

Article

Foreign Market Adaptation and Performance: The Role of Institutional Distance and Organizational Capabilities

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Abstract: The role and significance of adaptation versus standardization for performance in foreign markets has stirred some important debates among the academic community. In this paper, we aim to contribute to the ongoing debate by applying the logic of institutional theory and organizational capabilities to reconsider the relationship between adaptation and foreign market performance. In particular, we argue based on extant theory and our own mixed-method study that while more accentuated differences in the institutional environment reinforce the role of adaptation in achieving legitimacy, the possession of relational and technological capabilities can reduce the relevance of adaptation. The empirical study is based on a sample of 284 firms in the quantitative study and eight firms in the qualitative study. Our findings reveal that adaptation is positively associated with performance in foreign markets. This relationship is also positively moderated by institutional distance, and negatively moderated by relational and technological capabilities.

Keywords: strategy adaptation; foreign market performance; organizational capabilities; institutional distance

1. Introduction

Foreign market strategy adaptation has been discussed as one of the key decisions in foreign market entry [1]. Among these strategic aspects, Theodosiou and Leonidou [2] indicated that research has particularly concentrated on whether firms, irrespective of the foreign market entry mode chosen, should standardize or adapt their marketing strategy in overseas markets to ensure the sustainability of international operations [3]. However, research has shown no consistent support for factors leading either to one or another strategic alternative, nor for their overall consequences [4]. By far, the most significant number of studies pertaining to international marketing strategy have found that the psychic distance (PD) between the home and host countries increases the extent to which firms adapt their offer [5]. The decisions on strategy choices in foreign markets are very crucial for the sustainable success of the international operations of the firm, which is not guaranteed in light of frequent failures. However, while extant studies have referred to a plethora of theoretical frameworks to establish a list of antecedents to adaptation and its performance outcomes, most of which rely on international marketing approaches, only a few of them have actually departed from a theoretically justified need for adaptation.

We argue that institutional theory and its attention to achieving legitimacy toward the foreign market environment can be a promising ground to explain the relationship between adaptation and its performance outcomes, as well as other variables affecting this relationship. Researchers using

institutional theory to explore foreign market expansion have inter alia focused on the process of attaining legitimacy by foreign subsidiaries vis-à-vis their parents and the host-country environment [6], host-country selection, and the choice of market entry strategies [7] or affiliate staffing [8]. To a much larger extent, the logic of the institutional theory has been applied to factors increasing legitimacy in a foreign market and reducing the liability of foreignness, such as through strategy adaptation [9,10]. Moreover, recent research following the standardization/adaptation–performance paradigm has mainly remained focused on multinational corporations (MNCs) and their subsidiaries, or business units [11,12], but little attention has been paid to exporting firms [13,14].

Accordingly, we propose to view the adaptation–performance relationship in a contingency framework, and we ask two fundamental questions. Under what external conditions is an adaptation strategy particularly beneficial for achieving legitimacy and this higher performance in foreign markets? Can the role of foreign market adaptation be substituted by the possession of other organizational capabilities that help attain legitimacy?

Therefore, we contribute to the inconclusive academic debate on the performance outcomes of adaptation by studying situational influences. Our study broadens the analysis of the relationship existing between predictor and criterion variables with the moderators “leads to richer theoretical models with which researchers are able to explain or specify relationships with greater accuracy” [15]. We examine these questions on a sample of firms from Poland, which may be considered as a mid-range emerging economy [16]. This mid-range character of an economy results in a balanced distribution of host countries of firms from such countries in markets that can economically and institutionally be both more and less developed than the home country. As a consequence, the international market portfolios of such firms embrace both advanced countries and emerging economies, hence enabling a high level of variation in the institutional profiles of the host countries of the firms under study.

2. Conceptual Overview and Hypotheses Development

2.1. Institutional Theory and Foreign Market Adaptation

Institutions constitute the rules of the game in a society, thus posing a structure that sets boundaries to human decisions and hence reduces uncertainty [17]. Institutions can be divided into formal and informal ones [17]. Formal institutions feature regulations, written rules, policies, or contracts. Conversely, informal institutions pertain to socially sanctioned norms of behavior, which are embedded in culture and ideology. Thus, in situations where formal institutions are imperfect, informal institutions can turn out to be complementary, and provide reference points governing business activities [17]. In a similar vein, Scott [18] distinguished three types of institutions. The regulative type pertains to formal laws and policies, thus bearing resemblance with North’s [17] formal institutions. The normative type refers to values, which are norms that define what types of behaviors are acceptable, preferable, or desirable, as well as which means can be used to attain certain objectives. The cultural–cognitive dimension of institutions includes the beliefs that are predominant in a certain society [18]. Some scholars, including Kostova [19] and Busenitz et al. [20], have built on Scott’s classification to construct country institutional profiles, whose understanding is important for international entrepreneurship.

Furthermore, institutions may also be split into internal and external ones, both of which can have a bearing upon corporate behavior [21]. The first category includes regulatory structures, laws, courts, interest groups, or public opinion in general. The second one concentrates upon certain internalized practices or behavior patterns that are typical to some organizations.

An important, sociologically oriented strand of institutional theory addresses the issue of attaining legitimacy in foreign markets. Thus, companies introduce processes, structures, and strategies that allow them to live up to the pressures stemming from their environment [22]. As a result of this process, behavior patterns that are deemed to be inconsistent with the predominant values and norms in a certain foreign market are eliminated, thus leading to an equalization of tactics used by firms

within one market [21]. This is because managers make rational decisions in a certain institutional setting [23]. Normative rationality, as opposed to purely economic rationality, explicitly posits that managers in their decisions are constrained by the normative context and the resulting inertia of past decisions [24]. Where economic rationality aims to enhance performance, normative rationality takes into account the social context of decisions, and thus places legitimacy in a given environment as the key objective [25].

Normative rationality leads to the so-called isomorphism, which results from a number of mechanisms [26]. Firstly, coercive isomorphism stems from expectations toward firms formulated by other entities on which they depend, as well as from culturally determined pressures [26]. In particular, differences in regulatory environments across markets may require changes in corporate structure and strategy. Secondly, in order to reduce uncertainty, organizations may mimic some similar entities that are seen as particularly effective, which is a phenomenon called mimetic isomorphism. However, the predominance of particular organizational structures and processes can be arguably associated to a larger extent with the mere tendency to imitate other organizations, rather than any tangible proof that such structures, processes, or strategies are superior and lead to improved performance. Further, isomorphism in organizations can also stem from professionalization as firms conform to written and unwritten norms. These can be related to the perceived status of formal education and specialized knowledge, as well as the growth and ubiquity of professional networks that diffuse certain managerial models.

Scholars supporting standardization in foreign market strategy posit that the companies may enhance performance in international operations by saving costs, owing to the use of similar strategies across borders [27]. Thereby, companies can ensure a high level of consistency in international markets [28]. And yet, Theodosiou and Katsikeas [29] argued that the level of standardization in pricing strategies is contingent upon the extent to which markets are similar. Chung and Wang [30] suggested that with increasing divergencies in customer characteristics between the home and host countries, the likelihood of using an adapted pricing strategy increases.

Indeed, Brouthers et al. [31] showed that adjustments in competitive strategy to particular geographic areas result in higher satisfaction with export performance. In fact, the adaptation of market strategies helps reduce the liability of foreignness and improve pragmatic legitimacy [32,33]. Moreover, the adoption of standardized international business routines and unwillingness to adapt products and marketing practices to local markets seem to be associated with a low learning engagement [9].

These theoretical arguments can be supported with evidence from our qualitative study (see the Methods section for more details of the sample). Company 1, one of the leading Central and Eastern European (CEE) furniture producers with a strong international acquisition track record, regards adaptation as a critical prerequisite of international sales growth. In fact, different markets have divergent distribution models, which makes some solutions work (such as direct distribution or sales through local distribution partners) in one country, but not others. Hence, to establish legitimacy in Germany, for instance, it is essential to cooperate with a German reseller. For Company 2, a leading Polish door and lock producer, is a hallmark example of a heterogeneous market, since although there is a relatively homogenous European market for some window-related products, the door and lock segment is extremely heterogeneous, making dedicated products for individual markets not an option, but a necessity. "There is no such product as a 'European door'. The Englishmen want a mail slot in the door" [Company 2]. For Company 3, a metal part producer and plastic processing specialist, the existence of differences in required certifications across countries incited a learning process whereby the company signals to prospect clients the diversity of certifications to which it conforms. This approach appears to be essential to secure legitimacy as a trustworthy producer, particularly given that it comes from a mid-range economy.

Hence, summarizing the conceptual development up to here, we propose that:

Hypothesis 1 (H1). *Foreign market adaptation positively affects foreign market performance.*

In line with the above logic of the legitimacy-related strand of institutional theorizing, we argue that the greater the institutional distance between the home country of a multinational enterprise (MNE) and a particular host country, the greater the challenge that an MNE subunit will face in establishing and maintaining its legitimacy in that host country [6]. More pronounced differences in institutional environments can cause higher operating costs; hence, adaptation to local conditions and the achievement of a higher level of legitimacy can have a higher bearing in markets that are more different [34]. In markets that are similar in terms of business environments, it is more reasonable from the viewpoint of foreign market performance to standardize the different dimensions of foreign market strategy in order to reap the benefits of scale [27]. The role of adapting to a foreign market increases with the institutional differences as opposed to the country of origin, whether the foreign market is institutionally more or less developed.

On the one hand, markets at a high level of institutional development exert a pressure on firms to deliver innovative products and enhance their capabilities to keep up to date with the shortened lifecycles and changing expectations of consumers [35,36]. Meanwhile, the capabilities of firms from less developed economies originate from factors such as production efficiency, operating flexibility, or the ability to learn quickly [37]. Hence, new entrants need to catch up and enhance their skills sufficiently rapidly [38,39]. They also have to adjust to be able to cope with the higher level of formalization in capital and labor markets and adapt their organizational practices accordingly [40]. In more developed economies, business deals rely to a larger extent on formalized arrangements rather than mere relationship-based tactics, which are the comfort zone of firms from emerging markets [41]. Hence, particularly firms stemming from less developed markets need to adjust their cost effectiveness orientation to more demanding countries [42].

Conversely, if the institutional distance increases due to institutional underdevelopment as opposed to the country of origin, firms may reap benefits from delivering cheaper products in home markets, which do not necessitate significant investments in order to live up to the expectations of buyers with still limited purchasing power [34,43–45]. However, competition may be to an even larger extent based on cost efficiency and warranty conditions [43]. Firms can thereby benefit from less regulated markets (particularly capital and labor), as they already have vast experience working in such conditions [46]. In this context, adjusting to the demand structure in less developed markets may be a crucial source of competitive advantage.

Furthermore, institutional differences can be broken down into formal and informal ones [17]. Along this conceptual distinction, evidence from our qualitative sample points to increasing informal and formal differences as a factor that reinforces the need for adaptation. For Company 4, a leading CEE manufacturer of test and measurement devices from Poland, “there are habits and unwritten norms in Australia that wires should be white. In Europe, on the contrary, they are yellow, red, and blue. You can skip adaptation and sell according to the law, and it is not a problem, but the cost of adaptation is relatively low, while the acceptance of the product on the part of the client increases” [Company 4]. In the words of the management team, “you have to make a client feel that the product was designed for him” [Company 4].

On the other hand, the increasing formal institutional differences that are related, most notably, to technological standards and requirements, make adaptation a necessity to sell successfully by demonstrating a higher level of compliance. For Company 2, the need for adaptation also increases with the divergence of informal and formal institutional aspects. For instance, with regard to doors for Russian clients, the product “must have looks. They like everything in a rich fashion” [Company 2]. Conversely, as far as the formal dimension goes, “doors are too difficult a product to be offered in distribution across the whole of Europe, due to divergent standards. Also, the sizes of doors differ in each country. In Germany, they are slightly lower, and slightly broader. In France, they are visibly higher” [Company 2].

Thus, we account for the moderating effect of institutional distance on the need and benefit of adaptation to the foreign market:

Hypothesis 2 (H2). *The positive relationship between foreign market adaptation and foreign market performance is moderated by institutional distance, such that the relationship is stronger in the case of firms that operate in more institutionally distant markets.*

2.2. The Moderating Effects of Organizational Capabilities in Legitimacy Building

The notion that organizational capabilities matter for firm performance, as they are building blocks for sustainable competitive advantage, is one of central assumptions of the resource-based view (RBV) [46,47]. In early works, the concept of resources embraced both assets and capabilities, as well as “organizational processes, firm attributes, information, knowledge, etc., controlled by a firm” [46]. However, several authors questioned the logic of such a broad definition of resources. For instance, Mahoney and Pandian [48] claimed that “a firm may achieve rents not because it has better resources, but rather the firm’s distinctive competence involves making better use of its resources”. Further, an important delineation between resources and capabilities was offered by Amit and Schoemaker [49], who defined resources as assets that are owned or controlled by a firm (i.e., what we have) and capabilities (i.e., how we employ it) as a firm-specific organizational process reflecting its ability to deploy and combine resources in order “to effect a desired end” [49]. In the view of Collis [50], capabilities refer to firms’ ability to convert inputs into outputs. Later, several scholars promoted a more dynamic view on firm capabilities to develop a deeper understanding of the process underlining the resource development, deployment, and orchestration, and ultimately leading to value creation and capture in rapidly changing environments. Teece et al. are among the key contributors to the dynamic capabilities view (DCV) [51]; in their definition, a firm’s dynamic capability refers to its “ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments” [51]. While it was argued in the preceding sections that adaptation is crucial for establishing legitimacy in a foreign market, there can be further mechanisms of reducing pressures from the local environment, relying on the possession of certain organizational capabilities [52]. As it has been outlined, organizational capabilities pertain to a number of aspects. In the literature on international business and international entrepreneurship, one can note that different types of resources and capabilities matter for international operations [53,54]. On the one hand, particularly for smaller companies, it is crucial to build networks in foreign markets to overcome entry barriers. On the other hand, one of the cornerstones of international business theory is the possession of intangible assets as a foundation for international competitiveness [55–57].

The first category draws from the network approach, whereby Johanson and Vahlne [58] argued that it is foreign market relationships that may alleviate what they refer to as the liability of outsidership. In fact, “export management is basically a process of managing relationships with foreign customers, as well as other parties operating inside or outside the company’s supply chain” [59]. Host country partners and networks can enable exporters to access the market, and they enhance the exporter’s market knowledge [60]. Indeed, to increase its export performance, an exporter needs to be able to incorporate this market knowledge into his business model [61].

However, the possession of a local partner also has a signaling effect to the local environment that reduces the liability of foreignness, e.g., through offsetting regulatory requirements [60–62]. In fact, foreign partners can take over some of the necessary adaptation burden due to a more intimate knowledge of his market. Moreover, Lumpkin and Dess [15] observed that firms with a more proactive orientation that operated in dynamic environments achieved higher performance in terms of sales growth and profitability. Doing business in an unstable capital market at home has also demonstrated to firms from emerging markets that access to capital is limited or at unfavorable conditions. Hence, firms find out how to use non-market strategy techniques such as, e.g., developing relationships with the public sector [62–64]. Such skills can be readily transferred to and profited from in foreign markets with similar informal economy voids [61].

These conceptual arguments find support in case-based evidence from our project. Company 5, one of the leading bus and tram producers in Europe, uses cooperation with foreign clients to derive sources of final product adjustments. For instance, in one of the public tenders in Germany, “the mystery of our success was that we took aboard several local firms, thanks to which we can realize this contract in the first place” [Company 5]. For Company 8, operating in the market of board games, the necessity to adapt products by the company itself is shifted to foreign distributors that signal the need for product adjustments, such as design changes, culturally acceptable symbols or animals, etc.

Also, for Company 6, one of the leading producers of control and measurement devices in Europe, “distributors, or our own subsidiaries, are our eyes as to where something has to be adapted (. . .). For instance, our strategy will be different in countries without local producers, and different where there are local producers. It is our distributors that provide us with such information to modify strategy” [Company 6]. In a similar vein, for Company 7, a leading Polish retailer in consumer electronics, joint venture partners constitute a key source of information about foreign markets and are simultaneously a source of legitimacy, as they enable acting as a “local” company. “If we have a good partner, we completely do not feel any distance (. . .) Our approach to local specificity is to have a local partner. For he sits in this specificity, and thanks to this, we do not have to deal with this topic of adaptation, and this is very crucial (. . .) In Holland, we build the business up through Dutch people. We want to be perceived as a Dutch company (. . .)” [Company 7].

For Company 2, the partners that are particularly relevant in this regard “provide an intimate knowledge of the local market, help to diversify risks, and ensure the full service (. . .). In Austria (. . .), we have a partner in Salzburg that tells us exactly what is happening in the market, [and] has excellent ties in the market, to such extent that our doors are installed at the police headquarters (. . .)” [Company 2]. It is the local partner that ensures that the installation service, which has a vastly different relevance than in the home market, is carried out in a competitive manner. Conversely, the French market for doors is driven by prices; thus, the role of a foreign partner is to develop an appropriate positioning and stay away from the mainstream competition in hypermarket chains.

Thus, we on the whole, we propose that for firms with stronger relational capabilities, the relevance of foreign market adaptation for foreign market performance decreases. Accordingly:

Hypothesis 3a (H3a). *The positive relationship between foreign market adaptation and foreign market performance is moderated by relational capabilities, such that the relationship is weaker in case of firms possessing stronger relational capabilities.*

Secondly, technological capabilities have been found to have a positive effect on entrepreneurial orientation [65] and foreign market performance [66]. We argue that while there may be differences in regional expectations as to product strategies [67], the possession of technological capabilities that can translate in superior products will pose an advantage both in developed markets due to higher product expectations [31], and in less developed markets due to the building of product uniqueness [68].

Returning to our case evidence, for Company 6, it is clear that it cannot compete on par with technological leaders, although it is constantly modernizing its products. While the firm is conscious that it may never reach the technological level of market leaders, their “advantage is that we are still a small company; therefore, we are still able to do what the clients wants us to do, which is to create some dedicated solutions; [as a result] for some clients, we are more attractive than some large Western firms” [Company 6].

In the case of Company 5, which is an innovative company leading in different technological solutions, buses are a product that is homogenous across many countries, particularly European, whereby “everything [that] serves the work comfort of the driver with respect to passenger service is of the same quality, regardless of domestic and foreign production” [Company 5]. While technical specifications have to be adjusted to tender requirements, the ability to create excellent and advanced products is a crucial factor driving the ability to excel at tenders.

For Company 1, a leading producer of furniture, while the divergent expectations toward products that had persisted for historical reasons “have been fading away in the last years due to international business, our industry is witnessing this trend relatively late. Therefore, it is [the reality] that in most countries there are local producers, while other firms are kind of experimenting (. . .).” [Company 1] Hence, for sectors where the technological edge is not a key success factor and the standardization across borders is not a leading trend, adaptation still remains a crucial driver of success.

Thus, we posit that:

Hypothesis 3b (H3b). *The positive relationship between foreign market adaptation and foreign market performance is moderated by technological capabilities, such that the relationship is weaker in case of firms possessing stronger technological capabilities.*

3. Mixed-Method Design

3.1. Data Collection and Sample

This study was conducted through the implementation of a sequential mixed-methods approach [68,69], whereby the quantitative study in the research project was driven by extant knowledge in the field, yet it was followed by a qualitative follow-up. The aim of this second part of the project was to explore the relationships between firm and host-country characteristics and adaptation to foreign markets and firm performance. Subsequently, the objective of the third stage of the study was to return to the quantitative data in order to verify the relationships identified through literature studies and qualitative exploration.

For the qualitative study, eight firms (see Table 1) were selected based on the following criteria:

- (1) Four large and four small and mid-size companies;
- (2) Four companies operating in high technology industry, and four operating in medium and low technology industries, in order to be able to account for the influence of industry on the need for adaptation. Four to six interviews with key decision-makers responsible for decisions related to internationalization were conducted in each company. The tool used for this research phase was a semi-structured questionnaire, including questions regarding such issues as internationalization strategy, role of foreign partners, logic of adaptation, etc. The detailed cross-case analysis, the analysis of its findings, as well as the theory development, were all supported by the use of MaxQDA software.

Table 1. Qualitative sample.

Company	Sector	Size (Employment in 2015)
Company 1	Office furniture production	6000
Company 2	Door and lock production	n.a.
Company 3	Injection molding and steel components manufacturing	245
Company 4		Test and measurement devices
Company 5	Bus and tram production	2300
Company 6	Industrial test and control devices	430
Company 7	Retail in consumer electronics	270
Company 8	Production and publication of board games	120

Source: the authors.

The data for the quantitative part of the study stem from a 2016 survey of Polish firms conducted from October 2015 to January 2016. Given that our research objective was to examine the internationalization strategy and behavior of Polish firms in foreign markets, we have used several criteria for a sample selection. First, we were interested only in firms that see internationalization as an important direction in overall strategy, so that at least 10% of their total revenues come from sales

in foreign markets. Non-internationalized firms or sporadic exporters would not be able to provide meaningful answers to the survey questions. Second, considering ownership and decision-making autonomy at the firm level, we have looked for “independent” firms that are owned or co-owned by Polish capital (i.e., subsidiaries of MNCs registered in Poland, or firms with a 90% or higher share of foreign capital were not our focus). Third, we have focused on firms operating in manufacturing industries, and employing at least 10 people.

Using the BIZNODE database of firms registered in Poland, we randomly selected 2000 firms that were internationally oriented manufacturers, employing at least 10 people, proportionally to their locations in Poland. As a data collection method, we used CAPI (computer-assisted personal interviewing), which provides higher reliability than CATI (computer-assisted telephone interviewing), and is more suitable for longer and more complex surveys. On average, an interview last 48 min. To achieve a target of conducting 300 interviews, interviewers had to initiate the contact with 1734 firms from the list. All of the interviewers were trained in the survey questions by one of the authors. Then, interviewers contacted firms asking for permission to schedule a meeting with one of the firm’s key managers, who is responsible for decisions concerning international expansion. Therefore, our respondents (interviewees) were key individuals responsible for decisions concerning international expansion, including chief executive officers (CEOs), sales directors, and other high-level managers in charge of foreign markets. Additionally, respondents were expected to have worked in their current position for at least one year. At the beginning of the interview, interviewers asked questions concerning criteria for a sample selection to ensure the firms were properly selected (i.e., concerning the ratio of foreign sales, ownership, size, and industry).

Since the survey was conducted with a single informant, common method variance (CMV) may be a concern [70]. Therefore, to ensure the reliability of the study, we adapted several ex ante and ex post measures, such as questionnaire pretesting to eliminate ambiguity, securing confidentiality, or mixing the order of questions. Among the ex post remedies, we used a check for respondent competency [71] and Harman’s single-factor test (the single common method factor approach). In order to ensure that interviewers identified appropriate informants, after the completion of the interview, our respondents (interviewees) were also asked to evaluate three statements concerning: (i) their impact on key decisions related to the international activities of their firms; (ii) their engagement in maintaining relationships with key foreign partners; and (iii) their confidence in answering the questions. We excluded from further analysis 16 interviewees whose average score on the seven-point scale was less than four. In the final sample ($n = 284$), the average score was 5.5 on the seven-point scale, indicating the proper level of respondents’ competency to answer the survey questions.

Finally, we employed a post hoc Harman’s single-factor test to detect CMV. The test results indicated that the first factor accounted for 17.63% of the variance; therefore, CMV should not be a problem in the present study [71].

3.2. Operationalization of Variables for the Quantitative Study

Performance. The measure of performance in foreign market was adapted from prior research [67,72–74]. Respondents were first asked to choose one strategically important foreign market, and then they evaluated the following six performance items on a seven-point scale (where one indicated “very unsatisfactory”, and seven indicated “excellent”): sales level, profitability, market share’s growth, marketing, distribution, and firm’s reputation in the foreign market. The construct has a Cronbach’s alpha of 0.816, which suggests satisfactory internal reliability [75].

Adaptation to foreign market. The measurement of adaptation was derived from prior research [76,77]. Managers were asked to indicate the level of adaptation/adjustment to the foreign market concerning four items of marketing mix (where one indicated a “very low level/range of adjustment to the foreign market”, and seven indicated a “very high level/range of adjustment”): (1) product in terms of quality, design, warranties, labeling, and brand name; (2) price in terms of price discount policy, margins, credit concession, and payment security; (3) promotion in terms of

advertising theme/message, advertising and promotion content, advertising media strategy, sales promotion tools, and advertising and promotion budget size; (4) distribution in terms of channels of distribution, control over distribution channels, transportation strategy, and budget for distribution. The scale reliability tests produced a satisfactory Cronbach's alpha value equal to 0.866.

Technological capabilities. Following prior research, we decided to use the scale developed by Spanos and Lioukas [78], whose validity was also supported in other research [65]. The construct was operationalized by four items on a seven-point scale indicating a firm's strength relative to competition (where 1 indicated "much worse than the key competitor", and 7 indicated "much better than the key competitor"): (1) technological capabilities; (2) equipment and machinery; (3) economies of scale and technical experience; and (4) an efficient and effective manufacturing department. The Cronbach's alpha of 0.841 indicates a proper level of internal reliability.

Relational capability. The operationalization of relational capability was adapted from prior research [79,80]. To operationalize the construct, we asked managers to indicate the extent to which they agree with the following statements characterizing the cooperation with a key partner in the foreign market (where one indicated "strongly disagree", and seven indicated "strongly agree"): (1) our relations are characterized by a high level of mutual trust; (2) our relations are based on a mutual exchange of experiences and knowledge sharing; (3) our relations are based on mutual commitment and shared goals; and (4) when there are disagreements, we solve them quickly, bearing in mind the interests of each party. The scale reliability tests returned a satisfactory value of Cronbach's alpha equal to 0.893.

Institutional distance. The measure of institutional distance builds on the 10 pillars of the economic freedom index provided by the Heritage Foundation, including fiscal freedom, business freedom, property rights, monetary freedom, freedom from corruption, level of government spending, labor freedom, trade freedom, investment freedom, and financial freedom [81,82]. Every component was scaled from zero to 100 for the 184 countries and the period from 1995 to 2013. As recently proposed by Berry et al. [83], institutional distance was calculated based on the approach of Mahalanobis. We opted for this approach, since the Euclidean method falls short of considering correlations between the indicators that make up the distance index. This holds true for factors related to the level of country development. Furthermore, this alternative measure is resistant to influence from variables with higher variance, because the application of the covariance matrix in calculations enables data standardization thanks to using variance located on the diagonal [83].

Environmental dynamism. Environmental dynamism reflects "the degree of uncertainty facing an organization" and "relates to the rate of unpredictable change in a firm's environment" [15]. It was found to exert a positive moderated impact on performance [15], and is associated with entrepreneurial orientation [65]. As suggested by Lumpkin and Dess [15], dynamism should reflect the frequency of changes in the marketplace and the pace of products/services' aging and decline. Ruiz-Ortega et al. [65] modified existing scales, and we followed their approach. Managers were asked to indicate the extent to which they agree with the following statements characterizing the foreign market dynamism on a seven-point scale (where one indicated "strongly disagree", and seven indicated "strongly agree"): (1) the opportunities of the environment are growing strongly; (2) the technology in my sector changes frequently; and (3) the innovation in processes and products or services grows strongly. The construct reliability (Cronbach's alpha = 0.708) is satisfactory.

Control variables. The study employs several control variables that are commonly used in international performance literature. First, the pace of internationalization or firm age at internationalization points to the phenomenon of "learning advantage of newness" [84–86]. Early internationalization is likely to reflect the higher capacity of firms to assimilate new foreign market information, recognize market opportunities, and rapidly act on them. This variable indicates the firm age (years) at the time of achieving its first revenues from the foreign market.

Second, we controlled also for the firm international experience by considering two variables: (i) the length/number of years that a firm has been operating in a given foreign market (firm experience

in foreign market); and (ii) the number of years, if any, that a firm had been accruing foreign revenues before entry to a given foreign market (firm prior international experience). Third, the firm size (captured by the natural logarithm of employees' number) is a ritual variable, and often a proxy of available resource, that needs to be controlled in performance studies.

Fourth, we controlled for the firm ownership. Zahra et al. [87] argued that ownership may affect a firm's international operations and the availability of resources. Prior studies on the internationalization of Polish firms have indicated that firms with foreign ownership (full or partial) tend to be more internationalized and achieve higher levels of sales and exports per employee than peers with only domestic capital [88,89]. To operationalize ownership, we asked managers to indicate whether their firms have any foreign investors/owners, and if yes, what their share was in the firm's equity. Firms with a share of foreign capital in equity were coded as one; otherwise, they were coded as zero.

Finally, industry was operationalized with three dummy variables. The manufacturing industries were divided into: (1) high-tech; (2) medium-tech; and (3) low-tech.

Correlations and descriptive statistics for all of the variables are shown in Table 2. We have followed existing studies in the discipline of international business [90–92] and provided descriptive statistics for Likert-scaled variables.

Table 2. Correlations and descriptive statistics.

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 Performance	1													
2 Adaptation	0.526 **	1												
3 Technological Cap.	0.448 **	0.609 **	1											
4 Relational Cap.	0.446 **	0.669 **	0.598 **	1										
5 Institutional Distance	0.155 **	0.002	0.068	−0.001	1									
6 Firm age at int.	−0.062	−0.013	−0.069	0.023	−0.045	1								
7 Firm exp. in FM	0.001	0.079	0.032	0.102	−0.097	0.042	1							
8 Firm prior int. exp.	0.015	−0.041	0.013	0.018	0.019	−0.088	−0.183 **	1						
9 Firm size	0.060	0.090	0.076	−0.014	−0.022	0.110	0.155 **	0.086	1					
10 Ownership	0.003	−0.110	−0.054	−0.127 *	−0.006	−0.146 *	0.097	0.049	0.192 **	1				
11 Env. Dynamism	0.449 **	0.479 **	0.508 **	0.380 **	0.103	−0.098	0.101	−0.067	0.043	0.073	1			
12 Low-Tech	−0.091	−0.117 *	−0.097	−0.134 *	0.016	0.035	0.062	0.001	0.025	0.005	−0.201 **	1		
13 Medium-Tech	−0.039	0.058	−0.031	0.079	−0.029	−0.004	0.017	−0.106	−0.019	−0.036	0.051	−0.503 **	1	
14 High-Tech	0.130 *	0.060	0.128 *	0.055	0.014	−0.031	−0.080	0.106	−0.006	0.031	0.151 *	−0.503 **	−0.495 **	1
Mean	4.91	5.18	5.07	5.55	3.23	8.87	13.05	2.24	4.69	0.28	5.09	0.34	0.33	0.33
S.D.	0.79	1.10	0.93	1.04	0.59	14.23	10.22	4.38	1.22	0.45	1.04	0.47	0.47	0.47

Note: Correlation is significant: ** at the 0.01 level (two-tailed); * at the 0.05 level (two-tailed). FM: foreign market.

4. Results

To examine the hypothesized relationships (Figure 1), we used a linear regression estimator. The analysis of moderation effects requires the comparison of two regression models: first, the main effects model (Model 1, Table 3) includes the key independent variable (adaptation), moderators (organizational and contextual), and controls; and second, the full model (Model 2, Table 3) includes additionally all of the interaction effects (i.e., adaptation x relation capability, adaptation x technological capability, and adaptation x institutional distance). Model 0 includes only the control variables. The moderation effect exists when the inclusion of the interaction term significantly increases the explanatory power of the model captured by the change in R-squared [93]. All of the interaction terms were computed by multiplying the standardized values of the corresponding components. Additionally, to illustrate the character of the interaction, we plotted the effects of adaptation on performance for different levels of moderators. The potential multicollinearity problems were addressed by calculating the value inflation factors (VIFs), which are shown in Table 2. The VIF values were between 1.05–2.69, with an average VIF for all of the variables equal to 1.51, which is substantially lower than the recommended cut-off, indicating that multicollinearity should not be a problem [94].

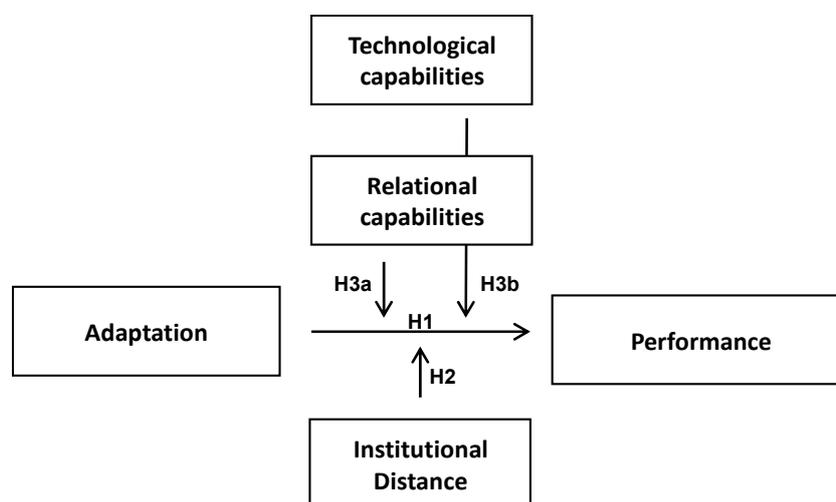


Figure 1. Conceptual framework.

Model 1 (Table 3) is statistically significant ($F = 13.253$, $p < 0.001$) and explains 34% of the performance variance. Adaptation and potential moderators (except for technological capabilities) are positively associated with performance. Model 2, which is a full model that also includes interaction effects, is statistically significant ($F = 15.331$, $p < 0.001$), and its explanatory power increased in comparison with Model 1 to 43% (delta R-squared = 0.092, F-change = 15.269, $p < 0.001$). As evidenced by the results, hypotheses predicting the moderating effects were supported. We observed the significance of interaction effects between adaptation and relational capability, technological capability, and institutional distance for performance.

Figure 2a–c illustrate the nature of interactive effects. All of the figures indicate that the level of performance in foreign market increases with the level of adaptation to foreign market; this positive relationship is further accentuated: (i) with the shortage of available capabilities, i.e., when a firm possess less developed technological (Figure 2a) and relational (Figure 2b) capabilities, the beneficial effect of adaptation for performance are stronger; and (ii) when a firm operates in institutionally distant markets (Figure 2c).

Accordingly, all of the research hypotheses found empirical support.

Table 3. Ordinary least squares (OLS) regression results (performance as a dependent variable).

Variable	Model 0	Model 1	Model 2	VIF
Adaptation to foreign market		0.302 *** (0.052)	0.390 *** (0.053)	2.693
Technological Capabilities (TC)		0.061 (0.058)	0.062 (0.058)	2.311
Relational Capability (RC)		0.144 * (0.053)	0.117 † (0.050)	2.134
Institutional Distance (ID)		0.122 * (0.066)	0.115 * (0.062)	1.052
Adaptation x TC			−0.162 ** (0.045)	1.631
Adaptation x RC			−0.186 ** (0.051)	1.759
Adaptation x ID			0.085 † (0.036)	1.050
Firm age at internationalization	−0.025 (0.003)	−0.025 (0.003)	−0.028 (0.003)	1.082
Firm exp. in foreign market	−0.040 (0.004)	−0.049 (0.004)	−0.055 (0.004)	1.124
Firm prior int. experience	0.025 (0.010)	0.011 (0.009)	0.029 (0.008)	1.101
Firm size	0.055 (0.036)	0.026 (0.033)	0.018 (0.031)	1.135
Ownership	−0.044 (0.098)	0.036 (0.090)	0.036 (0.084)	1.126
Env. Dynamism	0.449 *** (0.042)	0.203 ** (0.045)	0.169 ** (0.043)	1.605
Low-Tech	−0.038 (0.106)	−0.031 (0.096)	−0.016 (0.090)	1.451
Medium-Tech	−0.078 (0.105)	−0.084 (0.095)	−0.083 (0.088)	1.388
R-Squared	0.213	0.370	0.462	
Adj. R-Squared	0.190	0.342	0.432	
F	9.311 ***	13.253 ***	15.331 ***	
Change in R-Squared		0.157	0.092	
F-change		16.846 ***	15.269 ***	

Notes: Cell entries are standardized regression coefficients. Standard errors shown in parentheses. † $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

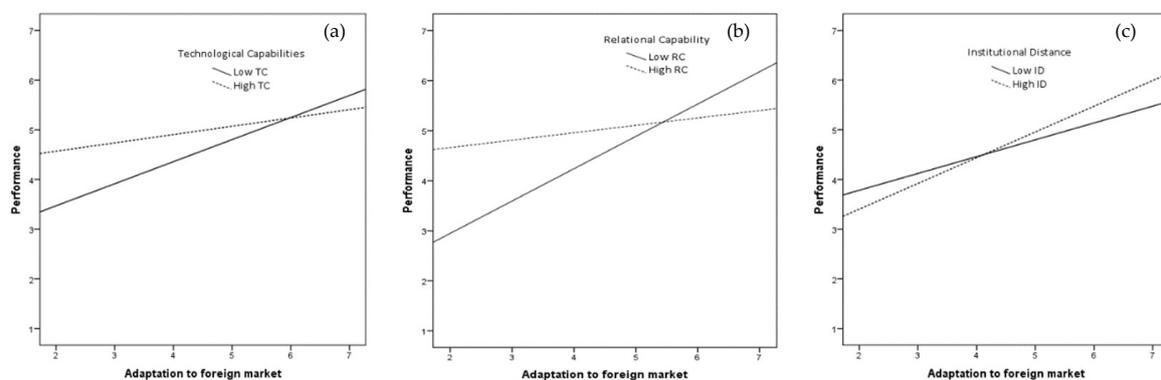


Figure 2. Figure Caption: (a) The moderating effect of technological capabilities; (b) The moderating effect of relational capability; (c) The moderating effect of institutional distance.

5. Discussion and Conclusions

Our mixed-method study on a sample of firms from a mid-range economy of Poland contributes to the extant research on foreign market strategy adaptation in several ways. By building on the legitimacy argument of the institutional approach, it shows that adaptation is particularly relevant for firm performance when the institutional distance is increasing. Furthermore, it demonstrates that adaptation as a capability of the internationalizing firm may not necessarily be always a prerequisite for success. In fact, a firm may reduce its exposure to foreign market adaptation by relying on foreign partners to take over the burden and costs of adaptation. Moreover, the possession of superior technological capabilities makes adaptation less of a priority given that it is the technology that is the key foundation of the competitive advantage of the company.

As for the role of relational capabilities, Company 4 indicated that “the partner shows that if we adapt the products, change something in the offering, if we do it differently than others (. . .), such as marketing through leasing, and not just sales of our product, then it makes sense” [Company 4]. Apart from trade partners, end customers also play a crucial role here. “It is the best situation when the foreign client approaches us and states that he needs a product like this or that. Then we do not have to do market research ourselves, because clients do the adaptation for us” [Company 4].

With regard to technological capabilities, for Company 4, adaptation is a substitute for having a clear technological advantage due to coming from an emerging market. If a latecomer is not a technological leader in its sector, it can nevertheless be superior in adjusting to client needs and adapting products to a higher level than peers. Thus, for Company 4, adaptation is an inherent part of the competitive strategy, particularly with relation to foreign markets. According to the Export Director, the company “needs to be more flexible to adjust to foreign markets to be more successful (...) We are (...) unknown in many markets; therefore, we have no other alternative. Somehow, we must convince our customers to abandon extant suppliers and choose us instead.” With reference to relational capabilities, a Board Member moreover noted that “trade partners show us how to adapt the products, change our offering, to do something differently than others”. From this perspective, being able to create an active network of stakeholders in foreign markets partly alleviates the adaptation burden of legitimacy-building from the focal company to its foreign network. Likewise, from the perspective of Company 6, “competitors are much larger, they have their Siemens logo, but our advantage is that we are (...) able to develop dedicated solutions, which makes us more attractive to some clients than our Western rivals”.

Conversely, for Company 5, investing in R&D and being a producer of innovative products is a key foundation of competitive strategy. Company 5 adapts its products to each foreign market; however, adaptation is inherent to this sector’s tender-based sales model, whereby the product quality and reputation play an even more pronounced role. As far as relational capabilities go, “the secret of our success is to take aboard local cooperation partners”. The firm always attempts to develop durable relationships with local stakeholders in spite of cultural differences, which leads to better sales performance.

Our study indicates that for firms originating from mid-range emerging economies, such as CEE countries, foreign market adaptation can be regarded as source of competitive advantage given the constraints related to internationally less recognizable brands and a lower scale of operations, which results in limited market power and experience curve effects. The entrepreneurial approach to adapting products even to a larger extent than competition does it can be regarded as a crucial factor ensuring the successful entry of these firms into international markets. Given the aforesaid argument of the liability of outsidership, the flexibility and a finer-grained approach to customizing products to client needs, particularly in business-to-business (B2B) markets, can be a strategic necessity in order to break through established network relationships, particularly in highly developed markets. This ability to listen to the client, as an alternative to existing trusted suppliers of products and solutions, may be a convincing entry argument for firms from catching-up countries in foreign markets. Apart from this, our study shows that this approach can either result from a firm’s inherent capabilities to engage

in advanced adaptation to foreign markets, or from the ability to leverage network relationships in order to shift the burden of adaptation to local partners. Alternatively, some studied firms prioritize the development of superior technologies in order to offer products that sell due to their technological advantage, and as such, are relatively homogenous across borders.

In this context, our study also sheds light on a number of promising avenues for future research. In the current paper, we did not differentiate between different types of host countries in analyzing the joint effects of adaptation, relational capabilities, and technological capabilities on foreign market performance. It can be expected that the roles of given types of capabilities are contingent on the type of market, and whether it is economically and institutionally more or less developed than that of the home country. A more deliberate case study design, as well as an explicit consideration for this aspect in a quantitative study, should shed more light on the role of location in this interplay.

Furthermore, the rationale of adaptation may be different. For some firms, adaptation can be a part of the business models across borders, particularly in B2B markets. However, adaptation may not be part of a systematic agenda. This deliberate versus emergent character of adaptation strategy, particularly in the context of emerging market firms, may be an interesting area of further academic inquiry.

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