



# When are innovativeness and responsiveness effective in a foreign market?

Anders Pehrsson<sup>1</sup>

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## Abstract

Good managerial understanding of the mechanisms underlying the effectiveness of entrepreneurial orientation (EO) and market orientation (MO) in dynamic foreign markets improves the international competitiveness of the entire firm. Drawing on the dynamic capability view, this study contributes to the international strategy and entrepreneurship literature by extending our understanding of the actionable components of the EO/MO of firms' foreign units, that is, innovativeness and responsiveness. The study examines relationships between the actionable components and the performance of industrial firms' wholly owned subsidiaries and cooperative arrangements in foreign markets. The results indicate that innovativeness and responsiveness are directly and positively associated with the performance of the foreign unit. Higher institutional barriers make innovativeness less effective, while full ownership strengthens the positive relationship with responsiveness. Contributions to the literature are discussed.

## Abstrakt

Das Managementverständnis der Mechanismen, die der Effektivität der unternehmerischen Orientierung (EO) und der Marktorientierung (MO) in dynamischen Auslandsmärkten zugrunde liegen, verbessert die internationale Wettbewerbsfähigkeit des gesamten Unternehmens. Diese Studie stützt sich auf die Dynamic Capabilities View und liefert einen Beitrag zur Literatur zu internationaler Strategie und Unternehmertum, indem sie das Verständnis der verwertbaren Komponenten von EO/MO der ausländischen Einheiten von Unternehmen, d.h. Innovationsfähigkeit und Reaktionsfähigkeit, erweitert. Die Studie untersucht die Beziehungen zur Leistung von hundertprozentigen Tochtergesellschaften und Kooperationen von Industrieunternehmen auf ausländischen Märkten. Die Ergebnisse zeigen, dass Innovation und Reaktionsfähigkeit direkt und positiv mit der Leistung der ausländischen Einheit

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✉ Anders Pehrsson  
Anders.Pehrsson@lnu.se

<sup>1</sup> School of Business and Economics, Linnaeus University, SE 35195 Växjö, Sweden

verbunden sind. Höhere institutionelle Barrieren führen dazu, dass Innovation weniger effizient ist. Eine uneingeschränkte Eigentümerschaft stärkt die positiven Beziehungen in Bezug auf die Reaktionsfähigkeit. Beiträge zur Literatur werden diskutiert.

**Keywords** Entrepreneurial orientation · Market orientation · Innovation · Responsiveness · Performance · Subsidiary

## Summary highlights

*Contributions:* The study contributes to the international strategy and entrepreneurship literature in several ways. First, the study demonstrates that market-driving innovativeness and market-driven responsiveness are actionable components of strategic orientations that affect the performance of foreign units. Second, the global competitiveness of a firm requires a fit between these components and local institutional barriers. Third, the mode of owning the foreign unit is an important contextual factor influencing performance.

*Purpose:* The purpose is to extend our understanding of the relationships between the strategic orientations and performance of firms' foreign units. The study focuses on the actionable component of entrepreneurial orientation, i.e., innovativeness, and responsiveness, which represents market-oriented actions. Wholly owned subsidiaries and cooperative arrangements in foreign markets are analyzed.

*Results:* Innovativeness and responsiveness are directly and positively associated with foreign unit performance. Higher institutional barriers make innovativeness less effective, while full ownership strengthens the positive relationship with responsiveness.

*Theoretical implications:* Entrepreneurial and market orientations operate through innovativeness and responsiveness, respectively. Both orientations rely on market knowledge and should be studied simultaneously.

*Practical implications:* Firms are advised to recognize that the strategic orientations of a unit operating in a foreign market are sources of global competitiveness. Management needs to align innovation activities in the market with the institutional context, because higher institutional barriers weaken the positive association between innovation activities and performance. When a firm strives for responsiveness, it is more effective if it is the sole owner of the foreign unit.

*Limitations and further research:* This analysis treats only industrial firms, which may limit the generalizability of the results, while the inclusion of firms from one home country may entail biases. As market contexts, such as institutional barriers, frequently tend to change dynamically, observations from a different year might lead to different results. The conceptual model could be developed by analyzing observations over time. Also, future studies could include other types of firms besides industrial firms, as well as firms from different home countries.

## Introduction

A firm's understanding of the mechanisms of actions that lead to effective strategic orientations in dynamic foreign markets is important, because it could improve firm's sensitivity to different market situations and international competitiveness (Etemad 2015). Analysis of the behavioral aspects of the strategic orientations of firms' units operating in foreign markets has accordingly received increasing attention (Cadogan et al. 2016; Dong et al. 2013, Gnizy et al. 2014; Pehrsson 2016). A foreign unit may be a wholly owned subsidiary, a cooperation with another firm, or any other relevant unit. Drawing on the dynamic capability view, this study expands the scope of research and contributes to the international strategy and entrepreneurship literature. The purpose is to extend our understanding of the relationships between the strategic orientations and performance of firms' foreign units. The study focuses on the actionable components of innovativeness and responsiveness.

Entrepreneurial orientation (EO) and market orientation (MO) are crucial strategic orientations that are complementary but distinctive (Cadogan et al. 2016; Deutscher et al. 2016; Hallbäck and Gabrielsson 2013; Hong et al. 2013; Montiel-Campos 2018). Both emphasize the importance of market knowledge in driving (EO) or responding to (MO) the market. Innovativeness, risk-taking, and proactiveness characterize EO (Lumpkin and Dess 1996; Miller 1983). Market intelligence generation and dissemination as well as market responsiveness are the dominant components of MO (Kohli and Jaworski 1990). EO and MO are viewed as dynamic capabilities (Barreto 2010; Gnizy et al. 2014) that are essential to the firm's realization of competitive advantage in dynamic markets. In particular, EO/MO must be continuously reconfigured to improve performance (Jantunen et al. 2005; Teece 2007).

There is a need to close two essential research gaps. First, studies need to focus simultaneously on the complementary components of innovativeness and responsiveness, and on the performance effects, of foreign units operating in dynamic markets (Pehrsson 2016). Several studies report positive direct relationships between EO as a whole and foreign unit performance (Boso et al. 2012; Dimitratos et al. 2004; Sundqvist et al. 2012), and between MO and performance (Cadogan et al. 2003; Qu and Zhang 2015). Yet, relationships between innovativeness/responsiveness and foreign unit performance have largely been neglected.

Innovativeness and responsiveness are crucial to firm performance because they manifest firms' strategies in foreign markets and are actionable; accordingly, the other components of EO and MO operate through innovativeness and responsiveness (Cadogan 2012; Dong et al. 2013; Sorensen, 2009). *Innovativeness* represents a firm's entrepreneurial and market-driving behavior to get ahead of competitors by, for example, launching innovations and creating and entering new markets (Teece 1986). On the other hand, *responsiveness* is a market-driven firm behavior; for example, by customizing products and building customer relationships, the firm may respond to the needs of target customers (Kirca et al. 2005; Leonidou and Katsikeas 2003).

Second, contextual limits to the effectiveness of the components of EO and MO need to be further explored (Pehrsson 2016; Rauch et al. 2009; Saeed et al. 2014) because competitiveness builds on the fit between strategy and dynamic contexts (Boyd et al. 2012). External factors that moderate relationships between the entire constructs of EO/MO and foreign unit performance have been recognized. These include national

context (Martens et al. 2016; Montiel-Campos 2018; Wales et al., 2013), general environmental uncertainty or dynamism (Dimitratos et al. 2004; Sundqvist et al. 2012), environmental hostility (Hosseini et al. 2018; Zahra and Garvis 2000), competitive intensity (Boso et al. 2012; Cadogan et al. 2003), and market heterogeneity (Qu and Zhang 2015). Most studies have found positive moderating effects, but the results are inconclusive, given that Sundqvist et al. (2012) identified negative moderation effects.

External moderating effects therefore merit further attention, particularly as concerns the impact of institutional dynamism, which theoretically relies on institutional theory (Rosenzweig and Nohria 1994). Dynamism concerns, for example, the economy, policymaking, government administration, and culture in a foreign market (Berry et al. 2010). Dynamism creates barriers due to exogenous uncertainty (Akhter and Robles, 2006) and the liabilities of foreignness (Mata and Portugal 2002; Mezias 2002), and barriers add to costs (Marsh 1998). These barriers are important because they determine the relevance of a foreign unit's potential competitive advantages.

Furthermore, studies have captured the internal contexts specified by firms' resources, capabilities, and product types (Cadogan et al. 2016; Deutscher et al. 2016; Kirca et al. 2005; Pascucci et al. 2016; Silva and Styles 2017). Still, there are conflicting results regarding, for example, the impact of product context. It is therefore important to further explore the impact of internal moderators. In particular, the role of a firm's mode of owning the foreign unit needs to be explored. This is important because full ownership means an ability to influence strategic decisions (Chen et al. 2014; Makino and Beamish 1999; Nguyen et al. 2016). The role of ownership is accentuated by transaction cost theory, which explains how firms make decisions related to transactions in order to achieve economically efficient outcomes under the influence of uncertainty (Williamson 1975).

This study examines wholly owned subsidiaries and cooperative arrangements with other firms that compete in foreign markets with different institutional barriers. The study's findings improve current understanding of the effectiveness of a firm's strategic orientation in a foreign market, contributing to the international strategy and entrepreneurship literature in several ways. First, the study demonstrates that market-driving innovativeness and market-driven responsiveness are actionable components of strategic orientations that affect performance. Second, the global competitiveness of a firm is based on the fit between the actionable components of the EO/MO of firms' foreign units and local institutional barriers. Third, the mode of ownership of the foreign unit is an important contextual factor that influences performance.

## Theory and hypotheses

This section presents the application of the dynamic capability view, the conceptual model, and the hypothesis development. The dynamic capability view is central to the direct relationships, while relationships with the moderating factors draw on institutional theory and transaction cost theory.

## Application of the dynamic capability view

According to the resource-based view of the firm (Barney 1997; Penrose 1959), a firm creates competitive advantage and improves its performance by configuring and coordinating internal resources in a unique way. The dynamic capability view is an extension of this, and has been developed in order to understand resource configurations when there is market dynamism. Teece (2007) viewed a dynamic capability as the capacity to sense, shape, and seize environmental threats and opportunities, and maintain competitiveness based on tangible and intangible resources. A dynamic capability accordingly helps reconfigure the firm's resources and routines in changing environments (Teece 2007; Wan et al. 2011; Zahra et al. 2006).

In the dynamic capability view, the firm and its foreign units need to develop dynamic capabilities in order to realize competitive advantage and improve performance in dynamic markets (Pehrsson et al. 2015). The strategic orientations of EO and MO are examples of such capabilities (Barreto 2010; Gnizy et al. 2014) that have implications for resource configurations intended for building competitive advantage. For example, to seize market opportunities, a foreign unit may adjust its resource configuration in terms of market knowledge received from the parent firm or any other corporate unit, or accumulate knowledge itself (Pogrebnyakov and Maitland 2011). The firm's ability to combine resources in new ways is therefore crucial (Teece et al. 1997), as there may be a need for new processes, business models, complementary assets, and methods in order to capitalize on environmental opportunities. Such reconfiguration is important in dynamic markets and improves performance (Fey and Björkman 2001; Jantunen et al. 2005).

## Conceptual model

The conceptual model (Fig. 1) predicts direct and positive relationships between a foreign unit's innovativeness and responsiveness, on one hand, and the performance of the unit, on the other. It is also assumed that these relationships are contingent on institutional barriers and the firm's mode of owning the foreign unit. As it is difficult to make causal claims in this early phase of model development (Antonakis et al. 2010), the hypotheses concern associations among model components.

## Innovativeness and foreign unit performance

The firm generally realizes its ambitions to create new markets or niches and get ahead of its competitors by being innovative and trying to achieve a leadership advantage. Therefore, innovativeness frequently brings advantages such as technology, knowledge, and early access to key customers (Liebermann and Montgomery 1998; Teece 1986). In accordance with dynamic capability theory, in dynamic foreign markets, innovativeness needs to be combined with resource configurations that ensure the building of competitive advantage (Jantunen et al. 2005). For example, the activity of launching an innovation in a foreign market might be backed up by strengthening the sales force to effectively approach relevant target groups in the market. In this way, the firm could improve its proactive capability to build market knowledge as a basis for identifying and exploiting market opportunities through innovations. Launching an

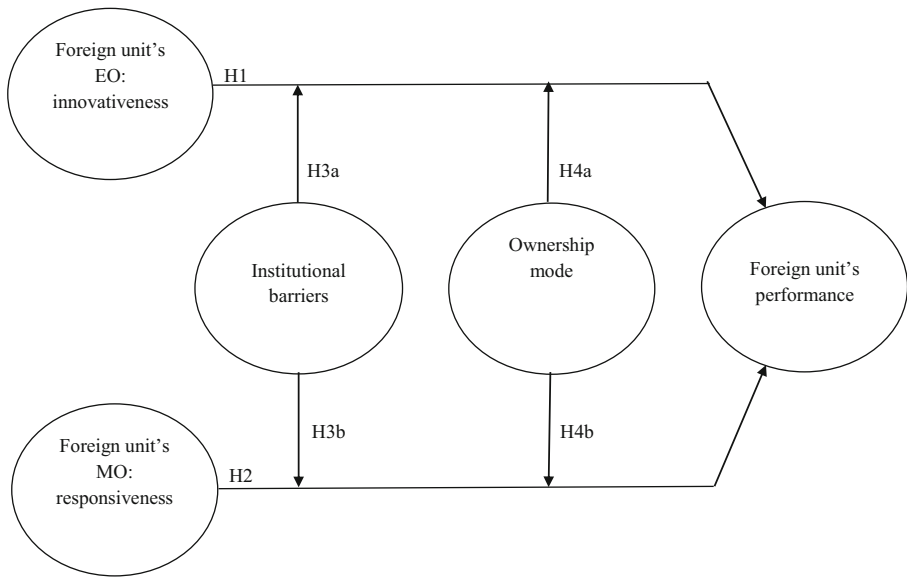


Fig. 1 The hypothesized model (H indicates hypothesis)

innovation commonly brings a first-mover advantage (Liebermann and Montgomery 1998) that often relies on technological leadership. Positive associations between leadership and performance are generally explained by the control of key resources and by the establishment of early relationships with customers that may become barriers to competitors (Gao and Knight 2007; Lieberman and Montgomery 1988; Makadok 1998).

Innovativeness would be a basis for the foreign unit to extend its product/market scope by proactively launching innovations, thereby reducing its vulnerability to the low prices of dominant competitors regarding individual products in the portfolio (Lavie and Fiegenbaum 2000; Pehrsson and Pehrsson 2015; Wu and Pangarkar 2006). Essentially, innovation activities make it possible to avoid price competition by creating new markets and achieving first-mover advantages in foreign markets.

In trying to achieve early advantages, such as the early creation of sustainable relationships with customers (e.g., Gao and Knight 2007), the foreign unit may be assisted by other corporate units that share market knowledge if there is resource relatedness among them. The benefits of early initiatives to build relation-based barriers to competition may therefore overshadow dynamic threats from late-moving firms with large volumes and low costs if the firm configures its resources dynamically (Hutzschenreuter and Groene 2009; Jaffe et al. 2005).

*Hypothesis 1:* Innovativeness is positively associated with foreign unit performance.

### Responsiveness and foreign unit performance

Market responsiveness is a market-driven behavior of the firm and its units. Responsiveness requires some market maturity, as customers, competitors, and other relevant market actors need to be distinguished. The firm would then be able to specify a suitable degree of responsive action, such as product customization and building

customer relationships (Pehrsson 2014). Creating effective responsiveness therefore means that the firm tries to achieve competitiveness based on extensive knowledge of its customers and competitors; this requires a well-designed system for generating and disseminating market information (Kohli and Jaworski 1990).

Several studies report positive direct relationships between market responsiveness and firm performance (Kirca et al. 2005). The major reason would be that customer needs, competitive patterns, and technology preferences generally vary. Customers may not ask only for low prices but also for other values, and their preferences may change dynamically. Essentially, firms capable of exploring a broader range of customer preferences will perform better if they respond to changing customer needs by taking appropriate and dynamic action (Luo 2001). The alternative of applying a standardized strategy would risk underestimating changes in customers' individual situations.

Foreign units would therefore benefit from the careful assessment of dynamic markets followed by appropriate responses to customers, competitors, and technologies (Homburg et al. 2007; Pehrsson 2014). As responsiveness is driven by the market, it is crucial to analyze information not only about customer needs, but also about competitors' ways of responding to them. A foreign unit operating in a market-oriented way may find it necessary to strengthen its capability to respond to customer preferences by actively taking part in a firm-wide system of market intelligence generation and dissemination that is central to the accumulation of market knowledge (Kohli and Jaworski 1990). Doing so might require resources to effectively coordinate the organizational functions involved in such a market information system, as well as additional resources to extend the responsiveness capability and resulting dynamic activities (Narver and Slater 1990).

A thorough market analysis prepares the foreign unit's specification of an appropriate range of customers and motivates responses different from those of competitors. Such actions may include broad solutions to customer problems, product customization, and building relationships with customers. Furthermore, effective implementation of responsive activities requires that the foreign unit be able to access customers by breaking through loyalties between potential customers and other suppliers (Pehrsson and Pehrsson 2015). In addition, potential customers must be convinced that the benefits of turning to another supplier will exceed the costs of switching, that is, the costs of leaving the previous supplier (Brusk et al. 2012).

*Hypothesis 2:* Responsiveness is positively associated with foreign unit performance.

### **The moderating effect of institutional barriers**

The institutional dynamism of a foreign market often restricts strategy implementation, as the firm may find it difficult to cope with barriers originating from its lack of knowledge of, for example, changing local policymaking (Berry et al. 2010). In accordance with institutional theory, such barriers make it difficult to realize a potential competitive advantage and the lack of knowledge constitutes a "liability of foreignness" that increases costs (Marsh 1998; Mata and Portugal 2002).

Uncertainty can also arise from the firm's difficulties coping with differences between the institutional dynamism of the home market and the foreign host market. Such differences give rise to additional barriers, as the firm's lack of familiarity with the

foreign context and its volatility makes it problematic to rely on knowledge from the home market. White et al. (2014) and Lawton et al. (2013) emphasized that a volatile institutional context characterized by, for example, regulations that suddenly change in unfamiliar ways frequently mean that firms perceive great uncertainty and risks, which entail additional costs.

Unexpected government interventions or requirements that change the rules of competition generally jeopardize the firm's advantages based on innovativeness or responsiveness. Local government may, for example, make it difficult for foreign firms to enter the market, obstructing the firm's opportunities to implement a strategy relying on differentiation from local competitors through innovation. This means that institutional dynamism could negatively affect the firm's way of coping with large-scale competitors that consistently emphasize low prices (Lévesque et al. 2013).

Similarly, negative regulations may erode the positive performance impact of the foreign unit's responsiveness and reinforce the advantages of large-scale competitors dominating the foreign market (Pehrsson 2014). The firm would consequently find it difficult to reduce its liabilities of foreignness if it could not cope with institutional barriers by emphasizing its advantages over local competitors.

In summary, this study predicts that the height of barriers stemming from institutional dynamism will negatively affect the relationships between the foreign unit's innovativeness/responsiveness and performance.

*Hypothesis 3:* The higher the institutional barriers in the foreign market, the weaker the positive association between (a) innovativeness and foreign unit performance, and (b) responsiveness and foreign unit performance.

### **The moderating effect of ownership mode**

Previous studies of how internal factors moderate relationships between EO/MO and performance have obtained mixed findings. For example, comparing the studies of Circa et al. (2005) and Rodriguez Cano et al. (2004) reveals that the former identifies a strong positive direct relationship for product firms, while the latter establishes a strong positive relationship for service firms.

Although the above-mentioned prominent studies contributed to the field, there is still very limited knowledge of how the firm's mode of owning a foreign unit moderates relationships between innovativeness/responsiveness and performance at the foreign unit level. Theoretically, the relevance of ownership mode is rooted in the theory of transaction cost economics (Williamson 1975). This theory explains how firms make decisions in order to achieve positive economic outcomes (Ketokivi and Mahoney 2016). It pays attention to, for example, the costs of product development, marketing, and formulating and controlling transaction contracts. Furthermore, the theory acknowledges the importance of uncertainty and the role of partner opportunism. A firm that is the sole owner of a foreign unit generally has the opportunity to reduce uncertainty in its transactions and hence achieve greater control.

A firm that is the sole owner can strongly support the foreign unit's efforts to effectively conduct innovation and response activities (Chen et al. 2014). Through active coordination, the firm or its dominant business units can exploit corporate-wide resource relatedness between different business units and thereby enjoy synergies (Goold and Campbell 2002). For example, strong relatedness between the resources



of a particular foreign unit and those of other firm units means that the former may obtain general market knowledge from other parts of the corporation. In turn, incoming knowledge reduces uncertainty and supports efforts to carry out innovation and response activities in the foreign market.

The alternative to sole ownership is a cooperative arrangement in which one or more partners share control. Although this may be less costly in the short term, the firm tends to lose some control over its operations in the foreign market. Instead, the firm may have to handle internal uncertainty due to difficulties predicting partner behavior (Akhter and Robles 2006; Williamson 1975). An insufficiently precise agreement with a partner means that proprietary assets may be at particular risk (Campa and Guillén 1999; Hsu et al. 2016). Therefore, the firm must be ready for various risky scenarios, such as “feeding” a potential competitor and latent disagreements (Nguyen et al. 2016) regarding how local innovativeness or responsiveness should be implemented.

If the firm exercises full ownership, the foreign unit’s innovation and responsiveness activities may be consistently implemented. By relying on careful market analyses, the foreign unit may be able to convince customers to pay premium prices for values emanating from, for example, innovations and customized attributes of physical core products. In this effort, the unit may enjoy support from other corporate units (Goold and Campbell 2002), particularly if there is strong relatedness among their resources.

*Hypothesis 4:* The positive associations between (a) innovativeness and foreign unit performance and (b) responsiveness and foreign unit performance are stronger if the unit is wholly owned by the firm.

## Methods

### Sample and data collection

The hypotheses were tested on data on Swedish industrial firms’ foreign units, including wholly owned subsidiaries and cooperations with other firms. The inclusion of industrial firms made it possible to test the importance of innovativeness and responsiveness, as these largely build on industrial activities. Swedish firms were suitable as they are generally accessible and many of them are involved in foreign market operations. Including firms from just one country also made it possible to limit any home country effects.

Sample firms were specified in several steps (Pehrsson 2015). First, a list of 300 firms meeting the above criteria was compiled. The data-collection company Solid Info provided information about the firms. Second, potential respondents were identified through repeated telephone calls to the firms. Third, the respondents were approached and personal contacts were established through recurrent telephone calls. Fourth, top managers responsible for foreign operations—such as export directors or marketing directors—of 178 firms agreed to participate as informants in the study. On average, the informants had 16 years of experience working in their firms’ industries and were knowledgeable enough to answer the questions.

In 2015, a web-based questionnaire was sent to the informants. Completed questionnaires were received from 92 firms. However, as nine questionnaires had too many missing responses to individual items, only 83 questionnaires were usable. This

represented a 47% response rate from firms that had agreed to participate, and 28% of the sampled firms.

For the author to evaluate any impact of the size and timing of foreign market establishments, each respondent reported information on both the largest and the most recent such establishments. The resulting number of foreign unit cases was 166, of which 110 units were wholly owned subsidiaries and 56 were cooperative arrangements with other firms. The establishments were located in a total of 33 host countries, including 19 in Europe, five in Asia, four in Africa, two in each of North and South America, and one in the Pacific Region. An ANOVA test showed that the turnover of the responding and non-responding firms did not differ significantly ( $F$  value, 2.70).

### Dependent variable

Because assets often vary across foreign units, return on assets was not an appropriate performance measurement for this study. On the other hand, sales was a common denominator of the activities of the foreign units and *return on sales* was used as the dependent variable (Table 1). This coincides with a common measure of foreign unit performance (e.g., Makino et al. 2004; Pehrsson 2012). However, it was not possible to access accounting-based data from secondary sources. Instead, each respondent was asked to compare the return on sales with the expectations of the foreign unit along a Likert-type scale. This was a way to capture the performance of the unit while avoiding potential biases due to, for example, transfer pricing and corporate desires regarding profitability. Since strategy effects must be evaluated over more than 1 year (Katsikeas et al. 2000), the average 2012–2014 performance was reported by the respondents.

### Independent and moderating variables

Based on a reliable scale developed by Covin and Slevin (1989), the independent variable *innovativeness* comprised three items representing the market-driving behavior of an entrepreneurially oriented firm. For each foreign unit, the variable was represented by the mean score of the three items. The Cronbach's alpha value was 0.67, which is acceptable because there were few items and the research field is not particularly mature (DeVillis 1991).

The second independent variable, *responsiveness*, comprised three items developed by Kohli et al. (1993) shown to be reliable in international studies (He and Wei 2011; Pehrsson 2015). The average score for a foreign unit became the variable score (Cronbach's alpha = 0.82). The responsiveness measure captured the firm's market-driven behavior intended to offer unique values to customers beyond those of consistent low prices (Boso et al. 2012).

The moderating variable *institutional barriers* was measured by the institutional distance between the home and host markets. Following the example of He et al. (2013), the Economic Freedom Index (Miller et al. 2014) was used because it captures institutional aspects of a foreign market that may make it difficult to compete. The index comprises values for a country's restrictions on property ownership, the legal

**Table 1** Variables and their characteristics

Variables	Measures	Data sources	References
Dependent variable			
Return on sales	“Compared with expectations, how satisfied are you with the return on sales of your unit, 2012–2014?” (1, very dissatisfied; 7, very satisfied)	The questionnaire	Makino et al. (2004); Pehrsson (2012)
Independent variables			
Innovativeness	“The firm is first to take initiatives in the foreign market”; “the firm strives for product technology leadership”; “the firm is first to use new production technology.” (1, very rarely; 7, very often)	The questionnaire	Covin and Slevin (1989)
Responsiveness	“The firm adapts to changes in customers’ preferences”; “the firm adapts to changes in competition”; “the firm adapts to changes in technology.” (1, very slow; 7, very fast)	The questionnaire	Kohli et al. (1993)
Moderating variables			
Institutional barriers	The Economic Freedom Index, lg10	Miller et al. (2014)	He et al. (2013)
Ownership mode	0, shared ownership; 1, wholly owned subsidiary	The questionnaire	Ekeledo and Sivakumar (2004)
Control variables			
Firm size	Firms’ turnover in 2014 (SEK millions, lg10)	Annual reports	Gimeno et al. (2005)
International experience	Share (%) of the firm’s turnover in 2014 in foreign markets, lg10	The questionnaire	Hitt et al. (2006)
Establishment type	0, the largest foreign establishment; 1, the most recent foreign establishment	The questionnaire	Gimeno et al. (2005); Malhotra et al. (2002)
Product complexity	0, a standardized main product; 1, a complex main product	Researchers’ classification of questionnaire data	Pehrsson (2014)

situation, business activities, labor activities, monetary activities, financial activities, trading, and investments. Distances between the home country and each host country in the study were calculated.

The other moderating variable, *ownership mode*, was a dummy variable representing common ownership modes that the firm may choose for a foreign unit (Ekeledo and Sivakumar 2004). Respondents reported the modes, with scale point 0 indicating shared ownership involving any kind of cooperative arrangement with another firm, such as cooperation between sales offices and local distributors, and scale point 1 indicating wholly owned subsidiaries.

## Control variables

Several control variables were included. First, *firm size* was included because size is often a major driver of performance (e.g., Gimeno et al. 2005). Data on firms' turnover in 2014 (SEK millions) were collected from annual reports. Second, firms' *international experience* was included, as it might explain their performance on foreign markets (Hitt et al. 2006). The variable was measured by the share (%) of the firm's 2014 turnover that concerned foreign markets; the respondents delivered the data.

Third, questions to a respondent concerned both the largest and the latest foreign establishment of the firm in order to control for effects on the foreign unit level. The reason for inclusion of the largest is that size is frequently associated with access to resources that allow a foreign unit to cope with environmental constraints (Gimeno et al. 2005). The latest was included since it reflects degree of market experiences that are generally crucial to the outcome of a foreign establishment (Malhotra et al. 2002). Thus, *establishment type* was a dummy variable where scale point 0 represented the largest and point 1 represented the latest foreign establishment of the firm. The assumption was that the largest establishment exhibited greater performance due to its size, while it was expected that the latest suffered from low performance since it possessed limited market experience.

Fourth, since product complexity is essential to response activities (Pehrsson 2014), *product complexity* was included, and the required data were reported by respondents. This variable concerned the main products offered in the foreign markets as well as the associated competitive advantages. One researcher placed a main product into one of two categories of a dummy variable: a standardized main product indicated that a foreign unit competed on low prices (scale point 0), while a complex main product incorporated values beyond an emphasis on low prices (scale point 1). The procedure was repeated by another researcher, and the result of this second classification was the same as that of the first.

## Validity

As various data concerning a particular foreign unit were reported by the same respondent, common method variance could have been a problem (Chang et al. 2010; Lindell and Whitney 2001). The possible existence of such bias was treated in four ways. First, different scales were used in the questionnaire. Second, the interaction models of the regressions made it difficult for a respondent to distinguish crucial relationships. Third, Harman's single-factor test was applied to control for common method variance in a statistical manner (Podsakoff and Organ 1986). The control indicated no common method variance, as three unrotated factors were discovered and no general factor was identified; the unrotated factors explained 28%, 22%, and 16% of the variance in the data, respectively. Fourth, following the suggestion of Lindell and Whitney (2001), a theoretically irrelevant marker variable was included in a correlation analysis. The marker was based on questionnaire data and measured the extent to which intermediary firms were engaged in the foreign markets. There were, however, no significant correlations ( $r < 0.11$ ) with return on sales, innovativeness, or market responsiveness, underscoring the discriminant validity of the method variance marker.

An exploratory factor analysis with rotation revealed that the items included in innovation activities and responsiveness activities loaded onto two factors corresponding to the independent variables, and that there was convergent validity. The loadings of the innovation items dominated one factor and varied between 0.72 and 0.82, while the responsiveness items dominated the other factor and varied between 0.78 and 0.90. These factors explained 31% and 36% of the variance in the data, respectively, and the eigenvalues were 1.18 and 2.92.

Furthermore, the author tested whether there was discriminant validity between the two independent variables. In accordance with Campbell and Fiske (1959), there was no validity if the lowest  $r$  ( $p < 0.05$ ) between the innovativeness items was lower than the  $r$  ( $p < 0.05$ ) between those items and the market responsiveness items, and vice versa. Eighteen comparisons were made, of which four violated the requirement, which is below the highest acceptable share of 50% violations. The test therefore confirmed discriminant validity.

To minimize any problem due to multicollinearity, the interaction terms were orthogonalized (Little et al. 2006). For each interaction, the term was regressed onto the first-order effects and the interaction effect was represented by the residual. This meant that the new term's variance consisted of the interaction variance without the inclusion of the first-order effects.

## Results

After examination of correlations, the hypotheses were tested using linear regression (Cohen et al. 2003). Control variables were entered in the first model; the hypothesized variables and interaction terms were then included in the subsequent models; finally, the full model contained all variables. Variance inflation factors (VIFs) were examined for each model. The VIFs for the regression models ranged from 1.01 to 1.44, far from the threshold value of 10, which would have shown that there were multicollinearity problems (Neter et al. 1996).

### Descriptive statistics and correlations

Table 2 shows the descriptive statistics and Pearson correlations. In accordance with expectations, the return on sales of a foreign unit was positively correlated with innovativeness and responsiveness ( $p < 0.05$ ). The negative correlation regarding the establishment-type control follows expectations as well, indicating that the largest foreign establishment was generally more profitable than the last one established.

### Findings of the hypothesis tests

Table 3 presents the regression analyses. Hypothesis 1 predicts a positive association between innovativeness and foreign unit performance. This hypothesis is partly supported, as model 2 shows a significant association ( $p < 0.05$ ) but model 8 does not; model 2 therefore explains a greater portion of the variance than does the control model. Also, hypothesis 2 is partly supported, as the responsiveness variable is

**Table 2** Descriptive statistics and Pearson correlations

Variables	Mean	S.D.	Min.	Max.	1	2	3
1 Return on sales	4.48	1.52	1.00	7.00	–		
2 Firm size, lg	2.17	0.75	0.00	3.90	–0.14	–	
3 International experience, lg	1.71	0.38	0.30	2.00	0.12	–0.07	–
4 Establishment type	0.50	0.50	0.00	1.00	–0.26*	0.00	0.00
5 Product complexity	0.49	0.50	0.00	1.00	–0.02	–0.02	–0.07
6 Ownership mode	0.66	0.48	0.00	1.00	–0.06	0.22*	–0.08
7 Institutional barriers, lg	1.03	0.34	0.50	1.61	–0.13	0.06	0.12
8 Innovativeness	4.51	1.07	2.00	7.00	0.18*	0.00	0.27*
9 Responsiveness	4.82	0.96	3.00	7.00	0.19*	–0.18*	–0.06
Variables	4		5		6	7	8
5 Product complexity	0.00		–				
6 Ownership mode	–0.20*		0.14		–		
7 Institutional barriers, lg	0.43*		–0.04		–0.06	–	
8 Innovativeness	–0.01		–0.05		–0.07	0.14	–
9 Responsiveness	0.01		0.00		0.05	–0.04	0.45*

\*Significant at  $p < 0.05$  (two-tailed),  $n = 166$

positively associated with return on sales in the specific model (model 3;  $p < 0.05$ ), but not in the full model.

The tests of the interaction effects of institutional barriers indicate that higher barriers weaken the positive association between innovativeness and foreign unit performance (model 4,  $p < 0.05$ ; model 8,  $p < 0.10$ ). Hypothesis 3a is therefore supported. On the other hand, institutional barriers do not moderate the association between responsiveness and performance, which means that hypothesis 3b is rejected.

Furthermore, the tests of the interactions regarding ownership mode indicate that hypothesis 4a is rejected, while hypothesis 4b is supported (model 7,  $p < 0.05$ ; model 8,  $p < 0.10$ ). That is, the association between responsiveness and return on sales is strengthened if the foreign unit is wholly owned by the firm.

### Robustness of the findings

The signs of the beta coefficients for the direct association between innovativeness and performance are positive across the models in Table 3, meaning that the finding regarding the first hypothesis is robust. Nevertheless, the full model does not indicate any significant association. The correlation between the activities and return on sales is also positive and significant (Table 2,  $p < 0.05$ ). Furthermore, the association between responsiveness and performance is consistently positive across the models of Table 3, and there is a positive and significant correlation (Table 2,  $p < 0.05$ ). This means that the positive association regarding hypothesis 2 is robust, but that the association is not significant in the full regression model.

The tests of the predicted negative interaction effects of institutional barriers (H3a) indicate robustness across the specific and full regression models. When it comes to

**Table 3** Linear regression for the dependent variable of foreign unit return on sales

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Constant	5.00*** (0.79)	4.15*** (0.87)	3.45*** (1.06)	4.56*** (0.89)	3.84*** (1.11)	4.30*** (0.91)	3.62*** (1.07)	3.98*** (1.12)
Control variables								
Firm size	-0.21 (0.16)	-0.21 (0.16)	-0.15 (0.17)	-0.21 (0.17)	-0.16 (0.17)	-0.17 (0.17)	-0.14 (0.17)	-0.18 (0.18)
International experience	0.18 (0.38)	0.18 (0.38)	0.26 (0.38)	-0.02 (0.38)	0.26 (0.38)	-0.03 (0.39)	0.26 (0.38)	0.10 (0.40)
Establishment type	-0.76*** (0.25)	-0.76*** (0.24)	-0.76*** (0.24)	-0.47* (0.27)	-0.63** (0.27)	-0.80*** (0.26)	-0.82*** (0.25)	-0.57* (0.28)
Product complexity	0.10 (0.25)	0.11 (0.24)	0.11 (0.12)	0.11 (0.24)	0.06 (0.25)	0.12 (0.25)	0.14 (0.25)	0.14 (0.25)
Moderating and independent variables								
Institutional barriers				-0.66* (0.41)	-0.38 (0.41)			-0.48 (0.42)
Ownership mode				0.29** (0.12)		-0.23 (0.28)	-0.27 (0.28)	-0.23 (0.28)
H1: Innovativeness		0.25** (0.12)			0.26** (0.12)	0.25** (0.12)		0.20 (0.14)
H2: Responsiveness			0.26** (0.12)				0.26** (0.12)	0.15 (0.14)
Interactions								
H3a: Institutional barriers × innovativeness				-0.83** (0.35)				-0.76* (0.40)
H3b: Institutional barriers × responsiveness					-0.49 (0.37)			-0.05 (0.43)
H4a: Ownership mode × innovativeness						0.11 (0.28)		-0.03 (0.31)
H4b: Ownership mode × responsiveness							0.55** (0.26)	0.51* (0.28)
R <sup>2</sup>	0.08	0.12	0.12	0.16	0.13	0.12	0.15	0.19
Adjusted R <sup>2</sup>	0.05	0.08	0.08	0.11	0.08	0.07	0.10	0.11
Change in R <sup>2</sup> vs. model 1		0.04***	0.04**	0.08***	0.05*	0.04**	0.07**	0.11**

Coefficient estimates with standard errors in parentheses

\**p* < 0.10; \*\**p* < 0.05; \*\*\**p* < 0.01; \*\*\*\**p* < 0.001, *n* = 166

support for the positive interaction effect of ownership mode, both models exhibit positive effects on the association between responsiveness and performance, confirming that the results of the test of hypothesis 4b are robust.

## Discussion

Table 4 summarizes the study findings.

Direct and positive associations were found between a foreign unit's innovativeness and responsiveness, on one hand, and its performance, on the other. By launching innovations, a unit can be the first to change competition patterns in a dynamic market by creating new market niches. In this way, first-mover advantages such as the early and defensible establishment of relationships with important customers may be achieved (Gao and Knight 2007; Lieberman and Montgomery 1988). Innovativeness therefore corresponds to the behavior of an entrepreneurially oriented firm that tries to minimize competitive pressure. Yet market dynamism entails a requirement for flexible resource configurations in order to ensure effective innovativeness (Jantunen et al. 2005). Creating and exploiting new market niches require, for example, a skilled sales force and the capability to deliver what the firm promises. Market knowledge is also needed to identify opportunities in a proactive manner and to reduce risks.

A further positive association was found between the responsiveness and performance of a foreign unit. It is important to note that a market-driven strategy relying on sensitivity to customer preferences and other market features needs to rest on a resource-demanding capability to collect and analyze information on customers, competitors, and technology. In particular, one complication in a changing market concerns the specification of an appropriate base of customers who appreciate the values offered by the foreign unit of the firm, justifying the costs of following the strategy. Another

**Table 4** Results of the hypothesis tests

Hypothesis	Predicted sign	Finding
H1. Innovativeness is positively associated with foreign unit performance.	+	Partly supported
H2. Responsiveness is positively associated with foreign unit performance.	+	Partly supported
H3a. The higher the institutional barriers in the foreign market, the weaker the positive association between innovativeness and foreign unit performance.	–	Supported
H3b. The higher the institutional barriers in the foreign market, the weaker the positive association between responsiveness and foreign unit performance.	–	Rejected
H4a. The positive association between innovativeness and foreign unit performance is stronger if the unit is wholly owned by the firm.	+	Rejected
H4b. The positive association between responsiveness and foreign unit performance is stronger if the unit is wholly owned by the firm.	+	Supported



difficulty is ensuring that enough potential customers are accessible despite changing market circumstances. In particular, the foreign unit needs to ensure that it is possible to break through loyalties between potential customers and their previous suppliers.

Furthermore, the findings indicate that the effectiveness of innovativeness diminishes if institutional barriers become higher. These barriers emanate from uncertainty regarding, for example, economic and policymaking changes (Lawton et al. 2013; White et al., 2014). Any firm wishing to compete in a given foreign market needs to surmount these barriers. However, a firm coming from another country may incur additional costs due to its foreignness and unfamiliarity with institutions, costs not incurred by local competitors (Mata and Portugal 2002; Mezias 2002). The negative effects of institutional barriers mean that the firm benefits from aligning its innovation activities with, for example, regulations in the foreign market. This calls for the ongoing adaptation of innovation activities to institutional changes.

Finally, the study establishes that the association between the actionable component of market orientation, that is, responsiveness, and foreign unit performance is contingent on the firm's mode of owning the foreign unit. More precisely, the effectiveness of responsiveness increases if the firm exercises full control over the foreign unit and thereby reduces uncertainty in transactions; this is the case for a wholly owned foreign subsidiary (Anderson and Gatignon 1986). Although extensive difficulties are generally involved in challenging, for example, a customer's preference for low prices, there are better prospects for a foreign unit that is wholly owned by the firm.

A firm that is the sole owner of a foreign unit may steadily support local responsiveness, thereby exploiting resource relatedness among corporate units (Goold and Campbell 2002). As coordination is not interfered with by the desires of other owners, consistent knowledge sharing is facilitated. An appropriate configuration of related resources thus enables focus on the local offering of, for example, service values that complement core physical products for which low prices are decisive. Resource relatedness facilitates the transfer of knowledge relevant to service values, supporting cultivation of the responsiveness activities of the foreign unit.

## Conclusions and theoretical contributions

This study extends our understanding of the firm's strategic orientation in a foreign market, notably, the complementary entrepreneurial and market orientations. Based on the hypothesis tests, it is concluded that there are positive direct associations between the actionable components of innovativeness and market responsiveness, on one hand, and foreign unit performance, on the other. In addition, the study establishes boundaries on the effectiveness of innovativeness and responsiveness in the foreign market. Barriers originating from local institutional contexts are important, as they erode the effectiveness of innovativeness. The firm's mode of owning the foreign unit is another important boundary factor. It is concluded that responsiveness is effective when the firm is the sole owner of the foreign unit. In this way, two major gaps in our current understanding of firms' strategic orientation in a foreign market are closed.

The study contributes to the international strategy and entrepreneurship literature in several ways. First, the conceptual model usefully highlights individual dynamic components of EO and MO that are essential to performance in a firm's dynamic

foreign markets. The model thus builds on the notion that market-driving innovativeness and market-driven responsiveness are actionable components of EO/MO that affect the performance of a foreign unit. The study also contributes by showing that innovation and responsiveness activities must be studied simultaneously. This contribution is more precise than those of previous studies finding positive direct associations between the broader terms of EO/MO and foreign unit performance without any focus on actions (Cadogan et al. 2003; Dimitratos et al. 2004; Qu and Zhang 2015; Sundqvist et al. 2012; Zahra and Garvis 2000).

Second, the test of the model indicates that the firm's global competitiveness rests on a fit between the actionable components of the strategic orientations and environmental contexts—not just the global context, but local contexts as well. The model tests illuminate the mechanisms underlying the feasibility of innovativeness and responsiveness in foreign markets.

A central mechanism is the negative moderating effect of institutional barriers on the effectiveness of innovativeness. The study therefore establishes that institutional barriers are decisive to the relevance of firms' competitive advantages in foreign markets, as uncertainty and costs emanate from these barriers. Establishing the importance of institutional barriers supplements the contributions of previous studies of external contingency factors. Earlier findings identify various impacts of, for example, general environmental hostility and uncertainty (Sundqvist et al. 2012), competitive intensity (Silva and Styles 2017), demand homogeneity (Capone et al. 2013), and technological regimes (Winter 1984).

Third, the study contributes to the international strategy and entrepreneurship literature by underscoring the importance of the firm's mode of owning the foreign unit, with sole ownership reinforcing the positive association between responsiveness and performance. Transaction-based reasons include opportunities to protect proprietary assets and to consistently implement responsiveness without risks such as supporting a partner that later may be a competitor. This contribution supplements our previous understanding of internal contingency factors, such as the firm's resources, capabilities (Silva and Styles 2017), and access to crucial assets (Mueller 1997).

## Managerial implications, limitations, and further research

To improve international competitiveness, firm management should recognize that the strategic orientations of a unit operating in a particular foreign market are sources of competitiveness. This study demonstrates that competitiveness emanates from actions that accompany the EO component of innovativeness and the MO component of market responsiveness. Furthermore, in a foreign market, management needs to align innovation activities with the institutional context, as higher institutional barriers weaken the positive association between the foreign unit's innovativeness and performance. One option would be to avoid a distant foreign market and focus instead on a market that is institutionally similar to the home market. Due to its familiarity with the closer market, the firm would be better equipped to adapt the foreign unit to dynamic conditions, reinforcing the effectiveness of market-driving innovation activities.

If the firm chooses to focus on market-driven responsiveness, the study shows that this is more effective if the firm is the sole owner of the foreign unit. Corporate management

can then support the foreign unit, for example, by encouraging the exploitation of resource relatedness among corporate units to facilitate the sharing of market knowledge. As gathering and analyzing information on technology and on the behavior of local competitors and customers are essential to a market responsiveness strategy, corporate management is also advised to coordinate responsiveness activities across the firm.

However, there are limitations to the study reported here. First, it may be that analyzing only industrial firms limited the generalizability of the findings. Second, studying firms from only one home country may entail biases. Third, as market contexts such as institutional barriers frequently tend to change dynamically, observations from a different year might yield different results.

Continued development and testing of the conceptual model developed here are recommended. It would, for example, be relevant to extend observations over time and analyze time-dependent patterns. This could contribute further to the literature, as characteristics of the contexts of strategy often change in dynamic ways. Also, future studies could include other types of firms besides industrial firms, and firms from different home countries.

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