controls only model for international performance. The controls model is significant ($p < 0.001$) and explains 27% of the variance in international performance. In particular, the number of international markets and experiential knowledge are significant indicators.

Model 4 shows the relationship between market driving behavior and the international performance of sample firms. As hypothesized in H5, market driving behavior has a positive significant effect on performance ($p < 0.001$). With regards to possible presence of reverse causality and endogeneity between market driving behavior in international markets and international performance, reverse regression with market driving as dependent variable and performance as independent variable shows significant relationship ($p = 0.000$) with adjusted R-square and F similar to Model 4. Reverse regression does not appear to add anything new. As suggested by earlier studies (Kumar et al. 2000; Narver et al. 2004 and Ghauri et al. 2011), it is the market driving strategy and pro-active market orientation that influence performance and not the other way around. Model 5 shows support for H6, as market driving behavior and resource inimitability/non-substitutability in foreign markets are both significant.

Mediation effects are tested using bootstrapping methods (Preacher & Hayes, 2008). Table 4 shows that the mediation effects studied are significant as they lie within a confidence interval that does not include zero (Preacher & Hayes, 2008).

Table 4.

Table 5 shows further regression analysis on individual market driving behaviors based on different stakeholder groups to explore the impact of capabilities on each. In Model 6,

customer/competitor driving behavior is significantly influenced by configuration and brand orientation capabilities, but not by networking and knowledge transfer capabilities. In Model 6, configuration, networking, and knowledge transfer are significantly related to channel driving behavior, but branding capability is not. Finally, Model 7 shows only networking as significantly influencing wider society driving behavior. Configuration, knowledge transfer, and branding are insignificant. The results suggest that different capabilities have varying levels of importance for different market driving behaviors.

Table 5 here.

5. Discussion and conclusion

A firm's ability to implement a worldwide business concept is an area of key concern for international managers (Elg et al., 2008; Kim & Hwang, 1992; Kumar et al., 2000). The aim of this paper is to develop a greater understanding of the antecedents to market driving strategy in global firms. Most of the existing literature focuses on describing what market driving strategy is, but do not investigate what factors leads to market driving strategy. The present study highlights that configuration, knowledge, branding, and networking capabilities are antecedents to market driving behavior. Branding capability is particularly important for market driving behavior directed at customers and competitors. Networking is important mainly for market driving behavior directed at channel partners and the wider society. Configuration influences customer/competitor driving as well as channel driving behavior. Moreover, the findings suggest that localization is not necessary

for success in foreign markets. A standardized market driving strategy is achievable in international markets.

The study makes several key contributions to the strategic marketing and international business literature. First, it answers the call for empirical studies on the antecedents to market driving behavior (Ghauri et al., 2011). The developed framework enhances the understanding of market driving strategy in global firms. Findings show that capabilities relating to the business configuration, local market networking, knowledge transfer, and internal branding remain key to the development of market driving behavior in foreign markets and international performance. Second, earlier studies do not examine market driving behavior in the context of foreign markets of global firms. Therefore, the relationship between market driving behavior and international performance was unclear. This study shows a significant positive relationship between market driving behavior and the international performance of global firms. Furthermore, market driving behavior plays an important role in helping firms implement unique business propositions in the local markets. Previous market driving studies underline the direct relationship between market driving behavior and performance (Hills & Bartkus, 2007; Neuenburg, 2010). This paper complements previous market driving studies by showing that market driving behavior can develop resource inimitability and non-substitutability in foreign markets and ultimately lead to better performance.

For managers, this study provides better understanding of the market orientation concept, particularly proactive market orientation. It confirms that companies can be successful with minor

adaptations as long as they supply superior value proposition to customers as compared to their competition. The findings suggest that companies need to have superior configuration capabilities that would enable them to convince the market about their value proposition.

Some of the limitations of this study include the self-reported performance measures. Future research can use more objective measures of performance to complement subjective measures. Having data on more countries may also reveal country differences and the influences of country factors such as culture. This will augment understanding on why some firms achieve high performance in certain markets but not in others. It would also allow controlling for market size of the home country. A larger sample size would also allow further analysis using structural equation modeling.

Overall, results suggest that managers need to pay attention to developing capabilities related to knowledge, configuration, and networking in order to enhance market driving behavior and performance in foreign markets. Managers can think more deeply about the role that these capabilities can play in helping the firm implement its business concept effectively in local markets. Many opportunities remain for theory development in market driving orientation and this study opens up this new and exciting research area within the field of marketing and international corporate strategy.

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(Editable versions of all tables and figures are available and submitted separately in a PPT file.)

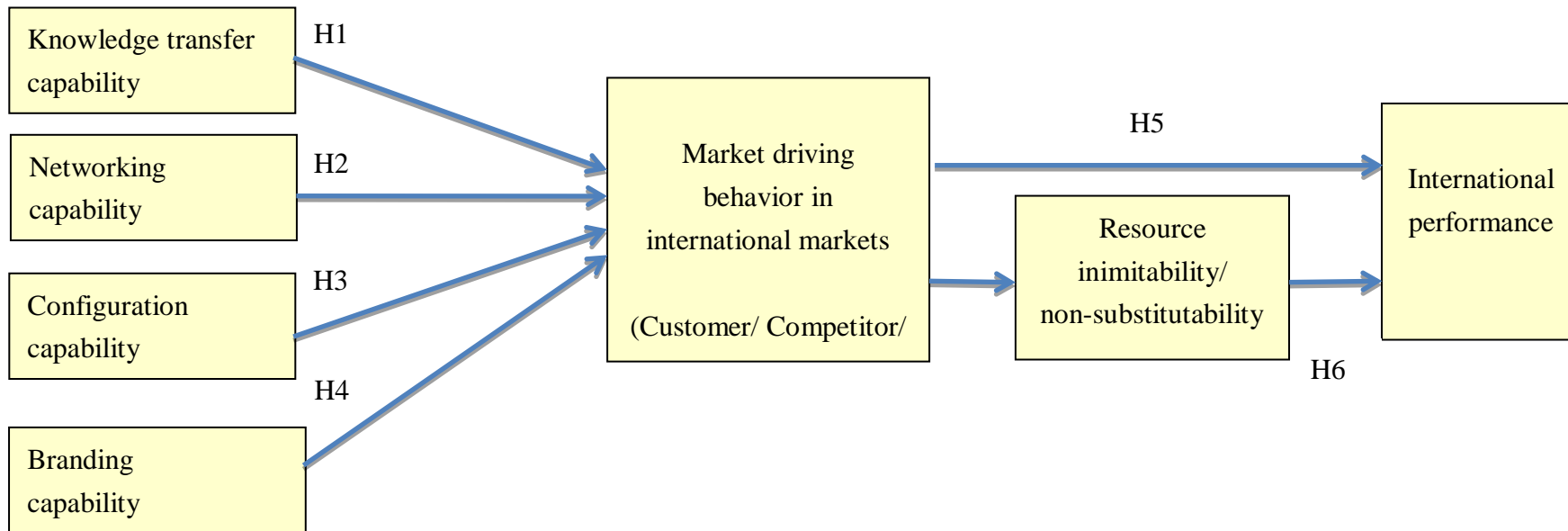


Figure 1
Conceptual model

Table 1
Construct reliability and item factor loadings

Scale	Factor Loading
<i>Knowledge transfer capability ($\alpha = .81$)</i>	
Our overseas operations were able to avoid some potentially serious mistakes by taking advantage of the company's prior knowledge of other countries that had been previously entered.	0.69
If our company did not already have experience in foreign markets, then entry into new international markets would have been more difficult.	0.76
The fact that our company already had a presence overseas greatly helped us execute entry into new markets.	0.81
Our company's evaluation of a new international market as a potential market was more accurate because of what we learned from other parts of the company.	0.68
<i>Networking capability - Micro-level matching ($\alpha = .77$)</i>	
We judge in advance which possible partners in our foreign markets to talk to about building up relationships.	0.74
We discuss regularly with our partners in foreign markets how we can support each other in our success.	0.86
We inform ourselves of our partners' goals, potentials and strategies in our foreign markets.	0.67
<i>Networking capability - Macro-level matching ($\alpha = .92$)</i>	
Overall our company commits significant time and resources creating new/potential contacts with local government of our foreign markets.	0.75
Overall our company is proactive in taking initiatives to create new contacts in local government of our foreign markets.	0.67
Our company usually contacts local government representatives in our foreign markets and engages them in the early stages of entry.	0.74
<i>Configuration capability ($\alpha = .74$)</i>	
To what extent has your firm configured and exploited the following strategic and firm-specific resources for operations in your foreign markets?	
Product/Service and process technologies	0.72
Industrial or intellectual property rights	0.72
Managerial & organizational skills	0.69
<i>Branding capability ($\alpha = .90$)</i>	
Our corporate brand values are reinforced for local market employees in our foreign markets through internal communications.	0.74
Training is provided to help local market employees use corporate brand values.	0.79
The skill set necessary to deliver corporate brand values is considered in staffing decisions in local markets.	0.82
Annual performance reviews of local employees include metrics on delivering the corporate brand values.	0.77
Plans for new markets include local employees' roles in living the corporate brand values.	0.83
<i>Experiential knowledge ($\alpha = .86$)</i>	
How much do the following factors create obstacles to your company's plans for internationalization? (reverse scored)	
Lack of subsidiaries/branches outside your home country	0.68
Lack of cooperative agreements with foreign firms	0.77
Lack of foreign experience	0.82
Lack of unique knowledge/competence	0.70
<i>Resource inimitability/non-substitutability ($\alpha = .86$)</i>	

Considering the mix of various resources that enable you to operationalize your business concept abroad, to what extent do you agree with the following statements?	
Competitors in our overseas markets find it very difficult to match our resources.	0.67
No competitor in our overseas markets could replicate our mix of resources.	0.83
Competitors in our overseas markets never seem to match our resources.	0.76
There is no substitute for our mix of resources.	0.60
<i>Market driving behaviors ($\alpha = .91$)</i>	
<i>Customer / competitor driving behavior ($\alpha = .88$)</i>	
We regularly launch products/services in our foreign markets that are intended to make customers rethink their likes/dislikes.	0.70
We often encourage customers in foreign markets to rethink the value they place on certain product/service features.	0.71
We regularly launch innovative products/services in foreign markets that offer superior value compared to competitor offerings.	0.70
We present new solutions to our foreign market customers that they actually need but did not think to ask about.	0.63
We take the initiative in creating roadblocks for our competitors in our foreign markets.	0.68
We regularly introduce new practices that change the way our competitors operate in our foreign markets.	0.71
Our initiatives often drive new rounds of competitive activity in our foreign markets.	0.67
<i>Channel driving behavior ($\alpha = .80$)</i>	
We proactively try to gain a significant amount of control over the distribution channels in our foreign markets.	0.57
We regularly encourage our suppliers in new foreign markets to accept new challenges.	0.59
We educate channel partners in foreign markets in order to make them understand our business model/strategy.	0.76
We are prepared to invest resources in the supply chain in our foreign markets in order to adapt it to our business model.	0.74
<i>Wider society driving behavior ($\alpha = .91$)</i>	
We frequently try to drive changes in the policies of industry groups in our foreign markets.	0.80
We actively participate in standard bodies or political committees in our foreign markets.	0.82
We dedicate significant resources to "lobbying" in our foreign markets.	0.80
Through proactive communication with multipliers (e.g. the media, investors, partner firms or educational institutions), we are often able to build support and legitimacy for our company.	0.85
Our interactions with key media actors in foreign markets usually have a positive effect in our favor.	0.75
<i>International performance ($\alpha = .88$)</i>	
Our financial performance in our international markets has been outstanding.	0.66
Our financial performance has exceeded our competitors in our international markets.	0.77
Our sales growth in our international markets has been outstanding.	0.73
Our sales growth has exceeded our competitors in our international markets.	0.75
Our profitability in our international markets has been outstanding.	0.67

Notes: α = Cronbach's alpha. Extraction method: Principal Component Analysis. Rotation method: Varimax with Kaiser Normalization

Table 2
Correlations and Descriptive Statistics

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Configuration	1															
2. Micro-level matching	.35**	1														
3. Macro-level matching	.31**	.36**	1													
4. Knowledge transfer	.26**	.35**	.32**	1												
5. Branding	.29**	.31**	.33**	.28**	1											
6. Market driving	.50**	.40**	.50**	.35**	.43**	1										
7. Resource inimitability	.37**	.25**	.43**	.26**	.32**	.47**	1									
8. Intl. performance	.44**	.23**	.34**	.33**	.20*	.56**	.57**	1								
9. Manufacturing	.27**	.05	.17*	.04	.05	.28	.26**	.22	1							
10. Retailing	.07	.06	.08	-.04	.29**	.26**	.31**	.17*	-.00	1						
11. Financial	.06	-.07	.00	.01	.06	-.02	.00	.04**	-.37**	-.13	1					
12. Firm size (employees)	.19*	.11	.39**	.24**	.31**	.28**	.17	.27	.13	.16	.03	1				
13. Firm age	.02	.01	.03	.00	.02	-.06	.01	.04	.15	.05	.02	.09	1			
14. No. intl. markets	.16	.04	.03	.07	.09	.18	.07	.33**	.07	.05	.06	.21*	-.03	1		
15. Years in intl. markets	.14	.21*	.05	.05	.21*	.27**	.13	.15	.04	.17*	.08	.04	.01	.03	1	
16. Experiential knowledge	.15	.05	.07	.12	.02	.13	-.14	.22**	.02	-.12	-.00	.24**	-.01	.24**	.14	1
Mean	5.20	5.40	4.23	5.49	4.55	4.75	3.93	4.69	0.70	0.21	0.06	6915	25.92	4.26	14.35	4.86
Median	5.33	5.67	4.33	5.75	4.60	4.80	3.93	4.80	1.00	0.00	0.00	5000	26.00	4.00	15.50	5.00
Standard deviation	1.14	0.96	1.53	0.94	1.31	.96	1.31	1.15	0.46	0.41	0.23	6234	0.94	3.77	3.31	1.47
N	143	143	143	143	143	143	143	143	141	140	140	138	125	114	120	143

Table 3
Multivariate Regression Analysis

Variables	Dependent variable	Market driving behavior				International performance					
		Model 1		Model 2		Model 3		Model 4		Model 5	
		B	s.e.	B	s.e.	B	s.e.	B	s.e.	B	s.e.
(Constant)		6.43	2.01***	3.38	1.73	1.68	2.64	-1.70	2.55	-2.80	2.19
Capabilities											
Configuration				.18	.06**						
Network (macro-level matching)				.14	.05**						
Knowledge transfer				.19	.07*						
Branding				.12	.06*						
Market driving behavior								.53	.12***	.35	.11**
Resource inimitability/ non-substitutability										.43	.07***
Control variables											
Manufacturing industry		.50	.19*	.30	.16	.14	.24	-.13	.23	-.27	.20
Retail industry		.61	.18**	.51	.16**	.50	.24**	.18	.23	-.17	.21
Financial industry		-.11	.36	-.26	.31	.31	.48	.16	.44	-.28	.38
Firm size (employees)		.00	.00	-.00	.00	.00	.00*	.00	.00	.00	.00
Firm age		-.12	.07	-.10	.06	.02	.10	.08	.10	.09	.08
Number of international markets		.02	.03	.02	.02	.10	.04**	.08	.03**	.08	.03**
Years in international markets		.19	.04	.00	.03	.03	.05	.02	.04	.02	.04
Experiential knowledge		.05	.06	.06	.05	.07	.07	.04	.07*	.11	.11*
Adjusted R ²		.170		.432		.13		.27		.46	
F		3.78**		7.92***		3.10**		5.37***		10.41***	
ΔR^2 from model 1				.26***							
ΔR^2 from model 3								.13***		.32***	

Notes: n=110; *p<.05; **p<.01; ***p<.001

Table 4
Mediation analysis using bootstrapping (bootstrap sample = 1000, 95% confidence level)

Indirect effect of *Configuration* on *International performance*

	Effect	Boot SE	BootLLCI	BootULCI
<i>Market driving behavior</i>	.14	.07	.04	.33

Indirect effect of *Networking* on *International performance*

	Effect	Boot SE	BootLLCI	BootULCI
<i>Market driving behavior</i>	.11	.05	.04	.22

Indirect effect of *Knowledge transfer* on *International performance*

	Effect	Boot SE	BootLLCI	BootULCI
<i>Market driving behavior</i>	.13	.05	.04	.27

Indirect effect of *Branding* on *International performance*

	Effect	Boot SE	BootLLCI	BootULCI
<i>Market driving behavior</i>	.12	.06	.04	.26

Direct effect of *Market driving behavior* on *International performance*

Effect	SE	t	p	LLCI	ULCI
.34	.11	3.22	.002	.13	.56

Indirect effect of *Market driving behavior* on *International performance*

	Effect	Boot SE	BootLLCI	BootULCI
<i>Resource inimitability/non-substitutability</i>	.18	.08	.03	.36

Table 5
Regression Analysis - Individual Market Driving Behaviors

Dependent variable	Model 6		Model 7		Model 8	
	Customer/competitor driving behavior		Channel driving behavior		Wider society driving behavior	
	B	s.e.	B	s.e.	B	s.e.
(Constant)	15.83	124.10	4.93	2.04*	3.70	3.11
Capabilities						
Configuration	.21	.10*	.16	.07*	.09	.11
Network (macro-level matching)	.09	.07	.15	.05**	.43	.08***
Knowledge transfer	.18	.12	.26	.09**	-.07	.13
Branding	.27	.10**	.00	.07	.04	.11
Control variables						
Manufacturing industry	.30	.25	.36	.19	-.08	.28
Retail industry	.53	.24*	.33	.19	1.07	.29***
Financial industry	-.53	.47	.17	.37	1.27	.56*
Firm size (employees)	-.00	.00	-.00	.00	.00	.00
Firm age	-.63	4.78	-.12	.07	-.10	.11
Number of international markets	.04	.06	.01	.03	.08	.04
Years in international markets	.01	.05	-.00	.04	-.09	.05
Experiential knowledge	.08	.08	.00	.05	.04	.09
Adjusted R ²	.320		.288		.42	
F	4.64***		4.68***		7.68***	

Notes: n=110; *p<.05; **p<.01; ***p<.001

