

# **An Empirical Study of the Effects of Firm Size, Export Marketing Strategies of Firms and Type of Industry on the Performance of Firms in Export Markets**

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## **Abstract**

Large firms, especially multinational firms, played a more dominant role in export markets in the past than today. During the last decade, especially in South Africa, small and medium sized firms have become major players in the international arena. This research study sought to examine whether there are any relationships or significant differences between the size of the firm and export performance, the size of the firm and export marketing strategies, and the size of the firm and perceptions of export marketing managers of these firms with regard to the export marketing environment. Furthermore, whether there are any relationships or significant differences between the firms operating in different types of industries with regard to the aforementioned dependent variables. This is a cross-sectional empirical research study and the presentation of the findings is more descriptive in nature and has mainly utilised ANOVA to analyse the data.

**Keywords:** Export market, export marketing strategies, export performance, firm size, multinational firms type of industry.

## **Introduction**

The relationship between firm size and export behaviour is well documented (Calof, 1994: 369). Researchers have addressed research questions with regard to the relationships of firm size and propensity to export, firm size and number of markets served, firm size and the export stage and firm size and export attitudes. However, many of the studies had inconsistent results (Chetty and Hamilton, 1993: 31; Zou and Stan, 1998: 333; Katsikeas, Leonidas and Neil, 2000: 493). Inconsistencies of results were attributed to different measurements used for size, for example, number of employees, sales, and intensity of exports. Furthermore, different sampling methods were used and data were collected differently.

The South African government is also particularly interested in the SMME sector with regard to the creation of employment and contributing to the economic growth of the country. The commitment of the South African government to the development of the SMME sector in general was already demonstrated by the Small Business Act of 1996, and the commitment to the promotion of SMME exports in particular was demonstrated by the SMME Export Incentive Scheme of 1997 (Department of Trade and Industry, 1997: 7). The criteria of the National Small Business Bill of 2000 were used to classify firms as being large, medium, small, or micro. It is therefore important to investigate which marketing strategies are employed by these firms in export markets, whether they are different or similar, and to determine their impact on the export performance of the firm.

A number of past research studies strived to determine whether the adaptation or standardisation of export marketing strategies affect the export performance of the firm. The objectives of this research study were to determine whether the export marketing strategies were different in terms of the size of the firm, and whether firms in different types of industries had different export marketing strategies (Albuam and Tse, 2001: 59; Samiee and Roth, 1992: 1; Melewar and Saunders, 1999: 583; and Schuh, 2000: 133). Furthermore, the perceptions of exporters regarding export markets were also investigated, as it could be reasonably assumed that perceptions regarding the export market would determine which strategies they will implement in the export market.

The literature review and development of the research questions are dealt with in the next section, followed by the research methodology, the

findings, limitations, directions for future research and the conclusion.

## **Literature Review and the Development of the Research Questions**

Based on the objectives of the research study—to examine whether there are any relationships or significant differences between the size of the firm and export performance, the size of the firm and export marketing strategies, the size of the firm and its perceptions with regard to export markets, and whether there are any relationships or significant differences between the firms operating in different types of industries with regard to the aforementioned dependent variables—the literature review is summarised under the following headings, namely, export performance, standardisation and adaptation of export marketing mix strategies and perceptions with regard to the export market. The research questions are provided under each heading.

### *Export Performance*

According to O’Cass and Julian (2003a: 56), export marketing performance is mainly influenced by four broad groups of variables, namely, firm-specific characteristics, product characteristics, market characteristics and export marketing strategies. Furthermore, the literature provides a number of factors of how export marketing performance can be measured, namely, in terms of export sales levels, export sales growth, ratio of export sales to total sales, ratio of export profits to total profits, increase of importance of export to total business, overcoming barriers to export, propensity to export, acceptance of product by export distributors, export involvement, exporter internationalisation and attitudes toward export.

Aaby and Slater (1989: 21) reviewed 55 studies and concluded that there is no clear-cut formula in developing a successful export programme. However, they also indicated that company size by itself was not an important factor for international performance, unless it was related to financial strength, or some other variables related to economies of scale. The research questions (RQ) therefore were:

RQ<sub>1</sub>: Does firm size influence the export performance of firms?

RQ<sub>2</sub>: Does the type of industry influence the export performance of firms?

### *Standardisation versus Adaptation of Export Marketing Mix Strategies*

The whole debate with regard to the adaptation or standardisation of export marketing strategies boils down to the advantages and disadvantages of each alternative. For example, advantages of standardisation are cost savings, consistency of customers, improved planning and distribution, and more control of marketing activities in other countries (Zou, Andrus and Norvell, 1997: 109). A major drawback of standardisation is that the firm has more of a product orientation rather than a customer orientation (Zou, Andrus and Norvell, 1997: 109). Chung (2005: 1345) notes, that despite the 40 years of development in the literature with regard to the standardisation and adaptation strategy debate, many of the theories that were developed, still need to be established as conclusive.

Product and promotion are elements of the marketing mix that are adapted more than the other elements (Cavusgil, Zou and Naidu, 1993: 485). Product adaptations are normally the response of the firm to the legal and technical requirements of a particular country. According to Schuh (2000: 142), adaptations or adjustments occur mainly among the noncore elements of the product mix, for example, labelling content, package design, names of consumer products, and product instructions when translated. Factors such as differences in consumer needs, buying behaviour, cultural differences and variations in ability to afford would favour a strategy of marketing adaptation (Chee and Harris, 1998: 375). High costs of adaptation, scale economies in production and marketing, and the convergence of markets with regard to similar tastes would favour the standardisation of products. The research questions with regard to export product strategies therefore were:

RQ<sub>3</sub>: Are the export product strategies of firms different as a result of the size of the firm?

RQ<sub>4</sub>: Are the export product strategies of firms operating in different industries similar?

*An Empirical Study ... on the Performance of Firms in Export Markets*

Elinder (1965) was the first to take up the debate in the 1960s of whether to standardise or adapt the promotion strategy. The proponents of standardisation argue that because of faster communication, there is a convergence of art, media activity, living conditions and cultures. Because of this convergence, advertising should be standardised (Kanso and Nelson, 2002: 79). The research questions with regard to export promotion strategies therefore were:

RQ<sub>5</sub>: Are the export promotion strategies of firms different as a result of the size of the firm?

RQ<sub>6</sub>: Are the export promotion strategies of firms operating in different industries similar?

Many scholars acknowledge that selecting channels of distribution is a complex and difficult task for a number of reasons (Rialp, Axinn, and Thach, 2002: 133; Vandersluis, 1999: 13; and Griffith and Ryans, 1995: 52). The following are some of the questions to be considered when deciding which distribution strategy to use: Firstly, what extent of control does the firm want to exercise over its channel members? Secondly, how selective should the distribution channel be? Thirdly, what types of channel members are to be selected? And fourthly, how many channels should be established for a given product? However, the research questions with regard to export distribution strategies therefore were:

RQ<sub>7</sub>: Are the export distribution product strategies of firms different as a result of the size of the firm?

RQ<sub>8</sub>: Are the export distribution strategies of firms operating in different industries similar?

Notwithstanding the fact that pricing is complex in domestic markets, it is even more difficult in export markets due to factors such as multiple currencies, the instability of economies of foreign countries, trade barriers, additional cost considerations and longer distribution channels (Raymond, Tanner and Kim, 2001: 20; Cavusgil, 1996: 67; and Samli and Jacobs, 1993/1994: 29). The research questions with regard to export pricing strategies below were:

RQ<sub>9</sub> : Are the export pricing strategies of firms different as a result of the size of the firm?

RQ<sub>10</sub>: Are the export pricing strategies of firms operating in different industries similar?

### *Perceptions with Regard to the Export Market*

As there are advantages to go international, there are also disincentives or barriers for firms not to do so. Market characteristics such as access to distributors, import control, government legislation, exchange rate fluctuations, cultural differences, language differences and unfamiliar business practices may impact negatively on export performance. Psychic distance is one of the factors that has been the subject of many research studies and firms tend to trade with countries that are 'physically close' (O'Grady and Lane, 1996: 309). The perception research questions regarding the export market therefore were:

RQ<sub>11</sub>: Are the perceptions of export marketing managers regarding the export-marketing environment different given the size of the firm?

RQ<sub>12</sub>: Are the perceptions of export marketing managers of firms in different industries similar with regard to the export market environment?

The research methodology that was used to address the research questions will be discussed in the next section.

## **Methodology**

The research study made use of a self-administered mail survey. The objective was to select previously validated scales to obtain valid and reliable measures of the variables and therefore the development of the questionnaire was mainly based on the framework of Cavusgil and Zou (1994). While there are different export performance measures, the questions on sales growth and profitability for the last five years, actual sales for the last financial year, and satisfaction with regard to international sales and profits were the objective and subjective measures used in this research study to measure export performance. All the other scales were single item scales.

The single item scales were 5-point Likert scales where respondents had to indicate, for example, on a question 'that they customise products for the export market' as (1) never or (5) always.

The questionnaire was pre-tested, and content and face validity were established by consulting ten exporters and eleven academics at two universities. A number of changes were suggested and implemented. The multiple item export performance scale had a coefficient alpha value of .708. The address list (sample frame) of the Bureau of Market Research of UNISA was used to draw the sample. A sample size of 1 153 (50 percent), of a sample frame of 2 305, was randomly selected. A cover letter, the questionnaire and a pre-paid reply envelope were mailed and addressed to export marketing managers of firms. A total number of a 173 firms responded, 45.5 percent (77) were consumer firms and 55.5 percent (96) were industrial firms. A response rate of 15 percent was attained.

According to Armstrong and Overton (1977: 396), mail surveys have been criticised for non-response bias and have highlighted three methods of estimation, namely, comparisons with known values for the population, subjective estimates, and extrapolation. The extrapolation method was used to determine potential non-response bias. The extrapolation method entails the comparison of the data of late respondents with that of early respondents, and it is assumed that late respondents have similar characteristics to that of non-respondents.

The early respondents of this study were compared with the late respondents with respect to the following variables; consecutive years in export, firm by class size, international sales growth for the last financial year, total international sales for the last financial year, total domestic sales for the last financial year, satisfaction with international sales and satisfaction with international profits. Independent sample *t*-tests were used to determine whether significant differences existed between early and late respondents (Lages and Lages, 2004: 45; Morgan, Kaleka and Katsikeas, 2004: 95; O'Cass and Julian, 2003b: 375; and Morgan and Katsikeas, 1998: 168). Early respondents were considered as the first 70 percent of the returned questionnaires and late respondents as the last 30 percent. Both the Levene's test for equality of variances and the 2-tailed results had values of more than .05. The results therefore indicated that non-response bias was not a serious concern and it addressed the issue of sample representativeness.

## **Findings**

### *Sample Distribution*

Large firms and firms in the SMME sector constituted 38.73 percent and 61.27 percent respectively of the sample. The industries included in this research study were the food, clothing and textiles, paper and publishing, fuels and chemicals, machinery and household appliances, electrical and medical supplies, motor vehicles, ships and aircraft industries.

### *Relationships between Firm Size and Export Performance*

One-way between-groups ANOVA was used to determine whether the size of firms had an influence on the export performance of firms, or otherwise stated, whether the export performance was significantly different compared to the size of the firm. One-way between-groups ANOVA determines whether the means of dependent variables are the same or different. Firm size was the independent variable and export performance the dependent variable. Table 1 provides some of the output results of a one-way between-groups ANOVA analysis.

The test of homogeneity of variance gives Levene's test for homogeneity of variances (Pallant, 2003: 190). It determines if the variance in scores is the same in each group. If the significance value is greater than .05, then the homogeneity of variance assumption has not been violated. If the significance value is less or equal to .05, then there is a significant difference somewhere among the mean scores of the dependent variable (Pallant, 2003: 190). Levene's test gave a significance value of .020, and based on this there was somewhere a significant difference among the mean scores with regard to the export performances of firms, which is the dependent variable for the 5 firm sizes. No significant differences were found between firm size and export performance, except in the case of small and large size firms (refer to Table 1). However, the homogeneity of variance assumption in this instance has been violated, as the test of homogeneity of variances had a significance value of .020, which was less than .05, and therefore the results should be interpreted with care.



**Table 1:** A Summary of Significant Differences between Firm Size and Export Performance

Firm by Class Size		Mean Difference	Sig.
Micro (5 and less)	Very Small (6-20)	2.90909	.954
	Small (21-50)	-4.78125	.671
	Medium (51-200)	-4.07500	.777
	Large (201 and more)	-5.19298	.563
Very Small (6-20)	Small (21-50)	-7.69034	.054
	Medium (51-200)	6.98409	.086
	Large (201 and more)	-8.10207	.022*
Small (21-50)	Medium (51-200)	.70625	.996
	Large (201 and more)	-.41173	.999
Medium (51-200) Large (201 and more)		-1.11798	.962

\* Significance value of less .05 as per the ANOVA table

### *Relationships between Firms in Different Types of Industries and Export Performance*

No significant differences were found between firms in different types of industries and export performance, meaning that firms in different industries did not perform necessarily better or worse in export markets.

### *Relationships between Firm Size and Export Marketing Strategies*

A summary of all the relationships between the dependent variables of international marketing strategies and the independent variable firm size is presented in Table 2. With regard to the dependent variable of adaptations to the marketing mix, it was found that micro and large firms had significant differences with regard to the degree of pricing adaptation, and medium and large firms with regard to the degree of adaptation of positioning. The variable regular overseas trips had the largest significant value in terms of size of firms employing this strategy. Large firms obviously have more financial resources to send people overseas. Table 2 also highlights the significant differences that were found under pricing strategies of firms.

**Table 2:** A Summary of Significant Differences between Firm Size and Export Marketing Strategies

<b>Marketing Mix Categories</b>	<b>Dependent Variable</b>	<b>Sig.</b>	<b>Firm Size Responsible for Differences (Mean Values)</b>
Adaptations to the marketing mix	Degree of pricing adaptation	.009*	Micro (2.1111) Large (3.0597)
	Degree of adaptation to positioning	.006*	Med 1.8571 Large (2.3881)
Product strategies	No significant differences		
Pricing strategies	Low prices used as a strategy	.027*	Med (3.4898) Small (2.7222)
	Long credit term	.010*	Large (2.5970) Micro (1.3333)
	Prices quoted in rand	.007*	Large (1.7910) <u>Micro (3.2222)</u> Large (1.7910) Small (2.1667)
Promotion strategies	Regular overseas trip	.000*	Med (3.5714) <u>Micro (2.3333)</u> Large (3.9104) <u>Micro (2.3333)</u> Large (3.9104) Small (3.1389)
Distribution strategies	No significant differences		

\* Significance value of less than .05 as per the ANOVA table

*Relationships between Firms in Different Types of Industries and Export Marketing Strategies*

Significant differences were found between firms in different types of industries and their export marketing strategies with regard to adaptations of product, pricing and promotion strategies. This was not the case for export distribution strategies of firms in different industries (refer to Table 3).

Furthermore, independent samples *t*-tests were used to compare the mean values of responses of industrial and consumer firms with regard to differences in their export marketing strategies. The only differences that were significant were for promotion and distribution as export marketing strategies (refer to Table 4). Industrial firms make more use of the Internet. As can be expected, industrial firms make more use of direct channels and therefore have greater control over their distribution channels. It was found that consumer firms gave a higher rating than industrial firms with regard to the competitive intensity of the international market. Under product strategies, firms in the clothing and textile industry indicated that they produce more specialised and customised goods compared to the food, paper and publishing, machinery and household industries.

Under pricing strategies, firms in the food industry indicated that higher prices were set as a strategy in the export markets, compared to that of firms in the machinery and household industry, but lower prices compared to firms in the paper and publishing industry. Under promotion strategies, firms in the clothing and textiles industry focused less on building brand awareness compared to firms in a number of other industries. Firms in the food industry participated more in trade shows compared to firms in a number of other industries.

**Table 3:** A Summary of Significant Differences between Firms in Different Types of Industries and Export Marketing Strategies

<b>Marketing Mix Categories</b>	<b>Dependent Variable</b>	<b>Sig.</b>	<b>Industries Identified as Having Significant Differences and Mean Values per Industry</b>
Product strategies	Unique product features	.018*	Fuels and Chemicals (4.1852) Machinery and H/holds (3.3947)
	Speciality goods	.001*	Machinery and H/holds (2.1053) <u>Clothing and Textiles (3.3226)</u> Clothing and Textiles (3.3226) Paper and Publishing (1.1750)

	Customised goods	.002*	Clothing and Textiles (4.0968) Food (2.7778) Machinery and H/holds (3.0263) Clothing and Textiles (4.0968)
Pricing strategies	High prices used as a strategy	.004*	Machinery and H/holds (1.8684) Food (2.9630)
	Low prices used as a strategy	.010*	Paper and Publishing (3.8750) Food (2.5556)
Promotion strategies	Build brand awareness	.000*	Clothing and Textiles (2.3548) Food (3.4074) Clothing and Textiles (2.3548) Fuels and Chemicals (3.3704) Clothing and Textiles (2.3548) Machinery and H/holds (3.2632)
Promotion strategies	Participate in trade shows	.006*	Paper and Publishing (2.3125) Food (3.5556) Fuels and Chemicals (2.4444) Food (3.5556) Machinery and H/holds (2.6316) Food (3.5556) Vehicles and Other (2.2222) Food (3.5556)

\* Significance value of less than .05 as per the ANOVA table

**Table 4:** A Summary of Significant Differences between the Export Marketing Strategies of Industrial and Consumer Firms

Marketing Mix Categories	Dependent Variable	Sig.	Significant Differences and Mean Values of Industrial and Consumer Firms
Promotion strategies	Use the Internet to advertise	.028*	Industrial (3.0521) Consumer (2.5844)
Distribution strategies	Direct sales to end users	.000*	Industrial (3.2396) Consumer (2.3247)
	High levels of control	.023*	Industrial (3.5208) Consumer (3.0779)

\* Significance value of less than .05 as per the ANOVA table

*Perceptions of Export Marketing Managers of Firms of Different Size with regard to the Export Market Environment*

Export marketing managers of large firms indicated that the competitive intensity of international markets was high, while export marketing managers of micro firms did not have the same view (refer to Table 5). However, responses from micro firms and large firms viewed the exchange rate risk as very high. There were no significant differences between the size of the firm and the perceptions of export marketing managers of the respective sizes of firms with regard to import controls, foreign legislation requirements, cultural barriers, channel accessibility and language barriers. The average group mean values were 3.0 (on the 5-point Likert scales used), meaning that these barriers were perceived as neither too high nor too low.

**Table 5:** A Summary of the Perceptions of Export Marketing Managers of Firms of Different Size with regard to the Export Market Environment

<b>Dependent Variable</b>	<b>Sig.</b>	<b>Firm Size Identified for Differences and Mean Values</b>	
Competitive intensity (1=Very low; 5=Very high)	.003*	Micro	(3.4440)
		Large	(4.4330)
Exchange rate risk (1=Very low; 5=Very high)	.000*	Very Small	(3.0000)
		<u>Micro</u>	<u>(4.2500)</u>
		Medium	(4.0204)
		<u>Micro</u>	<u>(4.2500)</u>
		Large	(4.4478)
		<u>Micro</u>	<u>(4.2500)</u>
		Large	(4.4478)
		Small	(3.8056)
Foreign tariffs (1=Very low; 5=Very high)	.059*	Micro	(2.2222)
		Large	(3.3134)

\* Significance value of less than .05 as per the ANOVA table

*Perceptions of Marketing Managers of Firms in Different Types of Industries with regard to the Export Market Environment*

Export marketing managers in the motor vehicle industry viewed the export market as very competitive (an average mean value of 4.5560), while export marketing managers in the electrical and medical industry gave the lowest

average mean rating regarding the competitiveness of the export market (refer Table 6). Export marketing managers in the clothing and textile industry viewed the exchange rate risk as very high, and this is evident in terms of the many clothing and textile firms that have closed down.

**Table 6:** A Summary of the Perceptions of Export Marketing Managers of Firms in Different Types of Industries with regard to the Export Market Environment

<b>Dependent Variable</b>	<b>Sig.</b>	<b>Industry Type Identified for Differences and Mean Values</b>
Competitive intensity (1=Very low; 5=Very high)	.037*	Clothing and Textile (4.1480)
		<u>Electrical and Medical</u> (3.6250)
		Vehicles and Other (4.5560)
		Electrical and Medical (3.6250)
Exchange risk (1=Very low; 5=Very high)	.005*	Clothing and Textile (4.6129)
		Electrical and Medical (3.5000)
Channel accessibility (1=Very low; 5=Very high)	.016*	Clothing and Textiles (2.3548)
		Food (3.3704)
Cultural differences (1=Very low; 5=Very high)	.019*	Clothing and Textile (2.4516)
		Paper and Publishing (3.2813)

\* Significance value of less than .05 as per the ANOVA table

Firms in the clothing and textile industry did not see channel accessibility as a problem and firms in the paper and publishing industry had the highest rating for cultural differences that they experience. Overall, foreign tariffs, import controls, foreign legislation and cultural differences had average mean ratings of approximately 3.0, which indicate that the firms in these industries do not view these variables as either too high or too low. Language was not seen as a major barrier, as it had a low average mean rating of 2.0.

## **Research Limitations of the Study and Directions for Future Research**

The qualitative dimension of the research was constrained due to the fact that a mail survey was conducted to collect the information, and not personal interviews. If personal interviews had to be conducted, it would have provided more opportunities to probe respondents and collect more qualitative information. A major challenge in conducting research is that of getting reliable and objective information. Many firms are not prepared to provide exact figures on export profits and sales, as these are viewed as confidential or sensitive. Because of these concerns of firms, researchers are therefore obliged to pose questions in a less sensitive manner to overcome this problem, for example, the question on export sales had to be presented on a scale with seven categories or levels of export sales. This influences the analysis of the study in a negative way, as the analysis could have been more reliable with objective and exact information. There are many export performance scales that were used in other research studies (Shoham, 1998: 73). The challenge lies in the development of a reliable international/export performance scale that can be used internationally for comparison purposes. However, the scales to be used should also be of such a nature that it will allow the researcher to get the necessary information without any difficulty.

Mainly single item scales were used which impacted on the richness of information collected. Furthermore, the research questions were very specific, but also restrictive in allowing for more analysis of firms operating in the export market. There are many more opportunities for other research areas, for example, to determine whether the standardisation or adaptation of export marketing programmes result in greater export performance, or to ascertain the export marketing strategies of high performing export firms compared to that of low performing export firms.

## **Conclusion**

The research study has shown that the only significant difference between firm size on the export performance of firms was in the case of very small and large firms, whereas no significance differences were found between any of the large, medium and micro enterprises. Therefore, there are opportunities for firms in the SMME sector to expand their operations in the

export market. There were also a number of significant differences with regard to the product, pricing and promotion strategies that firms employ, while this was not the case with regard to the distribution strategies being employed by firms. Firms are much dependent on intermediaries when it comes to distribution strategies in export markets. The perceptions or views of export marketing managers with regard to the exchange rate risk differed significantly. Since firms are exporting to different continents it could have been an influence on this finding. Firms wanting to enter particular export markets therefore need to identify which are the major external influences impacting on the performance of the firms as to determine which exporting marketing strategies would be the most appropriate.

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*An Empirical Study ... on the Performance of Firms in Export Markets*

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