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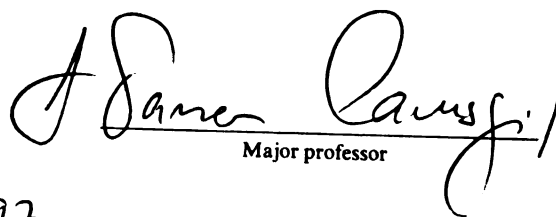


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**THE EXPORT PRICING STRATEGY-EXPORT PERFORMANCE
RELATIONSHIP: A CONCEPTUAL FRAMEWORK AND EMPIRICAL
INVESTIGATION**

By

Matthew Bowman Myers

A DISSERTATION

**Submitted to
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THE EXPORT PRICING STRATEGY-EXPORT PERFORMANCE RELATIONSHIP: A CONCEPTUAL FRAMEWORK AND EMPIRICAL INVESTIGATION

ABSTRACT

Differing viewpoints, lack of empirical evidence and sound theory, and ambiguity characterize the current literature on export pricing. Of the marketing decision variables, pricing has received the least attention in research efforts despite its continued identification as an important problem area for exporting firms. Businesses competing in international markets must utilize a systematic procedure for their pricing decisions. Pricing policies, both implicit and explicit, are a critical factor in the operation of these firms. This research addresses issues related to the statistical relationship between export pricing strategies and export performance, the role of export pricing strategies in the success of export ventures, the factors that influence the export pricing process, and why firms adopt particular export pricing practices. Specifically, a multidimensional construct of export pricing decisions is utilized to integrate the diverse perspectives of export pricing strategy. The microeconomic, consumer behavior, and intra-corporate theories of pricing are linked with conventional export pricing and strategy literature in an integrated model of export pricing strategy. A cross-industry empirical study is utilized to test the theoretical model and hypotheses.

Historically, exporting has been seen as a means of enhancing the sales and profit goals of the firm. A variety of measures have been used in past studies to evaluate export performance. Performance viewed in this manner fails to relate the firm's attempt to attain its *strategic* and *competitive* goals in the overseas market. The majority of past studies have addressed the direct

relationship between firm, product, industry, and international market factors, on firm performance. The effect of export market strategy, and the role of pricing within that strategy, have been largely ignored. With increasing competition in international markets, the strategic benefits of exporting will become as important as the economic aspects. Therefore export pricing strategy should be emphasized in future research as a critical determinant of export performance.

Differing significantly from conventional pricing research, this dissertation provides insights as to how exporting firms can improve performance through more effective export pricing strategies and practices. The exploration of which internal organizational characteristics and external environmental characteristics affect these strategies offers a bridge between theoretical export pricing research and the managerial application of those strategies.

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1997

**An entire doctoral experience dedicated to two grandmothers, one mother, one sister, one
wife, and three nieces**

Forsan et haec olim meminisse juvabit

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CHAPTER ONE

MOTIVATION FOR THE STUDY AND THEORETICAL FOUNDATIONS

PROBLEM STATEMENT

The process of pricing products in international markets is becomingly increasingly difficult for managers. As global economic foundations continue to shift, long-proven pricing structures are collapsing (Simon 1995). Clear separation of individual markets rarely exist, and as competitive pressures increase, strategies for effective pricing of products for sale in overseas markets remain elusive.

Unfortunately, managers have little in the way of research to guide them in their international pricing efforts. Typically, managers rely on intuitive measures to price their goods, instead focusing on other marketing decision variables. This often leads to the failure of international ventures since businesses operating in a global environment should rely on a systematic procedure for pricing decisions. Pricing policies and objectives, both explicit and implicit, are an important part of the operation of these firms (Samiee 1987). Of all the marketing decision variables it is perhaps pricing practice which has been the most ignored by researchers (Graham and Gronhaug 1989). While Ricks and Czinkota (1979) found that pricing was the number two problem area for international managers, pricing was identified as a neglected area of international marketing management research in 1981 (Cavusgil and Nevin) and again in 1991 (Li and Cavusgil). Empirical works to date have remained limited in number.

Several types of international pricing are conducted by firms, each demanding different approaches. Transfer pricing occurs on an intra-company basis and concerns sales of products within a corporate family. Foreign-market pricing is considered pricing by a firm with production facilities within an overseas market (completed products do not cross borders when reaching the customer). Export pricing refers to the pricing of products produced by facilities in one country, and sold to customers outside the corporate family in another country (e.g., independent buyers). This study concentrates solely on the export pricing of products, a frequent challenge for most internationally active companies.

Over the past two decades the literature addressing the export behavior of firms has seen substantial growth. Much of this literature focuses on such issues as barriers to exporting, market entry strategies, and the impact of environmental factors on exporting. This literature has been reviewed by Bilkey (1978), Cavusgil and Nevin (1981), Li, and Cavusgil (1991), and Aaby and Slater (1989). While increased research in these areas is reassuring, there has been relatively little work done regarding the export marketing decision variables and how they affect firms' export performance (Koh and Robicheaux 1988).

Aaby and Slater (1989) suggest that export performance is directly influenced by a firm's business strategy. Historically, exporting has been seen as a means of enhancing sales and profit goals of the firm, and a variety of measures have been used in past studies to evaluate export performance (e.g., Axinn 1988, Evangelista 1994). Performance viewed in this manner fails to relate the firm's attempt to attain its *strategic* and *competitive* goals in the overseas market (Cavusgil and Zou 1994). The majority of past studies have addressed the direct relationship between firm, product, industry, and international market factors,

ignoring the role of export market strategy in export performance. With increasing competition in international markets, the strategic benefits of exporting will become as important as the economic aspects, and therefore export marketing strategy should be emphasized in future research as a critical determinant of firm performance.

Since export performance is directly influenced by export strategy (Cavusgil and Zou 1994), the individual variables within export strategy need to be addressed in order to better ascertain their effect on the decision making process of the firm. Cavusgil (1983) has identified four variables which influence successful export marketing: 1) basic company offering, 2) contractual links with foreign distributors and agents, 3) promotion, and 4) *pricing*. This study focuses on the influence of the firm's export pricing strategies on export performance, together with the organizational and environmental antecedent variables of export pricing strategies.

A variety of studies focusing on the role of marketing variables in exporting success have found that pricing plays a critical role in export performance. Kirpalani and Macintosh (1980) found that a firm's pricing strategy is significantly associated with export performance. Bilkey (1982) also found that export prices played an important role in exporting success in a study that explored variables associated with export profitability. Koh and Robicheaux (1988) conducted a study similar to Bilkey and concluded that export pricing is one of three variables related to export performance. Despite this, pricing research has largely focused on pricing promotion, consumer reactions to pricing, and microeconomic issues, rather than on export pricing. This lack of international research may be due to a reluctance of managers to discuss firm pricing practices, an inability to articulate poorly structured export pricing strategies, or both.

If practitioners are to benefit from the work of marketing scholars, research must explain current processes and develop a framework for managerial decision making and future research efforts. This study presents such a framework, one which addresses the relationship between export pricing strategy and export performance, this by integrating current pricing and export strategy approaches. Concurrently, the study seeks to identify the factors that influence the export pricing process, these seen as antecedents to the role of export pricing strategies in the success of export ventures. The goal is to investigate a largely unexplored area of international marketing management, as well as to provide information directly relevant to the exporting firm.

PURPOSE AND CONTRIBUTIONS OF THE STUDY

Due to an increasingly competitive global environment (Ohmae 1990), a need for expansion to foreign markets to augment market share and economies of scale (Porter 1980, 1986), as well as complex international governmental regulations and gray market considerations (Cavusgil and Sikora 1988), effective export pricing strategies are becoming a critical aspect of the marketing practices of the firm. Traditionally, many firms have treated the pricing of their exports as an afterthought. Similarly, researchers have considered export pricing as a minor aspect of overall pricing strategy. The pricing process as a strategy that leads to enhanced competitive positioning of the product or increased economic benefit of the venture has yet to be exploited. Its usefulness as a competitive tool remains greatly unexplored, despite general agreement regarding the critical nature of pricing as a marketing strategy.

Expansion of this study will offer insights into how export marketing managers can improve the export performance of the firm through more effective export pricing strategies and practices. From a philosophical standpoint, the evaluation of both external environmental forces and internal organizational characteristics as initially described by Cavusgil and Zou (1994) is critical for managers exporting to overseas markets. Concurrently, managers must understand that an export pricing strategy is determined by a dynamic set of variables, and that successful participation in international export markets is reliant on strategies capable of quick response due to constantly shifting economic, competitive, and customer related forces.

One major contribution of this dissertation is the integration of seemingly diverse theories. In studying export pricing strategy, the development of a theoretical model that integrates both the theories addressing international business strategies and those theories involving the pricing of products. The latter alone constitute several major research streams and sub-dimensions within pricing theory, while international business theories have only recently been integrated to form an composite theory of global strategy. The task here is to advance the literature by justifying the synthesis of these theories through the use of a strategy-performance framework.

At the operational level, future research should investigate the complex set of interrelationships that affect the export pricing strategy/performance relationships, and to what extent management pricing strategies are responsible for export performance. The study provides a foundation for future research regarding what are "best practices" in export pricing, what role do firm, product, industry, international market, and other environmental variables play in setting export pricing strategies, and how should managers make decisions

regarding those strategies. To date, export literature has focused on marketing decision variables other than pricing: managers have had relatively little opportunity to benefit from academic research on international pricing in general and export pricing in particular. This research supplies an important link not only between existing pricing research and international marketing studies, but between theoretical concepts and managerial applications as well.

The unit of analysis for this study is the individual product or product line sold in the most important export market of individual Strategic Business Units (SBUs). This was accomplished by focusing on the individuals responsible for the export pricing decision at the strategic business unit level. The study also focuses on U.S. exporters of manufactured goods, and will be limited to more experienced exporters who rely on at least 20% of their sales from export markets. It is felt that by concentrating on more committed, experienced exporters a wider variety of pricing strategies can be identified than with those firms that export strictly for convenience.

Two limitations of the study should be noted. First, in suggesting a contemporary approach to export pricing studies and the subsequent offering of a conceptual framework, every effort was made to identify antecedent variables to the pricing strategy-performance relationship. Identification of all variables, however, is extremely difficult due to the almost endless list of situational variables in the decision making process (Diamantopoulos and Mathews 1995; Achrol, Reve, and Stern 1983). Therefore the antecedent variables addressed in this study have been limited to those believed to be most relevant in order to increase the generalizability of the framework and have it remain manageable.

Second, this study concentrates solely on the structural aspects of export pricing to upper- and mid-stream value added chain customers rather than end-user consumers, and therefore little focus has been placed on the behavioral characteristics of the pricing process. It would be beyond the scope of this study to include these issues, and it is felt that the determination of “best practices” in future research can be attained without the analysis of these variables.

The dissertation is structured in the following manner. First, an overview of the existing streams of pricing literature is offered to demonstrate the evolution of the research. Concurrently, a discussion of exporting as a strategic response by management is used to illustrate the role of export strategy in performance. It is argued that export pricing strategy is itself a critical aspect of overall export strategy. Next, a conceptual model is developed identifying the antecedent internal and external forces that lead to particular export pricing strategies, this to delineate the constructs within the decision making framework. Third, research hypotheses are tested. Finally, research design, data collection, and data analysis issues are discussed.

THEORETICAL FOUNDATION

Pricing Theories and The Goals of the Firm: An Evaluation of the Literature

In addressing the issue of pricing, researchers have focused on four major topic areas: micro-economic literature on price, consumer perceptions and reactions to pricing, intra-corporate pricing, and company practice in international pricing. These research

streams cover a wide range of factors under the pricing umbrella, and while this study focuses on the pricing strategies of the company and their role in export performance, a brief background of the other research streams and relevant literature is helpful in understanding the evolutionary process behind the pricing literature. First, the general pricing theories will be discussed. Next, the international business theories addressing issues relevant to the exporting firm will be addressed. Finally, it will be proposed that contingency theory be utilized to integrate these theories into an export pricing strategy framework.

Neo-classical pricing research was based on the assumption of profit maximization as the firm's objective and the use of marginal analysis as the method to arrive at optimal price-output optimizations (Diamantopoulos and Mathews 1995, p.8). Both global and domestic economic environments have been linked to the pricing practices of the firm and, in turn, a wide range of pricing theories based upon the objectives of the firm have emerged. These include Williamson's (1964) managerial discretion theory, sales revenue maximization theory, sales growth maximization theory (Baumol 1958, 1962; Lynn 1968), and conventional price theory (Ott 1979). These studies and their relationship to the organizational behavior of the firm laid a groundwork for subsequent research in this area. Economic factors external to the firm have also resulted in a large body of literature, particularly that addressing the impact of foreign currency fluctuations on pricing. Research by Clague and Grossfield (1974), Choi (1986), Knetter (1994), Demirag (1988) and many others have addressed the pricing behavior resulting from operating in a dynamic currency environment. However, this micro-economic literature fails to address many of the complex considerations involved in the pricing of exports, and a more comprehensive approach is needed.

According to Diamantopoulos and Mathews (1995), an imbalance in the marketing literature exists in that a disproportionate amount of research has focused on the buyers' perceptions of and reactions to price. Consumer behaviorists have addressed at length such issues as price awareness, price as a proxy to quality, asymmetry of price information, price elasticity within markets, and price information processing among consumers. Comprehensive reviews of this literature are provided by Monroe (1990) and Nagle (1987), among others. This research shows that, contrary to the assumptions of economists, buyers are not perfectly rational and do not have perfect information when purchasing products (Morris and Morris 1990). The average consumer takes into consideration a wide variety of factors in every purchase-related decision, and over the decades researchers have focused extensively on these decision making processes, as well as the emotional and psychological variables that are involved in those decisions, not only in the marketing literature, but also in psychology and sociology.

Intra-corporate pricing, or transfer pricing, has received increased attention over the years due to the prevalence of multinational operations, and the rising number of cooperative arrangements and multiple-location facilities found throughout the world. In order to successfully compete in the global marketplace, the multinational firm must confront a complex set of political factors, tax regulations, import-export restrictions, and fund transfer restrictions, as well as other challenges associated with operating in multiple international markets (Al-Eryani, Alam, and Akhter 1990). Concurrently, transfer pricing policy must reward the management of overseas subsidiaries and cooperative ventures.

Studies have shown that firms have often developed an international transfer pricing policy based on conventional pricing practices such as cost-plus (Tang 1979, Greene and

Duerr 1970), market pricing (Arpan 1971), or negotiated pricing (Greene and Duerr 1970), and that these practices often differ according to the home country of the firm. Studies by Lecraw (1985) and Schulman (1969) have also addressed the use of transfer prices to circumvent custom duties and taxes as well as profit repatriation restrictions.

Intra-corporate pricing differs substantially from export pricing in that the objectives and goals of the firms' pricing policies are rarely identical. While the transfer pricing literature offers a variety of conclusions and recommendations for the multinational manager, it provides little in the way of conceptual or empirical evidence regarding the practices and strategies of pricing exports.

The foundations laid by these research streams have led to an increased interest in the role of pricing in overall market performance of the firm. However, a significant gap remains between these research streams and research regarding international pricing strategy and its role in export performance, or the specific challenges faced by exporting firms in pricing their products.

Company Practices in Export Pricing

Given the critical nature of pricing decisions, one would expect a wide range of studies concerning company practices in export pricing. As noted, however, relatively few studies have been conducted on this issue. According to Walters (1989), most of the work that has been done in the international pricing area concerns the transfer pricing problem in multinational corporations (e.g. Al-Eryani, Alam, and Akhter 1990, Arpan 1972). Several important export pricing studies do exist, however. The effect of overseas market

environment on pricing has received attention, and studies have included pricing in developing countries, pricing in specific markets, and price controls overseas (Walters 1989). Several pricing decision models have resulted from the studies on fluctuating exchange rates, including that of Grossfield and Clague (1974). Conceptual models of the export pricing decision process (i.e., those that state the appropriateness of different strategies depends on the competitive settings of business) have been developed by several authors (Walters 1990, Rao 1984), and the literature includes an application of a descriptive modeling approach in an overseas pricing situation (Farley, Hulbert, and Weinstein 1980).

Samiee (1987) discovered that firms outside the United States considered the pricing of their products to be significantly less important than U.S. firms, with a greater degree of autonomy afforded to the local managers. Work of these authors suggests that a variety of factors influence the export pricing of goods. Concurrently, Cavusgil (1988) identified six variables that influence export pricing: (1) the nature of the product or industry, (2) the location of the production facility, (3) the system of distribution, (4) the location and environment of the foreign market, (5) US government regulations, and (6) the attitude of the firm's management. In a study in 1988 Lancioni states that price setting in international markets should be done on two different levels: the external level (customers, competition, governmental regulations), and internal levels (cost reduction, ROI levels, and sales volume requirements), and that both environments must be taken into account when setting prices in international marketing. Given that export pricing strategy is an integral part of overall export strategy, this makes sense: exporting itself can be conceptualized as a strategic response by management to the interplay of internal and external forces (Cavusgil and Zou 1994, p.3). Internal forces relate to organizational characteristics such as the firm and

product, and external forces include industry and export market characteristics. This suggests that export pricing is being utilized as a distinct proactive resource in the export marketing strategy of the firm. Included in this proactive behavior is the achievement of both the economic and strategic goals of the firm, not only the increased sales and profitability of the venture, but also the competitive position and survivability of the firm.

Resource-Based Theory, IO-Based Theory, and the Strategy-Performance Framework

Two theoretical perspectives of international business have dominated the literature in recent years. Both resource-based theory and industrial organization-based (IO) theory have seen support by scholars (e.g. Collis 1991, Barney 1991, Rumelt 1974, Porter 1991, Bain 1951, 1956, Bartlett and Goshall 1991), yet the efforts to integrate these theories, as suggested by Mahoney and Pandian (1992), are limited.

Resource-based theory posits that internal organizational resources, capabilities, organizational processes, business attributes, information, and knowledge controlled by a firm will enable it to implement strategies that improve its efficiency and effectiveness (Barney 1991). The most critical resources to examine in strategy research are the skills and organizational routines that drive business activities, and underlying the firm's ability to link activities or share them across units are organizational skills and routines (Porter 1991). Firms within a strategic group or industry are considered heterogeneous with respect to the strategic resources that they control (Barney 1991). These resources may not be perfectly mobile across firms, therefore this heterogeneity can be long lasting. The physical resources of the firm are important drivers of strategy and performance, yet resource-based theory

emphasizes the intangible skills and resources of the business as the main driver of competitive choice (Collis 1991).

Different from resource-based theory, IO-based theory focuses on the external forces that affect business strategy. Here, firms within an industry or strategic group are considered identical in terms of the strategic resources that they control (Porter 1981). If resource heterogeneity should develop, it would be short lived because the resources that firms use to implement strategies that are highly mobile. Following Bain's (1951) structure-conduct-performance paradigm, external industry structure (e.g. market growth, firm capital requirements, industry concentration, and barriers to entry) will determine firm conduct, or strategy, this affecting economic performance (Scherer and Ross 1990). Here, external industry and market forces are seen as having direct effects on strategy, with competitive advantage attained via the firm's response to those forces.

In this dissertation, the study will adopt the theoretical perspective of Cavusgil and Zou (1994), that is the principle that the "fit" between strategy and its external environmental context (Anderson and Zeithaml 1984, Hofer 1975) and organizational context (Gupta and Govindarajan 1984) significantly affects firm performance.

Both the exporting literature (e.g. Walters 1989) and the pricing literature (e.g. Diamantopoulos and Mathews 1995) indicate that successful price decision making is dependent on situational variables in dynamic environments. This dictates a contingency approach to pricing: a contingency framework appears to be particularly well suited for price decision-making since the decision-making process is far too complex to be amenable to a universal type explanation (Diamantopoulos and Mathews 1995, p. 26). The variables within contingency theory (e.g. Zeithaml, Varadarajan, and Zeithaml 1988) blend well with

Table 1.1**Classification of Pricing Literature by Research Stream**

Research Stream and Author(s)	Outlet	Focus
<i>Micro-economic aspects of pricing (not exhaustive)</i>		
Athukorala, and Menon (1994)	<i>The Economic Journal</i>	Market behavior pricing and exchange-rate passthrough
Choi (1986)	<i>Journal of Int'l Business Studies</i>	Empirical investigation of exchange rate exposure and firm valuation
Demirag (1988)	<i>Journal of Int'l Business Studies</i>	Effects on firm valuation Studies the role of currency exchange rates and costs (prices), and the use of local currencies by subsidiaries.
Diamantopoulos and Mathews (1995)	<i>Making Pricing Decisions</i>	Overview of pricing theories integrated into a managerial framework
Gabor (1988)	<i>Pricing</i>	Pricing theories and consumer behavior
Karikari (1988)	<i>Canadian Journal of Economics</i>	Several pricing models evaluated to show the impact of free trade on the manufacturing sector
Knetter (1989)	<i>American Economic Review</i>	The relationship between local currency import prices and exchange rates is explored, as well as these effects on the trade deficit
Knetter (1994)	<i>Journal of Int'l Money and Finance</i>	Export price adjustment is asymmetric with respect to currency fluctuations in two circumstances: capacity constraints in distribution networks or trade restrictions. Pricing to market may be greater during depreciations in exporter's currency

TABLE 1.1 (CONT.)

Mathur and Loy (1984)	<i>International Marketing Review</i>	Foreign currency prices and hedging techniques discussed as method of circumventing volatile exchange rates and markets.
Monroe (1979)	<i>Pricing: Making Profitable Decisions</i>	Most widely cited, micro-oriented work. Covers basic strategies, consumer perceptions of price, competitive issues, ethical issues, and elasticity. Monroe has multiple articles on pricing, very few of which address international issues.
Morris and Morris (1990)	<i>Market Oriented Pricing</i>	Managerially related text covering psychology of pricing, price elasticity, negotiations, market variables, and pricing ethics.
Nagle (1987)	<i>The Strategy and Tactics of Pricing</i>	Basics of pricing, price elasticity, general theories, competitive factors, and consumer reactions to pricing.
Piercy (1981)	<i>Industrial Marketing Management</i>	Survey of British exporters suggests strong argument for market spreading over concentration, particularly when responding to floating currencies. Export pricing methods and price discrimination are discussed.
<u>Customers' perception to pricing</u>		
Abratt, and Pitt (1985)	<i>Industrial Marketing Management</i>	Pricing practices of the chemical and construction industries are evaluated. The buyer and his behavior are shown to play a minor role in pricing policy.

TABLE 1.1 (CONT.)

Bradach and Eccles (1989)	<i>Annual Review of Sociology</i>	Addresses three control mechanisms that govern economic transactions (price, authority, trust) in a combined fashion, with relationships discussed.
Monroe, (1979)	<i>Pricing: Making Profitable Decisions</i>	Most widely cited, micro-oriented work. Covers basic strategies, consumer perceptions of price, competitive issues, ethical issues, and elasticity. Monroe has multiple articles on pricing, very few of which (none?) address international issues
Nagle (1987)	<i>The Strategy and Tactics of Pricing</i>	Basics of pricing, price elasticity, general theories, competitive factors, and consumer reactions to pricing.
<u><i>Intra-corporate pricing</i></u>		
Al-Eryani, Alam, and Akhter (1990)	<i>Journal of Int'l Business Studies</i>	Examines the impact of environmental and firm-specific variables on the selection of international transfer pricing strategies.
Arpan (1973)	<i>Sloan Management Review</i>	Pure exporters omitted from study, discussion of factors influencing price determination.
Cavusgil (1990)	<i>Marketing Strategies for Global Growth and Competitiveness</i>	Identification of factors that effect global pricing, as well as factors effecting the centralization of pricing decision. Options in export pricing discussed, as well as transfer pricing practices and influences.

TABLE 1.1 (CONT.)

Rollinson, and Watson (1993)	<i>National Tax Journal</i>	Discussion and consequences of IRS section 482 regulations re: the setting of transfer prices
Tang (1979)	<i>Transfer Pricing Practices in the U.S. and Japan</i>	Highly quantitative evaluation of particular transfer pricing practices
<u><i>International pricing of the firm</i></u>		<u><i>General</i></u>
Baker and Ryans (1973)	<i>Management Decisions</i>	The study revealed that most international pricing decisions are made at levels lower than top management. Multiple pricing considerations identified.
Baker and Ryans (1979)	<i>International Marketing</i>	Explored the location of international pricing decisions within the firm and the decentralization of that decision., and how these factors effected pricing policies.
Duhan and Sheffet (1988)	<i>Journal of Marketing</i>	Legal aspects of parallel importation and gray markets
Farley, Hulbert, and Weinstein (1980)	<i>Journal of Marketing</i>	Analysis of the use of industrial marketing decision systems to price goods by two firms in the French market. Pricing activities are identified, including participation within the pricing decision process.
Katsikeas and Morgan (1994)	<i>European Journal of Marketing</i>	More experienced firms and larger firms found export pricing constraints to be more problematic than less experienced and smaller firms.

TABLE 1.1 (CONT.)

Kaynak and Kothari (1984)	<i>Management International Review</i>	Pricing ranked among types of problems faced by Canadian and U.S. exporters. Ranked 6th and 7th respectively out of eight.
Lancioni (1988)	<i>Management Decisions</i>	International pricing should be done at two levels; external (customer, competition, gov't regs) and internal (ROI, sales objectives, costs).
Samiee and Roth (1992)	<i>Journal of Marketing</i>	Influence of global marketing standardization practices on performance
Walters (1989)	<i>Journal of Global Marketing</i>	Export pricing decision variables are identified via a conceptual framework, followed by a descriptive model of the export pricing process.
Weekly (1992)	<i>Industrial Marketing Management</i>	Foreign market conditions complicate the task of setting and maintaining effective prices.. These foreign market factors are identified, mainly price controls and anti-dumping.
Williamson and Bello (1992)	<i>Journal of Global Marketing</i>	Empirical study of EMCs re: transactions between EMC and domestic producer. Suggest that pricing method is impacted by promotional function of the EMC as well as type of product.
<i>Strategy/Performance</i>		
Axinn (1988)	<i>International Marketing Review</i>	Export performance measured by percentage of sales. Manger related a firm related variables.

TABLE 1.1 (CONT.)

Cavusgil and Sikora (1988)	<i>Columbia Journal of World Business</i>	Discussion of gray markets and reactive strategies (table). Proactive strategies, (establishing legal precedence, strategic pricing etc.) are offered.
Cavusgil and Zou (1994)	<i>Journal of Marketing</i>	Study of marketing strategy-performance relationship, found that managers are not resorting to price as a competitive weapon, could reflect preference for non-price competition. Competitive pricing strategy is used more frequently in intensive industries.
Cavusgil (1988)	<i>Business Horizons</i>	Managerial guidelines for export pricing strategies given a wide range of competitive and market related variables.
Cooper and Kleinschmidt (1985)	<i>Journal of Int'l Business Studies</i>	Perceived price advantage seen as least prevalent among world marketers as opposed to domestic.
Evangelista (1994)	<i>Advances in Int'l Marketing</i>	Factors associated with export performance
Lecraw (1984)	<i>Asia Pacific Journal of Management</i>	11 MNCs operating subsidiaries in SE Asia used to analyze determinants of predatory pricing, price leadership, and intercountry price discrimination.
Samiee (1987)	<i>Journal of Business Research</i>	Mail survey and personal interviews show that pricing decisions are more centrally located in U.S. based firms than in foreign based firms. Pricing objectives and relative importance of the pricing variable are measured.

TABLE 1.1 (CONT.)

Simon and Kucher (1992)	<i>European Management Journal</i>	Study of the large differences in European prices and the effect on exports to the continent. Analysis of market data and the determination of country specific prices are discussed.
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the internal-external forces/export strategy/export performance framework of Cavusgil and Zou (1994): contingency variables (those providing only limited or indirect opportunities for control by the firm) being the internal and external forces, response variables (those that reflect decisions and actions taken by the firm) being export marketing strategy, and performance variables (those representing the outcome of such action, enabling an evaluation of fit between contingency and response variables) being firm export performance. Successful implementation of export *pricing* strategies will depend on accurate identification of the contingency variable and the proper “fit” of pricing action.

According to Zeithaml, Varadarajan, and Zeithaml (1988), the contingency approach to management formulated within the general systems theory. Contingency theory-based organizational research increased in popularity partly due to the fundamental assumption that there is no one best method to organize across a variety of conditions (Ginberg and Varadarajan 1985, Galbraith 1973). From the strategy perspective, a universal set of strategic choices that is optimal for all business conditions, regardless of resource and environmental contexts, does not exist. Within the strategy literature, contingency approaches are viewed as mid-range theories on a continuum between organizational principles which can be applied universally; or that each organization is unique, requiring

separate analysis for each given situation (Zeithaml et al. 1988) (see Table 1.2). In short, organizational effectiveness can be achieved by multiple methods, and a wide range of effectiveness levels exist. However, the variations in these levels are not random: the firm is seen as a complex, open systems organization exposed to uncertainty, yet at the same time is subject to a rationality criterion (Zeithaml et al. 1988).

Table 1.2 Indicative Contingency Theory Literature

Study	Outlet	Focus
Zeithaml, Varadarajan, and Zeithaml (1988)	<i>European Journal of Marketing</i>	Overview of contingency approach and relevant variables
Hambrick and Lei (1985)	<i>Academy of Management Journal</i>	Attempts to prioritize contingency variables based on PIMS data
Ginsburg and Venkatraman (1985)	<i>Academy of Management Review</i>	Summary of contingency variables identified in literature
Hofer (1975)	<i>Academy of Management Journal</i>	Background of contingency approach and research propositions
Harrigan (1983)	<i>Academy of Management Review</i>	Formulation of a multisite, multisource framework for contingency research
Diamantopoulos and Mathews (1995)	<i>Making Pricing Decisions</i>	Calls for a contingency approach to future pricing research

The contingency approach to strategy poses that for a certain set of organizational and environmental conditions an optimal strategy exists (Harvey 1982). Studies addressing the contingency relationship between independent or contextual variables and a dependent variable (organization's strategic response), or the relationship between strategy and

performance across different contexts are legitimate studies in this tradition (Ginsberg and Venkatraman 1985, pp. 422-3). Similarly, the level of performance sees a range of values on a number of strategic options available to the firm. As a result, any comprehensive approach for defining the domain of contingency perspective of strategy should also include performance as a key contingency influence. In essence, strategy may be treated as a dependent variable or as a variable directly influencing performance.

CHAPTER TWO

A CONCEPTUAL FRAMEWORK FOR EXPORT PRICING DECISIONS

IDENTIFICATION OF KEY CONSTRUCTS

In determining export prices, managers will encounter many of the same types of market forces internationally as domestically. The difficulty lies in that in each export market these forces have a different impact and a different “constellation” of components (Kublin 1990, p.29). These components, or contingency variables, are significant to the degree that businesses that differ on that variable also exhibit major differences in how strategic attributes are associated with performance (Hambrick and Lei 1985). A contingency approach to export pricing requires the proper identification of contingency variables. As Hofer (1975) shows, however, the number of organizational and environmental variables that can affect business strategy number as many as 54, and that all possible combinations of these variables, which are assumed to have only two possible values, would yield 18 quadrillion possible settings, or a purely situationally specific scenario. Therefore, a reduction of the list of contingency variables must take place, while at the same time care must be taken to properly identify those factors which do significantly affect the export pricing strategy of the firm. Following Hofer, this effective reduction can take place via a two-step process. The first step is to classify those variables and sets of variables that will significantly influence the content of business strategy and to specify the values of each of these variables which are strategically important. The

second step is to identify the types of strategies which are economically feasible for each different set of strategically significant environmental and organizational conditions.

A CONCEPTUAL FRAMEWORK FOR EXPORT PRICING DECISIONS

By focusing on past research regarding the relationships of the major forces which determine export marketing strategies, as well as conventional pricing research, a conceptual framework is designed to provide directions for future research in determining best pricing strategies for international marketing managers (see Figure 2.1). Through the introduction of key constructs within this framework, we can address the relationships between the internal and external forces described by Cavusgil and Zou (1994) and export pricing strategy. By integrating the research linking export strategy and export performance with the research that identifies pricing strategy as a determinant of marketing performance (e.g. Tellis 1986, Rao 1984), it is first proposed that export pricing strategies affect the export performance of the firm. Second, it is also proposed that internal and external contingency variables are antecedents to the export pricing strategies adopted by the firm. Such antecedents can be effectively categorized into four distinct sets of constructs: 1) firm and management, 2) product, 3) industry, and 4) export market.

The capabilities, assets, and skills of the firm affect its choice of marketing strategy and attainment of competitive advantage (Porter 1980, 1985), and such issues as the size advantage (Cavusgil and Zou 1994, Reid 1982), international experience (Douglass and Craig 1989), and international involvement (Terpstra 1987) are relevant to the export performance of the venture. Similarly, product characteristics influence the marketing strategy of the exporter (Cavusgil, Zou, and Naidu 1993; Cooper and Kleinschmidt 1985). Industry characteristics have

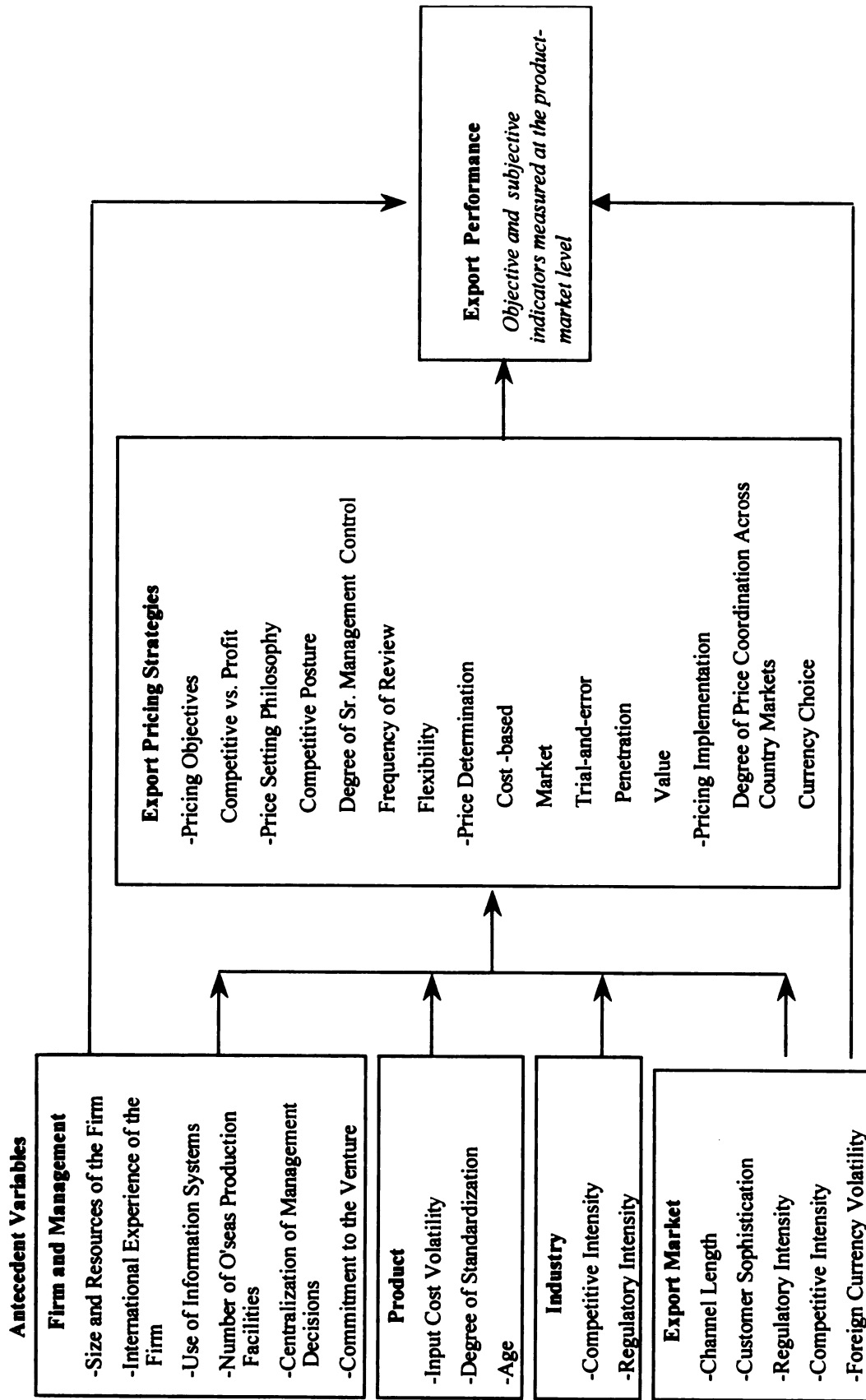


FIGURE 2.1 A CONCEPTUAL FRAMEWORK FOR EXPORT PRICING STRATEGIES IN THE FIRM

been shown to be key determinants of firm's strategy in domestic markets (Porter 1980), and in export markets as well (Cavusgil and Zou 1994). Finally, the export marketing strategy should be implemented to match the firm's strengths and weaknesses to the export market (Terpstra 1987), and the characteristics of that market will shape the marketing strategy adopted by the firm (Cavusgil, Zou, and Naidu 1993, Cooper and Kliensmidt 1985). The details of these sets of variables and proposed relationships with individual export pricing strategies, and subsequently export marketing performance, are discussed below and specific hypotheses are developed. Here, export pricing is understood to be the pricing of export goods for customers other than the end user. The objective is to contribute to our understanding of how export pricing strategies are made by management and their impact on market performance.

The purpose of Chapter 2 is the development and support of the basic theoretical framework shown in Figure 2.1. The discussion of export pricing strategy and the proposed relationships between this strategy, its antecedent variables, and export performance is structured in the following manner. First, export pricing strategy is defined. Next, the individual dimensions within export pricing strategy are discussed along with their relationships with antecedent variables which affect them. Third, the relationships between the export pricing strategy dimensions and export performance are addressed. Each path is justified through a review of the literature, exploratory interviews, or both (See Table 2.1). Finally, formal hypotheses are proposed.

Export Pricing Strategy

Operationalizing export pricing strategy can be dauntingly complex as there are so many variables bearing on pricing (Diamantopoulos and Mathews 1995). While export pricing is regarded by management as a strong determinant of performance and profitability, it is perhaps the most misunderstood and least effectively used competitive tool. The literature does not offer any well established measures or conceptualizations of export pricing strategy. In this study we conceptualize export pricing strategy as a multi-dimensional construct.

Export pricing strategy is the means by which a firm responds to the interplay of internal and external forces which affect pricing decisions. This is done to meet the objectives of the export venture. The proposed pricing strategy construct incorporates four basic dimensions, (1) the pricing objectives of management, (2) management's price setting philosophy, (3) price determination and (4) pricing implementation. The literature supports this conceptualization and preliminary interviews with international managers confirm such a view. Within these dimensions lie the various alternatives available to the firm, including uniform pricing of products, marginal versus full-cost pricing, and the centralization of the pricing decision within the organizational framework. Each firm will utilize an independent set of strategy features in the implementation of product pricing.

Pricing Objectives

Pricing objectives are defined as the strategic and economic goals desired by management in pricing their product. While the pricing objectives of the firm are indirectly captured in the operationalization of export marketing performance, here we formally operationalize objectives within the export pricing strategy construct. Given that pricing

behavior is purposive (i.e. it seeks to achieve specific and conflicting goals) (Diamantopoulos and Mathews 1995), export pricing strategies will reflect not only firm, product, industry and export market factors, but also the short and/or long term pricing goals of the firm, which themselves are a subset of overall corporate objectives. Morris and Morris (1990) list 21 different pricing objectives available to the firm. In order to make these objectives mutually exclusive, here pricing objectives are classified as profit (e.g. return on investment, profit growth), and competitive positioning (barriers to entry, matching competition, maintain/increase market share (Samiee 1987, Diamantopoulos 1991). Indeed, several aspects of the pricing process are directly dependent on specific pricing objectives (e.g. the reliance on particular pricing methods is partly a function of the pricing objectives pursued). Thus, pricing objectives are considered an explicit component of the model, and the effects of individual pricing objectives are included in the discussion of the sub-dimensions of export pricing strategy. It is critical to determine the firm's pricing objectives before proceeding to formal examination of export pricing issues (Baumol 1965).

Relationships between antecedent variables and export pricing objectives are yet to be explored in the literature, therefore reliance on more domestic and consumer related studies is necessary in order to predict relationships in the international environment. In 1995 Diamantopoulos and Mathews demonstrated the relationships between a variety of antecedent variables and pricing objectives in the domestic context. Similarly Nagle (1988) indicates that a number of variables affect individual pricing objectives. As competitive levels within the industry and market increase, the firm should price its product at or near that of the competition in order to survive. Should firms attempt to maximize return on investment or profit growth in competitively intense environments, competitive price margins will

detrimentally effect the attainment of these goals, therefore the objective of the firm is to price at or near that of the competition. Objectives will change as the product evolves from its initial introductory stage through growth and maturity, with profit oriented pricing being standard for new products and more competitive pricing objectives being standard for mature products (Morris and Morris 1990, Porter 1990). Once new products become exposed to markets, competitors often enter those markets with similar products and new process technologies which enable them to compete on price, calling for firms to change their pricing objectives from profit to competitively oriented

Given this background, the following propositions are offered:

H1: Management is more likely to pursue competitive pricing objectives (versus profit oriented objectives) when:

- a. the competitive intensity of the market is high
- b. the competitive intensity of the industry is high
- c. the product is mature

Export Price Setting Philosophy

Export price setting philosophy is defined as the principles management adheres to in their pricing strategy. The philosophy adopted by the firm in setting its export prices is reflected in a variety of managerial and environmental factors and addresses such issues as the competitive posture associated with export pricing, the control of the export pricing decision within the managerial structure, the frequency of the pricing review process, and the flexibility versus rigidity of export pricing procedures.

Competitive posture is defined as the degree of importance management attaches to price as a competitive tool. This depends on whether the firm seeks competitive advantage by offering its customers a less expensive product than its competitors or by offering a

differentiated product (Nagle 1987). A firm that can offer a comparable product at a lower cost can increase sales via opportunistic pricing, yet this advantage can only be maintained if costs can be controlled (Porter 1985). Those firms that emphasize non-price benefits to the customer may not perceive price as a competitive tool, and a superior product often enables the firm to profit from premium prices.

International experience has been shown to be positively related to export performance (Kirpalani and Macintosh 1980), and since pricing is a determinant of a firm's overall export strategy, firm perception of export pricing as a competitive tool will often be determined by the firm's experience in the international markets and its emphasis on price vs. non-price benefits. In addressing the characteristics of the firm, Katsikeas and Morgan (1994) found more experienced firms perceived export pricing activities as more problematic than less experienced firms, and that firms of all experience levels found pricing problems to factor very highly in their export decisions. More experienced firms seem to realize the complex nature of export pricing and their willingness to address the issue through a comprehensive pricing strategy.

Firm size advantages, reflecting resources, will also allow the exporter to implement and execute successful pricing strategies. Larger firms tend to possess the resources that allow them to absorb initial losses incurred by pricing below full costs (Lecraw 1984), this in order to increase market share at the expense of an "overpriced" competition. The ability of firms with production facilities in multiple overseas markets to switch production locations according to the lower labor and resource costs will enable the larger firm to compete on price due to lower fixed and variable costs.

This discussion suggests:

H2: Management is more likely to use price as a competitive tool when:

- a. the international experience of the firm is high
- b. the size of the firm is large
- c. the number of overseas production facilities is high

The control of the export pricing decision is defined as the degree to which the final price is determined by headquarters management. The location of the pricing decision within the organizational structure of the firm plays a critical role in pricing procedures (Abratt and Pitt 1985, Clague and Grossfield 1974). Who is responsible for the pricing decision and the degree of price-setting autonomy outside of upper-level management will determine in part whether the firm prices its products based on costs or on competition (Baker and Ryans 1973). Sales-force personnel tend to concentrate on competitive factors that affect sales volume, while management tends to be concerned with profit margins above the total costs of the product; however, sales personnel are rarely aware of the changing costs of input prices. Similarly, preliminary interviews indicate that as customer sophistication increases, the ability of the sales force to determine the actual end price of the product becomes critical. This point of sale decision making increases the firm's responsiveness to educated customers.

Within the domestic marketing literature the effect of channels and distribution processes on pricing decisions have received extensive focus (Stern and El-Ansary 1977). In the international environment, however, relatively little empirical work has been reported. An exception is that of Williamson and Bello (1992), who presented an empirical study of export management companies (EMCs) and the pricing methods used in transactions between EMCs and domestic producers. The study suggested that as the nature of the promotional function and the type of product sold by the producer to the EMC impact upon the pricing strategy, the

services offered within the channels in overseas markets, as well as the complexity and development of those channels, will influence pricing strategy. Often control over the final price of a product is decreased as the product travels through the distribution channel, this depending on the relationships between the channel members and the exporter (Bowersox et al. 1992).

The level of competitive intensity within both the industry and export market will also increase the need for quick response decision making, dictating a fluid and simple pricing method by those familiar with the market and the customer. This quick response is only possible if lower-level managers and sales representatives are given autonomy in the export pricing decision. Concurrently, these employees must be familiar with customers, distributors, and competitive levels within their areas of responsibility: this familiarity results from significant exposure to the export market. Lengthy and dynamic distribution channels are susceptible to export price escalation (Cavusgil 1988), without in-market or close to market decision making the possibility of overpricing the product in the market exists. For the same reasons, markets that characteristically have volatile exchange rate fluctuations will necessitate a pricing control away from headquarters:

H3: Senior management is more likely to exercise control of the export pricing decision when:

- a. foreign currency volatility is low
- b. competitive intensity within the industry is low
- c. competitive intensity within the export market is low
- d. the distribution channel is long
- e. customer sophistication is low

Traditionally, the policy of an annual pricing review has been consistent with the literature (Diamantopoulos 1995), which posits that prices should be changed no more than once a year, enabling customers to lock in prices for their own costing and pricing purposes

(Garda 1984). This policy, however, can bring problems to the firm in two distinct ways: 1) through forward buying by distributors who are aware of the price-review schedule of the firm, and 2) by volatility in international markets, where losses are often incurred due to the rapidly changing variables which dictate profitable pricing policies.

Farley, Hulbert, and Weinstein (1980) analyzed industrial marketing decision systems within two European firms to price and plan volumes in their production facilities. The authors argue that prices and volumes of each product are under continuous review since conditions constantly change in many end-use markets. Firms develop ongoing systems for volume planning (this via a forecasting system), as well as pricing systems, which are feedback systems triggered by perceived changes in market conditions. As competitive levels fluctuate within an industry or export market, exporters should constantly monitor their prices in relation to the changing prices and offerings of competitive products. Concurrently, exchange rate volatility also affects the frequency of export pricing review (Cavusgil 1988). Those firms exporting to markets with widely fluctuating currencies will by necessity increase the frequency of their review process over more stable currency situations. Therefore;

H4: Management is more likely to frequently review its export pricing procedures when:

- a. product input cost volatility is high
- b. the level of management information systems is high
- c. the competitive intensity of the industry is high
- d. the competitive intensity of the export market is high
- e. foreign exchange rate fluctuations is high

Due to the complex nature of export pricing, many managers have adopted the rigid cost-plus pricing strategy that is simple to follow and ensures margins (Cavusgil 1990). With the increase in global competition and the need to export to multiple markets in order to cover

costs, managers are becoming increasingly aware that in order to compete they must be more flexible in pricing their products. Export pricing flexibility is defined as the willingness to change prices based on special circumstances, this as opposed to rigidly setting a price and rarely if ever changing it.

While the adaptation of products may indeed increase the costs to the firm, *specialized* products with a technological edge allow the company to adopt a flexible pricing policy, since in many markets there is little or no competition and government barriers are minimal (Cavusgil 1990). As competitive levels within both the industry and the export market increase, so will the need for rapid response to potentially threatening competitive activity. Long chains of command and high level management decision making often restricts the effectiveness of international business operations (Ohmae 1990), this applies to export pricing decisions as well.

Location and number of the firm's resources and subsidiaries will factor heavily into the pricing strategy (Demirag 1988). Production facilities established in locations other than the home country will introduce enhanced logistical, labor, and regulatory concerns into the decision making process. Firms that produce overseas seeking inexpensive wage rates may incur other costs that affect final prices. However, multiple production facilities will enable the firm to produce in markets where production costs are cheapest, allowing more leeway and flexibility in the pricing of exports to its customers. In addition, the firm gains flexibility in sourcing its exports from the best mix of countries depending on exchange rates. By rotating production to the facility where inputs are cheapest, managers can reduce costs and modify their prices as the transaction warrants. Therefore:

H5: Management is more likely to use flexible rather than rigid export pricing when:

- a. the number of production facilities is high
- b. the specialization of the product is high
- c. competitive levels within the industry is high
- d. competitive levels within the export market is high

Export Pricing Determination

Export price determination refers to the specific methods employed to calculate and achieve the final price of the product. The number of methods available to managers is extensive due to the need for more than one pricing action for all products in all competitive environments (Davies and Hughes 1975). A wide range of organizational and environmental factors have been identified in past studies to affect the pricing method, or methods, used by the firm. "Specifically, it has been established that the more sophisticated pricing formulae are typically used by large firms....It has also been observed that pricing methods vary across different industry sectors, product types, and production and distribution methods" (Diamantopoulos 1991, p.151). While the number of pricing methods identified by past research is large, here we will concentrate on those methods which can be considered strategically manipulatable by the firm, i.e., monopsonistic pricing methods will not be considered.

Price determination can be categorized into two groups: cost-based (e.g, cost-plus and marginal cost) and market based (e.g., market pricing, trial-and-error pricing, penetration pricing, and value pricing), with the market-based approaches focusing either on competition, customer demand, or both (Morris and Morris 1990). Of these two categories, cost-based approaches appear to be much more prevalent than are market-based approaches; "[t]his

tendency is one of the great ironies of business, and reflects a general level of naiveté among managers responsible for pricing decisions” (Morris and Morris 1990, p. 22).

Cost-based export pricing - In pricing their products, studies have shown that most exporting companies focus on a cost-centered pricing, particularly that of cost-plus (Hunt 1969, White and Niffenegger 1980). According to Backman (1953, p. 148) “the graveyard of business is filled with the skeletons of companies that attempted to base their products solely on costs.” In that firms must also focus on two other key aspects of price, demand and competition (Diamantopoulos and Mathews 1995), and that these factors are particularly complex in international environments, this observation is especially ominous to exporters. (It should be noted, however, that in a 1981 survey of Northern England exporters, Piercy found that market-based pricing techniques were being utilized more often than cost-based techniques). The popularity of cost-based strategies reflects the fact that they are easy to implement and manage, setting a price that covers costs and generates a fixed profit margin makes intuitive sense to the manager (Morris and Morris 1990). Two basic methods fall into this category. The first, cost-plus, is defined as calculation of unit cost for the product under consideration, incorporating both direct and indirect costs, to which a profit mark-up is added (Diamantopoulos 1991). The second is marginal-cost, which is defined in the same manner except that only variable costs (direct) are relevant (Monroe 1973).

According to Cavusgil (1988) product and resource costs influence the pricing strategies of the firm: Costs are frequently used as a basis for price determination largely because they are easily measured and provide a "bottom line" under which prices cannot go in the long term. Inputs such as resources, labor, and technology will vary across products and

influence export price. As the costs of these inputs fluctuate, marginal-cost pricing will provide better versatility to the exporter in pricing the product to static demand levels and elasticity.

The type of product will effect exporting decisions. One characteristic which has been shown to effect pricing strategies is product age within the individual market (Gabor 1988). Where the product is located in its life cycle within the individual markets often determines whether the firm will use a full- or marginal cost pricing approach (Lecraw 1984). In order to capture market share with new products in overseas markets the firm may need to price the product at less than full cost, particularly where competitive national brands are already established.

Import policies and trade barriers in international markets have a significant effect on export pricing decisions. In markets where price escalation results from import barriers, firms may not be able to experience large profit margins due to the already inflated price of their product. Price-quality relationships in overseas markets will vary significantly since all imported products may suffer from price escalation effects (Johannson and Erickson 1985). The strategy options open to those firms implementing cost-based export pricing may be limited in order to maintain affordable products for the customer. With the increased tension between nations over trading policies, intellectual property rights (Maggs and Rockwell 1993), and non-tariff barriers (Frank 1984), anti-dumping legislation has become an highly important topic with an obvious tie to export pricing (Joelson and Wilson 1992). Anti-dumping laws regarding specific products will affect the pricing decisions of the firm. A simple cost-plus price may result in a price too low for market regulations, dictating the slightly more flexible market-based pricing approach in order to insure products are priced above the dumping threshold.

Market-based export pricing - Market based pricing processes are defined as those methods which focus on the customer and/or competition within the export market. Pricing strategies which are based on the demand and competitive dimensions of the market are considered to be most suitable in the more price sensitive markets, as opposed to cost-based pricing (Diamantopoulos and Mathews 1995). As noted, there are a number of different types of market-based pricing methods, which can best be condensed to market pricing (charging a price that is roughly equivalent to that of the competitors, or what the market will bear), trial-and-error pricing (repeated efforts to effectively price through information collection about the likely market reaction to different prices), penetration and skimming pricing (charging a price that is either low relative to the average price of major competitors or high above manufacturing costs), and value pricing (setting different prices for various market segments based on the value each segment receives from the product) (Monroe 1973, Morris and Morris 1990, Diamantopoulos 1991).

While managers often price their exports according to a cost-based strategy, Piercy (1981) found that certain firms base their pricing strategy on the individual target markets. In his study of British exporters, Piercy found that almost two-thirds of industrial exporters emphasized a market based approach rather than a cost-based strategy, this due to an increased emphasis placed on price by competitors.

Intense levels of competition often dictate a market-based pricing approach (Diamantopoulos 1991). Firms involved in export markets where competitive levels are high often have little price discretion, as the price they can charge will be already established by the market. In this environment, those firms not in a market leader position will have to price their

products at market levels. Logically, firms dealing with sophisticated customers aware of this competitive pricing will call for a market pricing approach.

Those export markets characterized by price-window market regulations will also dictate market pricing. Since export price escalation often prevents firms from competing with local competitors in export markets (Jeannett and Hennesey 1995, Czinkota et al. 1994), high base costs from which firms must target break-even prices will often prevent managers from competing in highly price sensitive markets.

Market-based pricing is often accomplished by consulting salespeople and obtaining on-site opinions of alternative prices on volume and profit (Diamantopoulos 1991). Formal investigations such as market experiments and field tests also provide information allowing firms to analyze the implications of different prices on the market. This reliance on individuals close to the market would indicate a decentralized export pricing approach by management, as well as a firm experienced enough to maintain a sales force close to the market.. The market-based method has also been associated with the pricing of new products (Diamantopoulos 1991), and given the uncertainty of export markets and overseas customer reaction this makes intuitive sense. However, the accumulation of overseas information is expensive (Fawcett and Smith 1994), a commitment to the export venture as well as access to the resources necessary to conduct the research is called for.

Skimming pricing is a type of market-based pricing and is defined as setting the price high above manufacturing costs so that the product skims the cream of demand, a method which has proved successful for many new product ventures (Gabor 1988). Here the profit motive of the firm is significant: the company will attempt to experience as high a margin of return for as long as possible, then adjusting the price downward as competitive levels increase.

Penetration pricing, however, attempts to undercut the competition in the market and immediately benefit from rapidly expanding market share or sales volume growth (Gabor 1988): this policy is also common with new products but unlike skimming it is utilized when customers are highly price sensitive. In an international environment, information gathering regarding the price sensitivity of the export market customers will be necessary in order to determine if either skimming or penetration pricing is feasible or appropriate. Concurrently, anti-dumping legislation within the export market as described by Joelson and Wilson (1992), among others, may restrict the use of penetration pricing by the firm.

Value pricing is a proactive, market-based method in which the firm makes an explicit attempt to translate differences in its product offering from competitive products into a price differential (Diamantopoulos 1991). Different prices are set for different market segments based on the value each segment receives from the product (Morris and Morris 1990). New products that possess distinguishing characteristics within an export market mandate an information system able to identify product attributes which the buyers find uniquely valuable (e.g. Nagle 1987), this across various delineations according to market segmentation in an overseas environment. As with other types of market-based pricing, firm commitment of resources to the overseas venture is necessary for the expensive information collection.

H6: Management is more likely to use market-based export pricing (versus cost-based export pricing) when:

- a. international experience of the firm is high
- b. commitment to the export venture is high
- c. competitive intensity of the export market is high
- d. customer sophistication is high

Export Pricing Implementation

Once established, the price determined by management may remain in place for a long period of time (Morris and Morris 1990). Day-to-day management of prices, however, focuses on employing periodic tactical moves which allow the firm to combat or take advantage of anomalies within the export market. The pricing tactics of the firm include uniform pricing for all markets and customers vs. pricing to local market differences to combat gray market imports, choice of currency, and pricing within the channel of distribution.

Related to traditional research regarding the influence of distribution channels on pricing strategy is the issue of gray market (parallel) imports. Defined as the practice which involves the selling of trademarked products through channels of distribution that are not authorized by the trademark holder (Duhan and Sheffet 1988), gray marketing is in effect a type of arbitrage brought about by the inflexibility of pricing in response to price and exchange rate fluctuations across markets (Weigland 1989). The volume of gray market imports is significant, particularly in premium products and brands (Cavusgil and Sikora 1988), and while gray markets sometimes result from unavailability of products in certain markets and ease of product movement across borders, most often substantial price differences between national markets are the cause of this phenomenon.

There are several pro-active and re-active strategies available to combat gray market effects (Cavusgil and Sikora 1988, Cespedes, Corey, and Rangan 1988). As prices rise and fall within individual markets (due to factors such as changing demand conditions of the consumer and exchange rates volatility) the exporter may need to change prices in other markets in order to avoid parallel imports. This problem is enhanced as the firms' presence in economically diverse markets increases, and the margins between prices in adjacent markets tempt

unauthorized sellers to cross borders and sell products at higher prices than in their home markets. Often firms will attempt to price their products uniformly across all markets in order to curtail gray market imports, alleviating arbitrage situations between markets. This approach is made difficult, however, when inflation or devaluation of local currencies result in product prices above the purchasing power of the customers in a particular market while not affecting a neighboring economy. Obviously, the more markets to which a particular product is exported will decrease the possibility of uniformly pricing that product to different customers experiencing a variety of market related fluctuations.

Customer satisfaction can be better met by adapting the product to the individual markets (Douglass and Craig 1989), however the adaptability of the product to those markets (and the costs incurred during the adaptation process), along with the advantages gained by adaptation will influence the export price of the product. The standardization/adaptation issue has long been debated regarding the perceived benefits of market coverage, capacity utilization, specialty products, and market niches (Samiee and Roth 1992). Product adaptation incurs costs in developing alternative product variations (Cavusgil, Zou, and Naidu 1993), and these costs in turn must be reflected in the export price. Managing a series of adapted products in multiple markets calls for pricing decisions to be made closer to those markets, away from the exporter's home-base, decreasing the effectiveness of a uniform pricing strategy. Concurrently, sophisticated customers familiar with competitive prices and experienced in purchasing decisions will demand quick pricing decisions at the market, not at upper-level management.

H7: Management is more likely to seek price coordination across country markets when:

- a. foreign currency volatility is low
- b. product standardization is high

What currency a firm chooses to use in its export transactions is determined by a variety of factors. Along with product cost, the degree and caliber of industry-wide competition is perhaps the most important factor in the firm's export pricing decision (Abratt and Pitt 1985) and most companies will adjust price or other elements of their total offer in order to meet competitive situations (Farley, Hulbert, and Weinstein 1980, Lecraw 1984). This means that flexibility in product price and customer satisfaction regarding issues such as currency choices during the transaction are critical to remaining competitive within an industry. In many competitive situations the exporter will have no choice but to offer comparable currency choices as those of competitors (Piercy 1983, Diamantopoulos and Hart 1993), whereas in industries where there is little competition the currency choice is generally the exporter's.

Several firm characteristics will affect the choice of currency used in export transactions. In order to meet customer demand, larger, resource-rich firms can accept more foreign currency risk than their smaller counterparts, this from their ability to absorb potential losses due to fluctuations in the currency markets. These larger firms are more proficient in the management of currencies as well as more adaptable to changing market conditions (Scharrer 1980). As a firm increases its international involvement, its experience in the exporting process also increases in an incremental manner (Johansson and Vahlne 1977, Bilkey and Tesar 1977). As a firm gains this experience its familiarity and expertise with the complex nature of exchange rates also increases, allowing it to price exports in various currencies as dictated by regulations or the consumer. Experienced exporters are more inclined to participate in the use of currencies other than that of the home market in their trading (Cavusgil 1988). Also, as the number and location of production facilities operated by the firm increases, the manufacturing costs and

sourcing requirements of the firm are likely to be expressed in foreign currencies (e.g. Bilson 1987), enabling the firm to price their products in the export market's or third country currencies. The ability to source products from multiple-country locations gives the firm a tremendous advantage in responding to changes in exchange rates. When, for example, the home currency is appreciating, it can choose to export from a production base where the exchange rate is more favorable:

H8: Management is more likely to use third country and/or customer currencies in export pricing when:

- a. the competitive levels of the industry is high
- b. the competitive levels of the export market is high
- c. the size of the firm is large
- d. the international experience of the firm is high
- e. the number of overseas production facilities is high

The Export Pricing Strategy-Export Performance Relationship

Aaby and Slater (1989) show export marketing strategies and management's ability to employ those strategies determine the performance of the export venture. When these strategies are coaligned with the export venture as defined by the firm, product, industry, and export market characteristics, positive performance can be expected for the export venture (Cavusgil and Zou 1994; Anderson and Zeithaml 1984; Venkatraman and Prescott 1990). Over the years there has been an assortment of indicators of export performance used in international marketing research. Export sales level (Madsen 1989, Cooper and Kleinschmidt 1985, Bilkey 1985), export sales growth (Kirpalani and Macintosh 1980, Madsen 1989), ratio of export sales to total sales (Axinn 1988), and propensity to export (Kaynak and Kothari 1984, Reid 1986, Cavusgil 1984) have all been used as benchmarks to

evaluate the performance of firms' export related activities. Most measures have focused on the economic goals of the firm, (e.g., sales and profits), rather than the strategic goals (e.g., competitive response, market expansion). Here, export marketing performance is defined as the extent to which a firm's objectives, with respect to exporting a product into a foreign market, are achieved through the planning and execution of export marketing strategy (Cavusgil and Zou 1994). Both economic objectives and strategic objectives are included in this definition.

As noted, the use of purely cost-based pricing strategies has been associated with sub-standard firm performance. Those managers who feel that pricing is no more than a specific markup on costs are often unaware that this approach can be detrimental to the firm, since focusing solely on costs can result in firms pricing themselves out of the market. This is particularly true in international environments where rapidly changing market variables can result in price increases not caused by managerial decision making. Concurrently, White and Niffenegger (1980) indicated that centralization of the pricing decision was evident in those firms using cost-based pricing, implying a degree of rigidity and inertia in adapting to a changing marketplace as well as a lack of an organized market research program.

A variety of authors (Douglas and Craig 1989; Quelch and Hoff 1986; Walters and Toyne 1989) have described competitive pricing strategies as a means by which firms adapt their offerings to fit the demands of their foreign markets. Therefore it is expected that export performance is positively influenced by competitive export pricing. Similarly, and following Porter (1980, 1986), Ohmae (1990), and Kogut (1988), among others, an increasingly competitive and dynamic international business environment will reward flexible and responsive marketing strategies rather than more static practices. In turn, this flexibility calls for a change in traditional pricing philosophy and an increase in pricing

policy reviews to better monitor market and competitor conditions. In a competitive environment, product alternatives will mandate an increased focus on customer satisfaction and their desire for the use of export market or third country currencies. Finally, as firms are proactively or reactively entering multiple export markets to enhance their competitive position, the issue of gray market imports will have to be addressed, calling for management to combat these unauthorized imports, and uniform pricing will increase. This suggests that:

- H9: Performance of the export venture is enhanced when
- a. the firm's use of price as a competitive tool is high
 - b. the degree of market-based pricing vs. cost-based pricing is high
 - c. the degree of senior management control of pricing is low
 - d. the frequency of review of the pricing process is high
 - e. the degree of price flexibility is high
 - f. the degree of uniform pricing is high
 - g. the use of foreign currencies is high

Anticipated Direct Effects

This paper posits that export pricing strategy is determined by internal forces such as firm and product characteristics as well as external forces such as industry and export market characteristics. Export pricing strategy then acts as a mediator between these forces and export performance: the performance of the export venture is determined in part by the export pricing strategy of the firm. Past research has shown, however, that several direct effects between internal/external forces and performance can be expected. In 1994 Cavusgil and Zou showed that international competence, managerial commitment, and the marketing decision variables have a direct impact on export performance. Within the context of export pricing research it should be expected that international experience and managerial commitment will also directly affect performance in a positive manner.

Similarly, environmental uncertainty (the degree of dynamism and unpredictability of the environment) (Duncan 1972) has been shown to affect performance within the strategy literature (Zeithaml, Varadarajan, and Zeithaml 1988; Miller and Droge 1986). Here it is anticipated that market volatility in the form of currency fluctuations, de-valuation's etc.) are beyond the strategic response of the firm and will directly affect export performance:

- H10: The performance of the export venture is enhanced when:
- a. international experience of the firm is high
 - b. firm commitment to the export venture is high
 - c. market volatility is low

Table 2.1
Classification of the Pricing Literature by Construct

Construct	Outlet	Focus
Firm		
Baker and Ryans (1973)	<i>Management Decisions</i>	The study revealed that most international pricing decisions are made at levels lower than top management. Multiple pricing considerations identified.
Baker and Ryans (1979)	<i>International Marketing</i>	Explored the location of international pricing decisions within the firm and the decentralization of that decision., and how these factors effected pricing policies.
Bilkey and Tesar (1977)	<i>Journal of Int'l Business Studies</i>	The effect of firm size on export behavior of manufacturers
Cavusgil (1984)	<i>Journal of Management Studies</i>	Organization characteristics associated with export activity
Clague and Grossfield (1974)	<i>Columbia Journal of World Business</i>	Discussion of centralization of pricing decision and its relationship with floating currency rates and customer relationships.
Hunt (1969)	<i>Journal of Management Studies</i>	Medium sized engineering firms and export management. Export characteristics of mid-sized firms.
Johanson and Vahlne (1977)	<i>Journal of Int'l Business Studies</i>	The effects of knowledge and commitment on firm internationalization
Katsikeas and Morgan (1994)	<i>European Journal of Marketing</i>	More experienced firms and larger firms found export pricing constraints to be more problematic than less experienced and smaller firms.

Table 2.1 (Cont.)

Kaynak and Kothari (1984)	<i>Management Int'l Review</i>	Pricing ranked among types of problems faced by Canadian and U.S. exporters. Ranked 6th and 7th respectively out of eight.
Kirpalani and Macintosh (1980)	<i>Journal of Int'l Business Studies</i>	Int'l effectiveness of small technology firms
Lecraw (1984)	<i>Asia Pacific Journal of Management</i>	11 MNCs operating subsidiaries in SE Asia used to analyze determinants of predatory pricing, price leadership, and intercountry price discrimination.
Reid (1986)	<i>Art and Science of Innovation Management</i>	The export performance-technology relationship of small firms
Samiee (1987)	<i>Journal of Business Research</i>	Mail survey and personal interviews show that pricing decisions are more centrally located in U.S. based firms than in foreign based firms. Pricing objectives and relative importance of the pricing variable are measured.
Thach and Axinn (1991)	<i>Int'l Marketing Review</i>	Pricing and credit are examined in the context of a firm's commitment to exporting and the level of exporting relative to its overall business operations, this in the machine tool industries of the U.S. and Canada.
White and Niffenegger (1980)	<i>The Quarterly Review of Marketing</i>	Cross industry study of 10 companies to determine organization of export pricing operations, export pricing procedures, review of export prices, and use of market information

Table 2.1 (Cont.)**Product**

Anderson and Zeithaml (1984)	<i>Academy of Management Journal</i>	The effect of the product life cycle on strategy and performance
Cavusgil, Zou, and Naidu (1993)	<i>Journal of Int'l Business Studies</i>	The effect of product adaptation on export performance
Johansson and Erickson (1985)	<i>International Marketing Review</i>	Econometric model utilized to show that the use of price as an indicator of product quality is only justified when market is free of trade barriers and other imperfections. Automobile industry is analyzed.
Lynn (1968)	<i>Journal of Marketing</i>	The unit volume of products and its relationship with pricing goals

Industry

Abratt and Pitt (1985)	<i>Industrial Marketing Management</i>	Pricing practices of the chemical and construction industries are evaluated. The buyer and his behavior are shown to play a minor role in pricing policy.
Johansson and Erickson (1985)	<i>Journal of Int'l Business Studies</i>	Econometric model utilized to show that the use of price as an indicator of quality is only justified when market is free of trade barriers and other imperfections. Automobile industry is analyzed.
Karikari (1988)	<i>Canadian Journal of Economics</i>	Several pricing models evaluated to show the impact of free trade on the manufacturing sector

Table 2.1 (Cont.)

Thach and Axinn (1991)	<i>International Marketing Review</i>	Pricing and credit are examined in the context of a firm's commitment to exporting and the level of exporting relative to its overall business operations, this in the machine tool industries of the U.S. and Canada.
White and Niffenegger (1980)	<i>The Quarterly Review of Marketing</i>	Cross industry study of 10 companies to determine organization of export pricing operations, export pricing procedures, review of export prices, and use of market information. Sales volume in relation to these factors is investigated.
Market		
Assmus and Wiese (1995)	<i>Sloan Management Review</i>	Addressing gray market threats through price coordination
Cavusgil and Sikora (1988)	<i>Columbia Journal of World Business</i>	Discussion of gray markets and reactive strategies (table). Proactive strategies, (establishing legal precedence, strategic pricing etc.) are offered.
Cespedes, Corey, and Rangan (1988)	<i>Harvard Business Review</i>	Factors affecting gray markets and solutions
Duhan and Sheffiet (1988)	<i>Journal of Marketing</i>	Legal aspects of parallel importation and gray markets
Farley, Hulbert, and Weinstein (1980)	<i>Journal of Marketing</i>	Analysis of the use of industrial marketing decision systems to price goods by two firms in the French market. Pricing activities are identified, including participation within the pricing decision process.

Table 2.1 (Cont.)

Frank (1984)	<i>Harvard Business Review</i>	Effects of government imposed price controls in efforts to control inflation.
Joelson and Wilson (1992)	<i>Journal of European Business</i>	Answers to ten most asked questions re: dumping, including normal value price, definition, transfer pricing, etc.
Johansson and Erickson (1985)	<i>Journal of Int'l Business Studies</i>	Econometric model utilized to show that the use of price as an indicator of quality is only justified when market is free of trade barriers and other imperfections. Automobile industry is analyzed.
Knetter (1994)	<i>Journal of Int'l Money and Finance</i>	Export price adjustment is asymmetric with respect to currency fluctuations in two circumstances: capacity constraints in distribution networks or quantitative trade restrictions. Here, pricing to market may be greater during depreciations in exporter's currency.
McDade and Roy (1994)	<i>AMA Summer Educators' Proceedings</i>	Standardization/adaptation of pricing issues in the international marketing environment. firm and market determinants of pricing strategies are discussed.
Piercy (1981)	<i>Industrial Marketing Management</i>	Survey of British exporters suggests strong argument for market spreading over concentration, particularly when responding to floating currencies. Export pricing methods and price discrimination are discussed.

Table 2.1 (Cont.)

Simon and Kucher (1992)	<i>European Management Journal</i>	Study of the large differences in European prices and the effect on exports to the continent. Analysis of market data and the determination of country specific prices are discussed.
Weekly (1992)	<i>Industrial Marketing Management</i>	Foreign market conditions complicate the task of setting and maintaining effective prices.. These foreign market factors are identified, mainly price controls and anti-dumping.
Williamson and Bello (1992)	<i>Journal of Global Marketing</i>	Empirical study of EMCs re: transactions between EMC and domestic producer. Suggest that pricing method is impacted by promotional function of the EMC as well as type of product.
Export Pricing Strategy		
Assmus and Wiese (1995)	<i>Sloan Management Review</i>	The pricing of exports into gray market areas
Buzzell (1968)	<i>Harvard Business Review</i>	Standardization of multinational marketing and pricing procedures
Cavusgil (1990)	<i>Marketing Strategies for Global Growth and Competitiveness</i>	Identification of factors that effect global pricing (product and industry, location of production facility, distribution system, foreign currency differentials), as well as factors effecting the centralization of pricing decision (market share, customer, local cost factors). Options in export pricing discussed, as well as transfer pricing practices and influences.

Table 2.1 (Cont.)

Cavusgil (1988)	<i>Business Horizons</i>	Managerial guidelines for export pricing strategies given a wide range of competitive and market related variables
Douglass and Craig (1989)	<i>Columbia Journal of World Business</i>	Export pricing within the global marketing strategy framework
Garda (1984)	<i>The McKinsey Quarterly</i>	Strategy of pricing industrial exports
Lancioni (1988)	<i>Asia Pacific Journal of Business</i>	International pricing should be done at two levels; external (customer, competition, gov't regs) and internal (ROI, sales objectives, costs).
Lancioni (1991)	<i>Management Decisions</i>	Discussion of factors effecting international pricing strategies (competition, markets, customers, segments) and goal setting.
McDade and Roy (1994)	<i>AMA Summer Educators' Conference Proceedings</i>	Standardization/adaptation of pricing issues in the international marketing environment. firm and market determinants of pricing strategies are discussed.
Monroe (1990)	<i>Pricing: Making Profitable Decisions</i>	Issues associated with the export pricing of goods are identified, namely nature of product or industry, location of production facilities, distribution system, market environment, gov't regulations, attitude and capability of management.
Porter (1980)	<i>Competitive Strategy</i>	Pricing identified as a competitive tool for exporters
Samiee and Roth (1992)	<i>Journal of Marketing</i>	Pricing standardization and performance for exporters

Table 2.1 (Cont.)

Schulman (1967)	<i>Columbia Journal of World Business</i>	Unique overseas pricing strategies for exporters
Thach. and Axinn (1991)	<i>Int'l Marketing Review</i>	Pricing and credit are examined in the context of a firm's commitment to exporting and the level of exporting relative to its overall business operations, this in the machine tool industries of the U.S. and Canada.
Walters (1989)	<i>Journal of Global Marketing</i>	Export pricing decision variables are identified via a conceptual framework, followed by a descriptive model of the export pricing process.
White and Niffenegger (1980)	<i>The Quarterly Review of Marketing</i>	Cross industry study of 10 companies to determine organization of export pricing operations, export pricing procedures, review of export prices, and use of market information. Sales volume in relation to these factors is investigated.
Export Performance		
Aaby and Slater (1989)	<i>Int'l Marketing Review</i>	Management influences on export performance, analysis of empirical literature
Bilkey (1982)	<i>Journal of Int'l Business Studies</i>	Export performance operationalized as both economic and strategic
Cavusgil and Zou (1994)	<i>Journal of Marketing</i>	Identification of factors that identify export performance, which is measured via financial and satisfaction criteria

Table 2.1 (Cont.)

Cavusgil (1983)	<i>Journal of Int'l Marketing and Marketing Research</i>	Studies the impact of differential export marketing strategies on export performance in industrial setting. Export pricing found to be one of three variables impacting export performance.
Evangelista (1994)	<i>Advances in Int'l Marketing</i>	Effect of antecedent variables on export strategy, including limited investigation of pricing issues

Table 2.2
Summary of Research Hypotheses

Factor	Hypothesis	Expected sign
Pricing Objectives		
Competitive Pricing (vs Profit Pricing)		
Competitive intensity of the market	H1a	+
Competitive intensity of the industry	H1b	+
Product maturity	H1c	+
Price Setting Philosophy		
Price as a Competitive Tool		
International experience of the firm	H2a	+
Firm size	H2b	+
Number of production facilities	H2c	+
Pricing Control		
Foreign currency volatility	H3a	-
Competitive intensity of the market	H3b	-
Competitive intensity of the industry	H3c	-
Length of the distribution channel	H3d	+
Customer sophistication	H3e	+
Frequency of Pricing Review		
Input cost volatility	H4a	+
Use of information systems	H4b	+
Competitive intensity of the market	H4c	+
Competitive intensity of the industry	H4d	+
Foreign currency volatility	H4e	+
Flexible Pricing		
Number of production facilities	H5a	+
Product specialization	H5b	+
Competitive intensity of the market	H5c	+
Competitive intensity of the industry	H5d	+
Export Pricing Determination		
<i>Market based vs. Cost-based pricing</i>		
International experience	H6a	+
Commitment to export venture	H6b	+
Competitive intensity of the export market	H6c	+
Customer sophistication	H6d	+

Table 2.2 (Cont.)**Export Pricing Implementation****Degree of Price Coordination Across Markets**

Exchange rate volatility	H7a	-
Product standardization	H7b	+

Use of Foreign Currencies

Competitive intensity of the market	H8b	+
Competitive intensity of the industry	H8c	+
Firm size	H8d	+
International experience of the firm	H8e	+
Number of overseas production facilities		+

Export Marketing Performance

Price as a competitive tool	H9a	+
Degree of market based pricing	H9b	+
Pricing control	H9c	-
Frequency of review	H9d	+
Price flexibility	H9e	+
Uniform pricing	H9f	+
Use of foreign currencies	H9g	+

Anticipated Direct Effects of Internal and External Forces

International experience	H10a	+
Firm commitment to the venture	H10b	+
Market volatility	H10c	-

CHAPTER THREE

RESEARCH DESIGN

OVERALL DESIGN

Within this study there are a number of research concerns which have been addressed. First, the proprietary nature of the pricing decision within the management structure has in past studies led to an unwillingness on the part of managers to discuss this topic, and low response rates. Second, since secondary data regarding the pricing process of exporting firms is not available, a survey method of data accumulation was considered appropriate. While in the past survey research has been utilized in studying strategy-performance relationships, concerns have been raised regarding this method. Within this research design care has been taken to address these concerns, namely the proper selection of key informants to avoid information bias in responses, common method variance, non-response bias, and the systematic exclusion of firms from the respondent population. Therefore, a series of steps was taken in order to insure quality survey design and data accumulation (see Table 3.1).

In order to empirically test the proposed model, a multi-industry survey of individual firms and business units was performed to collect primary data. Following Zou (1994), the use of strategic business units (SBUs) in the research of global industries is justified since many firms are sufficiently diversified that individual business units within those firms face unique antecedent variables in their pricing decisions, including internal organizational characteristics (managerial competence, international experience) and

external environmental characteristics (industry competitiveness, established distribution channels). Using a cross-industry survey design generates variances in the model constructs, increasing the overall generalizability of the study.

Table 3.1
Steps in Methodology and Data Analysis

Steps	Purpose	Selected References
1. Exploratory interviews and literature review. Survey design and data collection	Verify relevance of variables and enhance construct validity, devise a procedure to assign scores to variables	Bonoma (1984), Eisenhardt and Bourgeois (1988), Yin (1984), Eisenhardt (1988)
2. Survey design and data collection	Instrument development and mail survey	Dillman (1978), Yin (1984)
3. Analysis of factors and items via descriptive statistics	Insure the reliability of the items	Hunter and Gerbing (1982), Lawley and Maxwell (1963)
4. Exploratory factor analysis and measurement model evaluation of relationships	Test construct validity and eliminate factors with low loadings or loadings on multiple constructs	Anderson and Gerbing (1982), Hunter and Gerbing (1982)
5. Testing of Hypotheses using Regression Analysis	Confirmation/ Dis-Confirmation of research hypotheses	Kerlinger 1986, Hair et. al 1995

SAMPLING FRAME

In order to properly generate a cross-section of industries involved in both exporting and the pricing of exports (as opposed to those industries operating under significant price restriction policies and agreements), a review of the export strategy literature was undertaken to assist in the identification of these industries. The study

focuses on manufacturing industries as opposed to service firms due to a fundamental difference between the strategies of these two types of operations (Cavusgil and Zou 1994). For similar reasons, those industries involving the exports of primary products were excluded from the sampling frame.

The profile of the individual firms and strategic business units to be contacted were the following: U.S. exporters whose manufacturing operations are located in the United States, at least \$20 million in annual revenues averaged over the last two years, at least ten percent of the total sales of the firm must come from export operations, at least five years old, and with no restrictions on the number of employees worldwide.

Within these parameters, firms and SBUs within the following industries were contacted in the survey (industry followed by SIC code): all Industrial and Commercial Machinery and Computer Equipment (35), all Electronic and Other Electrical Equipment and Components Except Computer Equipment (36), all Transportation Equipment (37), all Measuring, Analyzing and Controlling Instruments; Photographic, Medical and Optical Goods, Watches and Clocks (38), and the following industries within Miscellaneous Manufacturing, Musical Instruments (3931), Sporting and Athletic Goods (3949), Pens, Mechanical Pencils and Parts (3951), Carbon Paper and Inked Ribbons (3955), Marking Devices (3953), Fasteners, Buttons, Needles and Pins (3965), and Linoleum and Other Hard Surface Floor Coverings (3996).

Within these industries, firms and strategic business units were identified through the *Journal of Commerce Directory of United States Exporters*. Included in this list were the name, address, title, and telephone number for the individual in charge of exporting, generally the CEO or vice president for international operation/international marketing.

SURVEY INSTRUMENT AND MEASURES

Questionnaire development was performed in several stages. First, the relevant literature on pricing, export pricing, and the export strategy-export performance relationship was reviewed in order to utilize any existing scales appropriate for the study. While several scales are available (e.g. Cavusgil and Zou's 1994 export performance), most scales was developed due to the paucity of existing works in the export pricing area. Therefore, the study has adapted existing scales as well as develop new ones.

Second, and following the research of Bonoma (1984) and Eisenhardt (1988), among others, a series of preliminary interviews were conducted with executives of exporting firms and with academic experts familiar with export pricing issues, this to assist in construct identification and enhance validity. As discussed in Chapters 2, this type of pricing study dictates the reduction of all possible contingency variables to a reasonable number. Therefore, the use of qualitative interviews assisted in the identification of relevant contingency variables and reduce the study's reliance on theoretical reasoning or past research findings. Upon identification of these significant variables, seven-point bi-polar or Likert scales were developed to operationalize the individual constructs via statements such as "strongly agree" (1) to "strongly disagree" (7). (Classification questions such as number of employees were open-ended). According to Dillman (1978), the use of Likert-type scales reduces the response costs to managers. The statements were then presented to the executives and experts in order to evaluate whether the statements were meaningful and understandable. Modifications to the

statements were made according to the recommendations, and then these statements will be put into a questionnaire format.

Third, 10 to 12 firms or SBUs were randomly selected and sent a preliminary questionnaire as a pre-test, this in order to evaluate questionnaire length, individual item content, and length of the survey. Suggestions by the respondents were incorporated into the design. In this manner, the quality of scale development was enhanced.

Fourth, the final questionnaire was printed in booklet form, this again following the suggestion of Dillman (1978). A cover page indicated export pricing as the focus of research. Here the Center for International Business Education and Research at Michigan State University (MSU-CIBER) was identified as the sponsoring party. A second page was developed providing instructions for questionnaire completion and return. The main text of the questionnaire began on page three.

The unit of analysis was established as follows. Respondents were asked to refer to the most important product or product line of the firm or business unit when completing the questionnaire, and definitions of key terms will also be provided. Concurrently, respondents were asked to restrict their answers to their largest or most important export market. It is felt that with these parameters, responses avoided being contaminated by cross-market issues such as currency volatility in one market and stability in a second market. Also, this approach better allowed an accurate analysis of the individual export venture within particular markets.

DATA COLLECTION

The collection of the data involved two phases. First, a personalized cover letter, a copy of the questionnaire, and a postage-paid business reply envelope were sent to the designated respondents of each firm or SBU, minus the firms used during the questionnaire pre-test. The cover letter explained the purpose of the study and state the confidentiality of the respondent. Concurrently, the importance of export pricing research, a description of the time and effort needed for completion of the questionnaire, and a promise of a summary report of the study findings were offered.

A second mailing was sent to all non-responding firms three weeks after the initial mailing. Again, this mailing included a personalized cover letter, a replacement copy of the questionnaire, and a postage-paid business reply envelope.

CHAPTER FOUR

ANALYSIS AND FINDINGS

ANALYTICAL APPROACH

This research utilized a multi-step approach to data analysis. Upon accumulation of the data, potential non-response bias was assessed by comparing non-responding and responding firms, as well as by comparing those organizations responding to the initial mailing with those responding to the second. This was accomplished via the use of t-tests. After this, the descriptive statistics for all scale items were calculated, with the assessment of potential non-normality problems followed by the evaluation of the reliability of the individual constructs. Each item on the questionnaire is assessed for the mean, standard deviation, kurtosis, and skewness. Coefficient alpha was computed to ascertain the reliability of these constructs, keeping in mind the minimum acceptance level of .60 proposed by Nunnally (1967). Those items with low ($<.60$) item-factor correlations were removed in order to improve the internal consistency of the scales, with coefficient alpha (with correction for attenuation) and item-factor correlations computed once again for each construct. The research hypotheses were tested using regression analysis.

Table 4.1 Characteristics of Responding Exporters

N=369	Frequency	Percentage
Annual Sales (U.S. Dollars)		
Less than \$10 million	7	2
\$10 million - \$50 million	52	14
\$50 million - \$100 million	81	22
\$100 million - \$200 million	74	20
\$200 million - \$300 million	66	18
\$300 million - \$400 million	37	10
Over \$400 million	30	8
No response	22	6
Percentage of Sales Derived from Exports		
Less than 10 percent	18	5
10-20 percent	77	21
20-30 percent	85	23
30-40 percent	70	19
40-50 percent	33	9
50-60 percent	18	5
60-70 percent	22	6
Over 70 percent	30	8
No response	16	4
Industrial Classification		
Mining	77	21
Manufacturing (food, textiles, chemicals)	107	29
Manufacturing (machinery, metals, electronics)	110	30
Transportation-Communication	26	7
Wholesale Trade-Retail Trade	49	13
Major Export Market		
Western Europe	103	28
Eastern Europe/ Former Soviet Union	52	14
Latin America	44	12
Asia	96	26
Middle East/North Africa	22	6
Sub-Saharan Africa	30	8
No response	22	6

RESPONSE RATE AND NON-RESPONSE BIAS

The initial mailing consisted of 2,106 surveys. Of these surveys, 108 were returned due to incorrect addresses or individuals who no longer worked for the contacted

firm. Forty-two firms responded by stating that they were either unwilling to participate in the study, or considered themselves unqualified to answer the survey questions. There were 10 surveys that were returned with limited responses or with responses that for other reasons were considered unusable for the study. This resulted in the return of 369 usable responses, for an effective response rate of 19.1% (for the characteristics of respondents, see Table 4.1).

As a first step in evaluating data quality, potential nonresponse bias was assessed by comparing the responding firms with the nonresponding firms, as well as those firms which responded to the first mailing with those that responded to the second. These comparisons were in terms of number of full-time employees and in annual sales. This information was available through the *Journal of Commerce* database. Tables 4.2 and 4.3 contain the results of these comparisons, which were conducted using t-tests. In Table 4.2, it is evident that firms responding to the first mailing were larger than those responding to the second mailing, but the difference was not statistically significant ($t=1.18$, $p>.24$). Concurrently, firms responding to the first mailing had an average larger number of employees than second mailing respondents, but again this difference was not significant ($t=1.04$, $p>.14$). Table 4.3 contains the comparisons between respondents and nonrespondents. Responding firms were larger than those not responding, but not significantly so ($t=1.12$, $p>.20$). Responding firms also had more in the way of annual sales than nonrespondents, but once again the difference was not significant ($t=1.57$, $p>.12$). With these comparisons, it can be concluded that the responding sample is representative of the sampling frame of exporters.

Table 4.2 Assessment of Response Bias: First and Second Mailing Comparison

Characteristic	Category	Mean	t-value	Sig. Level
Annual Sales	Firms-1st Mailing	\$88,773,890	1.18	.241
	Firms-2nd Mailing	\$76,565,302		
Employees	Firms-1st Mailing	552.18	1.04	.149
	Firms-2nd Mailing	498.77		

Table 4.3 Assessment of Nonresponse Bias

Characteristic	Category	Mean	t-value	Sig. Level
Annual Sales	Responding Firms	\$71,992,007	1.57	.120
	Non-responding Firms	\$62,691,721		
Employees	Responding Firms	481.80	1.12	.205
	Non-responding Firms	427.27		

DATA QUALITY AND RELIABILITY OF CONSTRUCTS

In order to determine and assess the quality of the data, the means, standard deviations, kurtosis and skewness of each item were computed, and this information is reported in Table 4.4. Column one indicates the individual variables as they were computed, and these variables coincide with the items and questions shown in the reliabilities Table 4.5 below. Column two contains the means of each item, all scale items measured by a Likert scale fall between 1.5 and 6.5 on a seven-point scale. In these scales, a score of 4 indicates a neutral response, neither agree or disagree with the item. Standard deviations are reported in column three.

Close watch was kept on the kurtosis and skewness of each item, indicated in columns four and five respectively. In particular, items were examined to insure that none exceeded the acceptable kurtosis level of 2.00, beyond which nonnormality of distribution becomes an issue (Kenkal 1989). Concurrently, the upper bound of 5.00 of skewness for all items is maintained, with only three individual items exceeding this cutoff, only one of which is a scale item (use of third country currencies, kurtosis = 2.819). As a result of these indicators, there is no indication that the variables used in this research suffer from problems associated with nonnormality.

In order to further assure measurement quality, each construct in the proposed model was measured, with the exception of frequency of review and number of overseas production facilities, was measured by multiple items on the mail survey. Coefficient alpha was computed for each construct in order to assess reliability. While the majority of reliability measures were high, two were below the generally accepted minimum standard of .600 (Nunnally 1967). In order to increase measurement quality and purify the measures, items with poor item-total correlation within the substandard scales were dropped. After this purification, coefficient alpha was then re-computed for each construct. As can be seen in Table 4.5, all purified construct reliabilities exceed the minimum of .600 suggested by Nunnally, with all but Competitive Intensity of the Industry (INDCOMIN) and Foreign Currency Volatility (FXVOL) exceeding .700. In Table 4.5, the second column indicates the coefficient alpha for each construct. Column three indicates the item-total correlation of each item within the constructs. The high

Table 4.4 Descriptive Statistics of Measured Variables

Variable	Mean	St Dev	Kurtosis	Skewness
INSTA	3.70	1.47	-.968	.193
INDOL	3.32	1.21	-.081	.192
INACT	4.16	1.28	-.392	-.095
INREGS	4.96	1.43	.220	-.761
INRGC	4.33	1.62	-.940	-.269
INREST	4.32	1.67	-.883	-.251
MANCEN	3.37	1.85	-1.184	.293
MANHQ	3.36	1.93	-1.134	.354
MANDECI	5.32	1.71	-.129	-.940
INTINV	2.87	1.78	-.828	.686
INTSTAFF	3.83	1.79	-1.087	.073
EXPSOL	5.17	1.72	-.282	-.860
EXPSALE	5.33	1.73	-.181	-.950
EXPGROW	4.02	1.81	-1.119	.004
EXPMAN	4.14	1.80	-1.227	-.063
EXPRES	3.65	1.87	-1.076	.228
PRODAGE	33.81	25.51	.609	1.160
PRODMKT	21.94	19.59	3.951	2.091
FIRMPROD	17.53	16.85	3.832	2.454
FIRMPOS	4.63	1.74	-.715	-.482
MANCOMM	5.28	1.47	-.063	-.814
COMRES	4.62	1.62	-.718	-.400
PLANNING	4.39	1.66	-.669	-.267
PRODSTAN	4.59	2.04	-1.078	-.522
PRODCOST	2.91	1.53	.207	.963
PRODVCST	2.70	1.31	.746	1.062
INFOUSE	3.35	1.90	-.907	.572
INFORELY	3.22	1.64	-.574	.662
DISTHAND	5.49	1.77	.462	-.250
DISTMID	5.59	1.49	1.052	-1.271
DISTLNG	5.90	1.38	1.987	-1.666
DISTSHOP	4.27	1.81	-1.112	-.144
DISTSUP	2.63	1.55	.982	1.242
MKTREGS	4.36	1.60	-.692	-.292
MKTCHNG	4.17	1.63	-.989	-.130
MKTRIST	4.41	1.69	-.849	-.376
MKTCUMB	4.36	1.60	-.537	-.345
MKTCOMP	5.53	1.37	.630	-1.030
MKTSALES	4.08	1.44	-.915	.092
MKTFIRMS	5.07	1.53	-.099	-.808
MKTPrACT	4.31	1.43	-.851	-.409
CURCHANG	3.62	1.47	-.559	.076

Table 4.4 (cont.)

CURRATE	4.80	1.55	-.785	-.231
CURINFLA	4.49	1.63	-.773	-.300
PRICEDEC	2.34	.98	-1.372	-.448
PRICPEOP	3.14	1.54	4.696	2.271
PRICTEAM	1.60	.49	-1.857	-.403
PRICDIF	1.62	.49	-1.776	-.492
OBJSHARE	2.48	1.35	1.143	1.173
OBJVOL	2.28	1.16	1.593	1.199
OBJQUAL	2.48	1.33	.135	.827
OBJREV	2.40	1.20	1.485	1.065
OBJMOT	3.23	1.61	-.534	.368
OBJMARG	2.39	1.21	.283	.886
OBJCUST	2.32	1.34	.619	.991
PRICPEN	3.60	1.80	-1.073	.313
PRICTOL	2.74	1.62	-.334	.830
ETHCOMP	3.73	1.69	-1.006	.318
METHTRIA	4.88	1.67	-.970	-.363
METHSKM	6.08	1.28	1.984	-1.586
METHCUT	5.04	1.74	-.859	-.538
METHFUL	4.07	2.01	-1.318	.038
METHVAR	4.88	1.84	-.749	-.557
METHSEG	3.81	2.03	-1.267	.333
METHINF	3.97	1.76	-1.084	.099
ADJCOMP	3.01	1.33	.649	.898
ADJCOST	2.39	1.20	1.248	1.081
ADJNW	3.37	1.37	-.292	.532
ADJNWCO	3.60	1.40	-.500	.276
ADJSNR	3.06	1.45	.166	.725
ADJFX	4.56	1.60	-.863	-.182
ADJRGS	4.39	1.56	-.738	-.132
ADJINREG	4.43	1.60	-.704	-.140
POLDIST	3.61	2.13	-1.363	.314
POLGRAY	5.45	1.74	-.181	-.981
FXBUYR	5.44	1.64	.338	-1.112
FXTHRD	6.52	.98	2.819	-1.678
FXINCR	6.03	1.67	1.878	-1.735
PERFSUCC	4.63	1.76	-.706	-.559
PERFPROF	4.53	1.48	-.537	-.393
PERFIM	15.66	12.91	-.488	-.587
METIMP	1.12	.33	1.099	.981
METPRF	1.22	.42	-.452	-.131
EMPL	526.23	1128.20	1.986	.818
MANAGE	51.92	171.98	-.981	.598
NUMPLNTS	.87	2.29	1.019	.789

Table 4.5 Construct Reliability Estimates and Item-Total Correlations

Construct Label	Coefficient Alpha	Item-Total Correlations
Export Marketing Performance (PERFORMA)	.757	
Extent to which strategic goals are achieved (PERFIMP)		.633
Extent to which profitability goals were met (METPRF)		.230
Extent to which market share goals were met (METIM)		.525
Perceived success of the venture (PERFSUCC)		.966
Perceived profitability of the venture (PERFPROF)		.834
Firm's position in the market (FIRMPOS)		.936
Organizational Variables		
<i>Firm Size (SIZE)</i>	.871	
Number of employees (EMPL)		.988
Number of managers (MANAGE)		.877
Annual sales volume (SALESVOL)		.986
<i>International experience of the firm (EXPER)</i>	.963	
Length of international involvement (INTINV)		.951
Number of managers with international experience (INSTAFF)		.951
<i>Use of information systems (INFO)</i>	.967	
Use of information in making decisions (INFOUSE)		.944
Reliance on information for making decisions (INFORELY)		.944
<i>Number of overseas production facilities (FACIL)</i>	n/a	
Number of overseas production facilities utilized by the firm		
<i>Centralization of management decisions (CENTRAL)</i>	.853	
Degree of centralization in managerial decisions (MANCEN)		.894
Degree of supervision by headquarters (MANHQ)		.902
Location of important, firm-wide decisions (MANDECI)		.878
<i>Commitment to export venture (COMMIT)</i>	.962	
Degree to which exports are unsolicited orders (EXPSOL)		.850
Exporting is used as backup to domestic sales (EXPSALE)		.923
Degree to which int'l sales are sought by management (EXPMAN)		.726
Allocation of firm resources to international sales (EXPRES)		.976
Extent of management commitment to the venture (MANCOMM)		.691
Extent of resource commitment to the venture (COMRES)		.869
Extent of advance planning for the venture (PLANNING)		.959
Extent exporting is the main source of growth (EXPGRO)		.989
<i>Input cost volatility (PRODCOST)</i>	.789	
Stability of fixed costs of the product (PRODCOST)		.656
Stability of variable costs of the product (PRODVCST)		.773
Adjustments due to changing costs of the product (ADJCOST)		.842

Table 4.5 (continued)

<i>Degree of standardization</i> (STANDARD)	n/a	
Degree to which product is standardized for customers (STAND)		
<i>Product age</i> (AGE)	.797	
Age of product since domestic commercialization (PRODAGE)		.764
Age of product in export market (PRODMKT)		.870
Length of time the firm has exported the product (FIRMPROD)		.870
Environmental Variables		
<i>Competitive intensity of industry</i> (INDCOMIN)	.609	
Stability of industry sales volume (INSTA)		.667
Industry dollars spent on marketing (INDOL)		.254
Ease of predicting industry competitors actions (INACT)		.473
<i>Regulatory intensity of industry</i> (INDREGIT)	.823	
Impact of industry regulations on profitability (INREGS)		.984
Degree of change in industry regulations (INRGC)		.640
Degree of restriction due to industry regulations (INREST)		.570
<i>Channel Length</i> (CHANNEL)	.814	
How often product changes hands before buyer (DISTHAND)		.984
Number of middlemen involved in distribution (DISTMID)		.965
Length of time need to distribute product (DISTLNG)		.602
<i>Customer sophistication</i> (CUSTOMER)	.784	
Sophistication of buyer (DISTSOPH)		.962
Distributors' knowledge of potential buyers (DISTSUP)		.962
<i>Competitive intensity of market</i> (MKTCOMIT)	.820	
Stability of market sales volume (MKTSALES)		.911
Aggressive behavior by competitors in market (MKT FIRMS)		.845
Competitive nature of other firms in market (MKTCOMP)		.709
Change in firm marketing practices due to competitors (MKTPRAC)		.953
<i>Regulatory intensity of market</i> (MKTREGIT)	.970	
Impact of export market regulations on profitability (MKTREGS)		.970
Degree of change in market regulations (MKTCHNG)		.969
Degree of restriction due to market regulations (MKTRIST)		.996
Complexity of market regulations (MKT CUMB)		.885
<i>Foreign currency volatility</i> (FXVOL)	.665	
Degree of change in export market currency (CURCHANG)		.781
Mis-pricing due to foreign currency changes (CURRATE)		.794
Inflation as a problem in the export market (CURINFLA)		.765

Table 4.5 (continued)**Export Pricing Strategy**

Pricing objectives (Profit) (PROFOBJE)	.792	
Importance of increasing market share (OBJSHARE)		.848
Importance of increasing sales volume (OBJVOL)		.948
Importance of increasing sales revenue (OBJREV)		.371
Importance of increasing gross profit margins (OBJMARG)		.447
Pricing objectives (Competitive) (COMPOBJE)	.761	
Meeting customer expectations (OBJCUST)		.870
Importance of projecting high quality image (OBJQUAL)		.870
Motivating distributor cooperation (OBJMOT)		.778
Price setting philosophy		
Competitive posture (POSTURE)	.879	
Use of price to penetrate markets (PRICPEN)		.953
Importance of price as a competitive tool (PRICTOL)		.953
Senior management control (SRCONTROL)	.789	
Centralization of pricing decision (PRICEDEC)		.433
Number of people involved in pricing decision (PRICPEOP)		.816
Is there a pricing team (PRICETEAM)		.728
Frequency of review (FREQ)	n/a	
How often is price reviewed (FREQR)		
Flexibility (FLEXIBIL)	.778	
Degree of difference between export and domestic pricing (PRICDF)		.233
Adjustment in price due to competitors' prices (ADJCOMP)		.247
Adjustment in price due to change in product costs (ADJNWCO)		.852
Adjustment in price due to competitive new products (ADJNW)		.795
Adjustment in price due to suggestions by sr. management (ADJSR)		.521
Adjustment in price due to exchange rates fluctuations (ADJFX)		.941
Adjustment in price due to market regulations (ADJRGS)		.783
Adjustment in price due to industry regulations (ADJINREG)		.692
Price determination		
Market-based pricing (MKTBASED)	.731	
Pricing roughly equivalent to competitors (ETHCOMP)		.519
Trial-and-error efforts to determine best price (METHTRIA)		.524
No competitors, therefore high pricing (METHSKM)		.588
Undercutting of competitors' prices (METHCUT)		.541
Different prices for different market segments (METHSEG)		.465
Cost-base pricing (COSTBASE)	.908	
Addition of pre-set percentage to full cost of product (METHFUL)		.910
Addition of pre-set percentage to variable product cost (METHVAR)		.991
Reliance on cost accounting information when pricing (METHINF)		.727

Table 4.5 (continued)

<i>Pricing implementation</i>		
<i>Price coordination across markets (PRICECOO)</i>	.701	
Distributors' control over final price of product (POLDIST)		.518
Problems with unauthorized distribution of product (POLGRAY)		.518
<i>Currency choice (FXCHOICE)</i>	.921	
Request by buyers to pay in their currency (FXBUYR)		.906
Use of third country currencies in transactions (FXTHRD)		.942
Increase in currency use other than U.S. dollars (FXINCR)		.977

reliability coefficients for the internal organizational constructs were indicative of integrating previously used scales into new measures, as well as the use of exploratory interviews and managers to examine early versions of the survey. Input cost volatility shows the lowest of the alphas with .789 while the use of information systems shows the highest with .967. The external environmental reliabilities average somewhat lower, probably due to the fact that almost no existing scales were appropriate to integrate into the study. Competitive intensity of the industry recorded the lowest alpha with .609, while regulatory intensity of the market showed the highest alpha with .970. Given these assessments, measurement reliability was considered adequate for each of the antecedent constructs.

Perhaps the most gratifying aspect of the measurement analysis was the high quality of the export pricing strategy constructs, since these constructs were developed initially in this study with very little assistance from previous research. All constructs demonstrated coefficient alphas of greater than .700, with both cost-based pricing and foreign currency choice being greater than .900. Profit oriented pricing objectives (alpha = .792) and competitive oriented pricing objectives (.761) both indicated solid measurements for the dimension of export pricing objectives. Within the price setting

dimension, competitive posture ($\alpha = .879$), flexibility (.778), and senior management control (.879) each indicated high reliability as well. Along with the aforementioned cost-based pricing construct, market-based pricing exhibited sufficient reliability (.731). At the same time, price coordination (.701), coupled with foreign currency choice, showed quality measurements for the dimension of pricing implementation. In turn, the six-item scale for the dependent performance construct resulted in a coefficient alpha of .757.

In order to determine the relationships between the organizational antecedent variables, as well as the environmental organizational variables, correlation matrices were generated for each set. It is felt that an overwhelming number of highly correlated antecedents would raise questions regarding cross-measurement issues and measurement quality. Tables 4.6 and 4.7 provide these correlations. While several relationships are indeed significant, most of these variables are not significantly correlated.

Table 4.6 Correlation Matrix of Organizational Variables

	v1	v2	v3	v4	v5	v6	v7	v8
v9								
v1 SIZE	1.00							
v2 EXPERI	-.09	1.00						
v3 INFO	-.03	.01	1.00					
v4 FACIL	.35**	-.24**	.03	1.00				
v5 CENTRAL	-.06	.10	-.16**	-.03	1.00			
v6 COMMIT	.00	-.24**	-.07	-.02	.10	1.00		
v7 PRODCOST	.19**	-.07	-.09	.08	-.02	-.04	1.00	
v8 STANDARD	-.01	-.03	-.00	-.04	.00	.15*	.30**	1.00
v9 AGE	.05	-.10	-.02	.05	.02	.04	.00	-.11
1.00								

Significance: * = $p < .05$ ** = $p < .01$

Table 4.7 Correlation Matrix of Environmental Variables

	v1	v2	v3	v4	v5	v6	v7
v1 INDCOMIN	1.00						
v2 INDREGIT	.07	1.00					
v3 CHANNEL	.03	.06	1.00				
v4 CUSTOMER	.14*	.02	-.00	1.00			
v5 MKTCOMIT	.40**	.16**	.06	.12	1.00		
v6 MKTREGIT	.04	.54**	.06	.10	.05	1.00	
v7 FXVOL	-.06	.02	.03	.02	-.11	.16**	1.00

Significance: * = $p < .05$ ** = $p < .01$

A correlation matrix was also generated in order to better ascertain the preliminary relationships between the strategy and performance constructs. This was done in order to better evaluate the multidimensional nature of the strategy construct, as well as investigate individual relationships. This matrix is shown in Table 4.8.

Table 4.8 Correlation Matrix of Strategy-Performance Constructs

	v1	v2	v3	v4	v5	v6	v7	v8	v9	v10	v11
PERF	1.00										
FXCHOICE	.10	1.00									
PRICECOO	.05	-.10	1.00								
MKTBASE	.16*	.09	.07	1.00							
COSTBASE	-.16*	-.07	-.06	-.14*	1.00						
FLEX	-.09	.06	.10	.20**	-.08	1.00					
FREQ	-.06	.12	-.01	.04	-.07	-.08	1.00				
SRCONT	.08	-.02	-.11	.29**	.10	.10	-.02	1.00			
POSTURE	-.08	-.02	.14*	.30**	-.02	.10	-.02	-.10	1.00		
PROFOBJE	-.03	.03	.14*	.05	-.02	.19**	.02	-.02	.10	1.00	
COMPOBJE	.12	-.09	.22**	.03	-.03	.17**	-.09	-.09	.09	.45**	1.00

Significance: * = $p < .05$ ** = $p < .01$

THE INTERNAL AND EXTERNAL EFFECTS ON EXPORT PRICING STRATEGY

Export Pricing Objectives

Returning to hypothesis H1, it was predicted that export pricing objectives, in the form of either competitive or profit oriented objectives, would be influenced by the competitive intensity of the market, competitive intensity of the industry, and the age of the product. Specifically, that firms would be more likely to pursue competitive oriented objectives when the competitive intensity of the market and industry were high and the product was mature. Regression analysis was used to test this hypothesis. Regression beta weights, r-square, and level of significance are presented in Tables 4.9 and 4.10. Surprisingly, the hypothesized relationships were not indicated to be statistically significant with either profit or competitive oriented objectives. It should be noted that all beta weights reported are standardized beta weights.

Table 4.9 The Antecedent Effects on Competitive Export Pricing Objectives

	BETA	Significance Level (p =)
Competitive intensity of the market	.070	.134
Competitive intensity of the industry	.009	.440
Product age	.051	.235

R-square = .009 Adj. R-square = -.004 F = .695 Model p = .556
(one-tailed test)

Table 4.10 The Antecedent Effects on Profit Oriented Export Pricing Objectives

	BETA	Significance Level (p =)
Competitive intensity of the market	-.066	.351
Competitive Intensity of the industry	-.058	.178
Product age	-.047	.237

R-square = .003 Adj. R-square = -.009 F = .286 Model p = .834
(one-tailed test)

Price Setting Philosophy

The strategy dimension of export price setting philosophy is comprised of four independent constructs each with its own set of hypothesized relationships with a variety of antecedent variables. Hypothesis H2 addresses the relationships between competitive posture, or the extent to which the firm uses price as a competitive tool, with three separate internal constructs. It was hypothesized that managements' use of price as a competitive tool would be positively related to the international experience of the firm, firm size, and the number of overseas production facilities. Table 4.11. provides the results of regression analysis in determining these relationships. As shown, firm experience is positively related to aggressive pricing posture, but not to a significant degree. The results also indicate that the size of the firm is not significantly related to competitive posture, and this was surprising given indication by past research to the contrary. The number of overseas production facilities was not shown to be related to competitive posture to a significant degree ($p < .028$), therefore hypothesis H2 was not supported.

Table 4.11 The Antecedent Effects on Competitive Posture

	BETA	Significance Level (p =)
Firm Experience	.001	.249
Firm Size	-.004	.248
Number of Production Facilities	.125	.028

R-square = .024 Adj. R-square = .007 F = 1.401 Model p = .243
(one-tailed test)

Table 4.12 The Antecedent Effects on Degree of Senior Management Control

	BETA	Significance Level (p =)
Foreign Currency Volatility	-.052	.210
Competitive Intensity of the Industry	-.060	.176
Competitive Intensity of the Market	-.017	.431
Channel Length	-.014	.367
Customer Sophistication	-.029	.329

R-square = .008 Adj. R-square = -.014 F = .368 Model p = .879
(one-tailed test)

Table 4.13 The Antecedent Effects on Frequency of Price Review

	BETA	Significance Level (p =)
Product Cost Volatility	.072	.157
Use of Information Systems	.024	.365
Competitive Intensity of the Industry	.077	.145
Competitive Intensity of the Market	.108	.092
Foreign Currency Volatility	.099	.097

R-square = .017 Adj. R-square = -.009 F = .644 Model p = .656
(one-tailed test)

Senior management control was hypothesized to be significantly influenced by several environmental factors, namely foreign currency volatility, competitive intensity

of the market, competitive intensity of the industry, channel length, and customer sophistication. The results for the regression analysis of these relationships are shown in Table 4.12. While foreign currency volatility was hypothesized to have a negative relationship with senior management, there was no significant relationship. Similarly, competitive intensity of the market and competitive intensity of the industry were hypothesized to have negative relationships with senior management control, yet no relationships were found to be non-significant. Channel length, hypothesized to have a positive relationship with the dependent variable, does not to a significant degree. And finally, the hypothesized negative relationship between customer and senior management control was not supported by significant results.

In studying the effects of internal and external constructs on the frequency of price review by management, H4 predicted that product cost volatility, the use of information systems, the competitive intensity of the market, the competitive intensity of the industry, and foreign currency volatility would all be positively related to the dependent variable. As indicated in table 4.13, portions of this hypothesis are supported while others are not. Product cost volatility was hypothesized to be positively related to frequency of review, but this hypothesized relationship was not significant. The same is true of the use of information systems and competitive intensity of the industry. Competitive intensity of the market is significantly related to the dependent variable at the .1 level. Also, foreign currency volatility is positively related to frequency of review at the .1 level.

According to hypothesis H5, flexible export pricing was predicted to have positive relationships with the number of overseas production facilities, the competitive

intensity of the market, the competitive intensity of the industry, and a negative relationship with degree of product standardization. The results of the testing of this hypothesis are shown in Table 4.14. The number of overseas production facilities is a statistically significant indicator of pricing flexibility ($p=.048$). Degree of standardization, competitive intensity of the market, and competitive intensity of the industry were not shown to be statistically significant.

Export Price Determination

The specific methods employed to calculate and achieve the final price of the product are hypothesized to be effected by both internal and external antecedent variables. Specifically, H6 states that market-based pricing by management will be positively affected by the international experience of the firm, commitment to the export venture, competitive intensity of the market, and customer sophistication than will cost-based pricing. At the same time, the affect of these antecedents on cost-based pricing are nalyzed. The results of the regression analysis on this hypothesis are shown in Tables 4.15 and 4.16. Surprisingly, international experience is shown to be positively and significantly related to cost-based pricing ($p = .098$), with no significant relationship with market-based pricing whatsoever. Commitment to the export venture is shown to have a highly significant effect on market-based pricing ($p = .003$), with a negative, non-significant effect on cost-based pricing. Competitive intensity of the export market is shown to have neither a significant relationship with cost-based nor market-based pricing. However, customer sophistication was indeed shown to positively effect market-based

Table 4.14 The Antecedent Effects on Flexibility

	BETA	Significance Level (p =)
Number of Overseas production Facilities	.116	.048
Degree of Standardization of Product	.003	.482
Competitive Intensity of the Industry	.041	.264
Competitive Intensity of the Market	.002	.463

R-square = .015 Adj. R-square = -.003 F = .825 Model p = .510
(one-tailed test)

Table 4.15 The Antecedent Effects on Cost-Based Export Pricing

	BETA	Significance Level (p =)
International Experience of the Firm	.091	.098
Commitment to the Export Venture	-.001	.489
Competitive Intensity of the Market	.078	.124
Customer Sophistication	.126	.026

R-square = .025 Adj. R-square = .008 F = 1.465 Model p = .213
(one-tailed test)

Table 4.16 The Antecedent Effects on Market-Based Export Pricing

	BETA	Significance Level (p =)
International Experience of the Firm	.073	.135
Commitment to the Export Venture	.185	.003
Competitive Intensity of the Market	.049	.224
Customer Sophistication	.171	.008

R-square = .059 Adj. R-square = .042 F = 3.570 Model p = .007
(one-tailed test)

pricing to a significant degree ($p = .008$), and interestingly on cost-based pricing as well ($p = .026$). This analysis does not support hypothesis H6.

Export Pricing Implementation

As noted, export pricing determination addresses the day to day management of prices. Specifically, this covers management's efforts to coordinate prices across markets, and the choice of foreign currencies used within those markets. Hypothesis H7 states that management is more likely to seek price coordination across country markets when foreign currency volatility is high and when degree of product standardization is high. Table 4.17 Shows the results of the regression analysis on this hypothesis. Foreign currency volatility is indicated to have no significant effect on price coordination. The degree of product standardization does indeed have a significant, positive effect on price coordination ($p = .018$). Therefore, H7 is supported.

According to hypothesis H8, competitive intensity of the industry, competitive intensity of the market, firm size, international experience of the firm, and number of overseas production facilities are predicted to positively affect management's use of third country and/or customer currencies when pricing exports. The results of the regression analysis for this hypothesis are shown in Table 4.18. Competitive intensity of the industry has no significant effect of foreign currency choice, while competitive intensity of the market does affect foreign currency choice significantly ($p = .078$). Firm size, on the other hand, is shown to have a significant *negative* effect on the dependent variable, refuting hypothesis H8c. International experience of the firm has no significant effect on

Table 4.17 The Antecedent Effects on Price Coordination

	BETA	Significance Level (p =)
Foreign Currency Volatility	.071	.134
Degree of Product Standardization	.131	.018

R-square = .018 Adj. R-square = .060 F = 2.26 Model p = .100
(one-tailed test)

Table 4.18 The Antecedent Effects on Foreign Currency Choice

	BETA	Significance Level (p =)
Competitive Intensity of the Industry	.198	.008
Competitive Intensity of the Market	.101	.078
Firm Size	-.137	.048
International Experience of the Firm	.048	.365
Number of Overseas Production Facilities	-.061	.223

R-square = .048 Adj. R-square = -.019 F = 1.65 Model p = .150
(one-tailed test)

foreign currency choice, nor does the number of overseas production facilities affect FX choice in a significant fashion.

Export Pricing Strategy and Direct Effects on Export Performance

In determining the relationships between export pricing strategies and export performance, regression was initially used to test the hypothesis (H9). The results of this testing are shown in Table 4.19. Competitive posture, or the use of export price as a competitive tool, is significantly related to performance ($p = .040$). As predicted, market-based pricing is positively related to performance (also $p = .040$), while cost-based pricing is negatively related to performance at the .018 level.

Senior management control is shown to have a significant effect on performance, although this is a positive effect. Frequency of review was hypothesized to have a positive effect on performance, although this hypothesized relationship was found not to be significant. Pricing flexibility, however, does indeed have a significant positive relationship with performance, albeit at the .070 level. This supports H9d. Surprisingly, neither foreign currency choice nor price coordination were shown to have a significant effect on performance.

While not hypothesized, the effects of profit oriented objectives and competitive oriented objectives on the export performance of the firm were nonetheless tested since strategies are driven by objectives and future study of export pricing strategies will determine the “overlap” of the strategic dimension offered here in order to ascertain the best combination of approaches that enhance performance given a variety of internal and external variables. Included in the performance table are the results of this test. Here, competitive oriented export pricing objectives are shown to have a significant, positive effect on performance ($p = .031$), while profit oriented objectives exhibit a negative relationship with performance ($p = .045$).

Direct Effects of Antecedent Variables on Export Performance

As hypothesis H10 states, several antecedent variables were predicted to influence export performance directly. The effects of these antecedents on performance are tested simultaneously with the strategy constructs. The results of testing this hypothesis are also presented in Table 4.19. International experience of the firm is shown to not significantly effect performance, neither is the competitive intensity of the market. Commitment to the

Table 4.19 The Effect of Antecedent Variables and Export Pricing Strategies on Export Performance

	BETA	Significance Level (p =)
Competitive Posture	.171	.040
Market-based Pricing	.274	.040
Cost-based Pricing	-.209	.018
Senior Management Control	.210	.015
Frequency of Review	-.121	.165
Flexibility	.128	.070
Price Coordination	.057	.232
Foreign Currency Choice	.029	.195
Profit Oriented Objectives	-.231	.045
Competitive Oriented Objectives	.206	.031
International Experience of the Firm	.005	.475
Commitment of the Export Venture	.301	.001
Competitive Intensity of the Market	-.064	.225

R-square = .464 Adj. R-square = .215 F = 2.06 Model p = .022
(one-tailed test)

export venture, however, is significantly and positively associated with performance (p = .001).

CHAPTER 5

A HOLISTIC ASSESSMENT OF MANAGERIAL PRACTICES IN EXPORT PRICING

Once again the issue of U.S. trade ratios and deficits is a major topic of conversation within economic circles. Efforts to increase the volume of exports from the United States has met with some resistance, either from macro-economic factors such as currency exchange rates and trade barriers, or more micro-oriented factors within the firms themselves. Unfortunately, much of the reason behind what some consider a substandard export performance of U.S. manufacturers lies within the management policies of the organization, leading to questions regarding the competitive nature of these firms in comparison with overseas rivals. One consistently problematic area has been that of pricing, and despite a number of calls, by researchers and managers alike, for an increased focus on price setting and pricing policies of internationally active firms, little headway has been made in making exporters competitive within the pricing area.

Whether domestically or internationally, effective pricing is a critical aspect of the marketing actions of the firm, and is key to the profitability of any venture. Skeptical managers, however, often view pricing as little more than a gray area of sales, characterized by buyer psychology and economic black magic. This viewpoint is enhanced when operating overseas, where a variety of external variables such as tariffs, exchange rates, inflation rates, market regulations, and lack of familiarity with customers come into play. Here, effective and precise pricing is seen as dependent more on luck than on managerial decision making.

The purpose of this chapter is to explore the capacity of pricing within the overall framework of export marketing operations. An investigation of the role of export pricing from the perspective of international management will assist us in understanding why firms often place pricing high on the list of priorities, yet rarely dedicate significant resources (e.g., funding and manpower) to the pricing process. Here we will examine how pricing rates when compared to other decision variables within the international marketing mix, and how different pricing perspectives affect overall managerial satisfaction with the pricing process. Concurrently, a discussion of where the pricing decision is made within the organization, and of the use of pricing teams, is offered. An important topic of investigation is export manager feedback regarding the problematic areas of their export pricing policies, and what changes should be made to help alleviate these problems. The exploration of qualitative responses of U.S. export managers indeed sheds light as to why firms are often ineffective in competing on price in overseas markets.

THE TASK OF EFFECTIVE PRICING IN EXPORT MARKETS

Within many industries, profitability of the firm increasingly demands access to and participation in markets outside of the home country. Unfortunately, this also means an increase in the levels of complexity of setting prices in accordance with firm goals in those markets. For example, U.S. firms wishing to enter European markets must deal with price differentials which may reach 90% across country markets in certain industries (Kublin 1990). Managers implementing standard domestic prices in those markets will find themselves either pricing themselves far above the competition, or so far below

competitive levels that a distressingly large sum of money is left on the table in the form of consumer surplus. Similarly, those firms with wide margins between prices in neighboring markets will sometimes suffer from the effects of gray market imports and cannibalization of their own product lines. A different set of priorities and commitment across markets may be natural, since foreign market environments will differ from one another considerably. A firm's willingness and capacity to export to one market will vary significantly from the next, depending in part on whether the firm is exporting, for instance, to a marketing subsidiary in France, but exporting on a short term, ad hoc basis to Belgium (Kublin 1990). Too often this dynamic nature of exporting tempts managers to adapt less than profitable pricing methods, this either by 1) pricing solely on the basis of costs, adding a set percentage to the total or variable costs of the product, or 2) placing the domestic price on the product and shipping the product overseas. Time and resources are instead spent elsewhere, in hope that other aspects of marketing, such as product modifications and promotional activities, will result in profits, with pricing being treated as somewhat of an afterthought. The result often takes the form of poor market performance.

A lackadaisical attitude toward the pricing of goods may not be an option for firms looking to survive in what are rapidly becoming hyper-intensive overseas environments. These increased competitive levels and interdependence of markets will in turn enhance the complexity of the pricing decision (Cavusgil 1996). Furthermore, the organizational characteristics within the firm will come under increased pressure, in that better communication between senior-level corporate decision makers and those managers responsible for everyday product pricing and management will be necessary in

order to integrate the knowledge of manufacturing costs and corporate goals with local market experience and customer familiarity. At the same time this integration must enable a rapid response to market changes in order to modify existing prices to keep them at profitable, competitive levels. In short, the “multiproduct, multidivisional firm must rely on a systematic procedure for their pricing decisions; and pricing policies and objectives, both explicit and implicit, are very much a part of the operation of these firms” (Samiee 1987, p.19).

COMMITMENT TO THE PRICING PROCESS AND EXPORT PRICING SATISFACTION

The majority of U.S. exporters are familiar with their domestic pricing policies, yet due to a variety of reasons many managers are unaware of what their export market price structures are, or whether they differ significantly, if at all, from their firm’s domestic pricing formulae. While many export managers have been willing to use price as a competitive tool, most have simply not known how to do so (Kublin 1990). Qualitative interviews conducted with export managers supported this view. Many managers simply stated that they were not aware of how to price their products in the export market, and that determining a price to quote to customers was largely a “seat of the pants” endeavor. When asked, the majority of managers stated that they did not know how to accumulate information regarding their customers or their export market competition, and that they weren’t sure what additional information they should gather for export sales as opposed to purely domestic sales of the same product or product line. Such issues as exchange rate fluctuations, inflation rates and purchasing power indices,

and changing governmental price regulations were simply not investigated. Often managers stated that they felt as if they had little control over the final price of the export, since the buyer seemed to have a more accurate idea regarding competitors' prices and fair market value. It should be noted that the vast majority of these exporters (87%) did not utilize an export management company, and themselves sold directly to the buyer. Subsequently, most managers devoted their resources to other aspects of the marketing mix, namely promotional, distribution, and new product design and quality issues, as opposed to pricing. This results in an overwhelming use of cost oriented pricing techniques, and an eventual dissatisfaction with the pricing process.

One interesting aspect of the study was that the concentration on costs as a basis for price, and the lack of understanding of critical factors within the price decision making process may not be due to a somewhat myopic perspective of sales in the export market. Managers were asked if their export pricing process differed between their initial pricing of the product in the market versus ongoing adjustments. Sixty-three percent responded "no" to this question, reinforcing the fact that monitoring the price in order to be effective in the market is not a characteristic of most exporters. Much of this, however, could be due to purely ad hoc exporting in markets of convenience as opposed to longer term commitments.

HOW IMPORTANT IS PRICING AS AN EXPORT MARKETING DECISION VARIABLE?

While a number of firms ignore the role of export pricing in their efforts to compete, most export managers are aware of the critical nature of price in overseas

markets. Over the years a number of studies have examined the relative importance of the marketing decision variables to the firm (see Udell 1964, Robicheaux 1975, Samiee 1987). These studies indicated that, over time, pricing was becoming increasingly important to management in relation to the other aspects of the decision making process such as product, promotion, distribution, and quality related issues. Most of these studies, however, were conducted in the domestic context. To determine what drives the pricing decision making process of exporters, we must first understand what value they place on pricing relative to the other marketing decision variables. In order to do this, managers were asked to consider the relative importance of six different export marketing elements in their export venture. They were then asked to rate the relative importance of each, with “1” being the most important, and “6” the least important. The results of this question are shown in Table 5.1. Clearly, export managers consider pricing to be an important element in the decision making process, with only product quality being given a higher priority (1.75) than pricing (2.50). It is evident that managers understand the importance of price in their export ventures, as such tasks as personal selling (3.50), product design (3.75), distribution (4.09), and advertising (5.51) placed well below pricing in order of importance. The contention, then, that pricing is the step-child of the exporters marketing mix is not true to the extent that managers find no value or importance in pricing. Instead, it is understood that performance, whether from an economic (e.g., revenue) aspect or a strategic (e.g., market entry) perspective, depends on pricing to a greater extent than most other variables.

If this is true, then we would naturally believe that firms would commit a significant amount of time and resources to the export pricing effort. After all, given that

pricing is considered one of the more important aspects of decision making, it is expected that the commitment to effective price decision making would be high. Unfortunately this is not so, and as the following discussion will indicate, the overall dissatisfaction with their current export pricing approach is prevalent among managers.

Table 5.1 The Relative Importance of Pricing to Export Managers

Responses to the question, “Consider the relative importance of each of the following export marketing elements in this venture. Please rate the relative importance you attach to each, with ‘1’ being most important and ‘6’ being the least important to your firm in this venture”.

Category	Mean	Std. Deviation	Rank
Product Quality	1.75	.957	1
Personal Selling	3.50	1.732	3
Product Design	3.75	1.707	4
Advertising	5.51	.577	6
Pricing	2.50	.587	2
Distribution	4.09	.838	5

APATHY TOWARDS THE EXPORT PRICING PROCESS: DOES IT AFFECT PRICING EFFECTIVENESS?

While many managers have been receptive to the use of export pricing as a principle marketing tool to compete in markets, very few have been willing to take the steps necessary that allow them to utilize this approach. Application of price as a competitive tool necessitates the gathering and deciphering of a wide variety of available market information, such as client purchasing power, exchange rate volatility, demand, new product development by competitors, and market regulations. Without such information, the exporter is limited to fixed and variable cost estimates, which in turn consistently lead managers to price their products simply on costs alone. This approach

generally takes the form of some sort of cost-plus pricing, adding a specific percentage onto the costs to the firm in order to determine price to the buyer. Without question, cost-plus methods are easy to calculate, assuming that the firm can place an accurate number on total cost. Time and again, however, firms using cost-plus methods have priced themselves out of the export market, since price escalation has become a major problem within many markets (Cavusgil 1988). Freight and insurance costs, tariffs, port taxes, and enhanced channel costs often raise the price to such a degree that it is no longer competitive. From the exporter's perspective, it is necessary to accurately determine the competitive price to individual segments of the export markets. Many new exporters believe that charging different groups of customers different prices for the same product constitutes price discrimination, even if in different markets. However, without taking into account the wide margins in price elasticity between segments (markets) at the international level, among other market related variables, management reduces the chances of being price competitive. In general, pricing tactics call for creative insight based on differences in buyers, not on differences in technology or production costs (Nagle 1983). The increased difficulties in determining those differences in a cross-cultural business environment are obvious. This differential pricing, where the firm charges dissimilar prices for the same product in different markets (Weekly 1992), will be of greater value to those firms operating in a diverse set of export markets, but all firms with multiple sets of customers and competition should price to the individual market rather than to the global market as a whole. The exporter should not be burdened by the baggage of preconception and bias regarding price differentiation that has characterized so many failures.

While there can be no question that the accurate evaluation of costs is critical to the exporter, this in itself is not sufficient: attention must also be given to two other distinct aspects of the export market, demand and competition (see Diamantopoulos and Mathews 1995). Information regarding these factors is often difficult to obtain, yet without it effective prices are still more difficult to establish. This study investigated the degree which managers commit resources to the pricing effort, as well as whether firms were employing a systematic, well defined export pricing procedure extensively using market data. The goal was to ascertain which firms rarely put much time and effort into pricing, and which were committed to gathering and using market related data in a systematic approach. Further, the relationships between these approaches and satisfaction with the export pricing process was also determined. The results of this investigation are shown in Table 5.2.

Table 5.2 Relationships Between Export Pricing Satisfaction and Corresponding Pricing Approaches

Item	v1	v2	v3	Mean	St. Dev
(v1) We rarely put a lot of time and effort into pricing our exports.	1.000			2.5	.973
(v2) Our export pricing is a systematic, well defined procedure with extensive use of market data	.048	1.000		5.1	.816
(v3) Overall satisfaction with your export pricing effectiveness	-.329**	.353**	1.000	5.5	.577

Significance: * = $p < .05$ ** = $p < .01$

All items were measured with 1-7 Likert scales. v1 and v2: 1 = “strongly agree”, 7 = “strongly disagree”, v3: 1 = “fully satisfied”, 7 = “not satisfied at all”

Whether the use of market information is generally known to enhance pricing effectiveness or not, it is evident by the responses of managers in this study that the majority of firms put relatively little effort into their export pricing processes. As indicated in column four of Table 5.2, managerial responses could be characterized as indifferent to the pricing process: when asked to respond on a scale of 1 to 7 (1 = strongly agree, 7 = strongly disagree) to the statement “we rarely put a lot of time and effort into our export pricing,” the mean calculated for this response was a disappointing 2.5. This is somewhat confusing given the sample’s response to the relative importance of pricing in export markets. Similarly, export managers were asked to respond to the statement “our pricing process is a systematic, well defined procedure with extensive use of market data.” Again, the response was disappointing, with a mean of 5.1 using the same strongly agree-strongly disagree scale. Clearly, the belief that pricing is an important aspect of export operations is not driving managers to commit to gathering important market related data, or to develop a systematic approach to their pricing efforts. In short, managers are sending mixed messages. While it is understood that pricing is an important component of operations, little effort is being made to utilize price as a competitive tool.

All of this discussion would hold little relevance if it were not for the distinct differences between these two pricing perspectives and their association with the firm’s overall satisfaction with the pricing process. Columns 2 and 3 show the correlation analysis results for testing these relationships. These results should be sufficiently convincing that the application of a systematic pricing scheme utilizing market data has a significant, positive relationship with management’s satisfaction with its overall export pricing approach. Just as important, the more cavalier approach toward pricing, where

little effort is put into the process by management, shows a significant, negative relationship with a satisfactory pricing process. If these relationships exist, and if management is aware of the importance of pricing in their export operations, why don't firms dedicate more time and resources to higher quality pricing efforts? Potential explanations are offered in the following discussion.

WHERE IS THE EXPORT PRICING DECISION BEING MADE?

As discussed in Chapter 2, the location of the pricing decision has traditionally been considered to play a key role in the effectiveness of pricing in the market (Baker and Ryans 1973, Farley, Hulbert, and Weinstein 1980). How close the pricing decision is made to the point of sale will influence whether competitive and market factors or cost related factors drive pricing strategies, since sales-force personnel tend to be concerned with sales volume while headquarters personnel worry about costs (Abratt and Pitt 1985, Clague and Grossfield 1974). In order to better understand this locational factor, managers were asked to respond to several questions regarding where the export pricing decisions are made in the firm, how many individuals are involved in the pricing process, and whether the firm utilizes a pricing team in its export ventures. The results of these questions are shown in Table 5.3. Clearly, the majority of pricing decisions (60%) are made at the local level, while 32% are made at parent headquarters and 7% by the distributor or subsidiary. This indicates a certain degree of control by the business unit and closer to the point of sale than a more centralized, headquarters driven pricing process. However, those business units that indicated that they were in charge of pricing rarely made the sales force autonomous in the pricing decision, in fact 63% of firms

responded that the senior-level management within the business unit was responsible for pricing, while 27% of mid-level managers and 6% of sales force personnel made these decisions. It is evident that while a certain degree of autonomy is given business units in the pricing process, individuals in relatively higher levels of management (i.e., those familiar with the cost structure of products) are generally responsible for prices.

Given the variety of antecedent variables which generate continually shifting pricing structures (Morris and Morris 19990), there is an argument for a flexible and differentiated approach to pricing exports, particularly when considering the market circumstances associated with various product groups (Diamantopoulos and Mathews 1995). Rapid decision making in export pricing, as well as quick response to dynamic market environments, calls for a streamlined process not encumbered by bureaucratic impediments or multi-tiered managerial processes in pricing. The fewer individuals involved in setting prices the more quickly prices can change in order to combat competitive moves in the market or changing product input costs. Perhaps exporters understand this, as the number of individuals involved in the pricing process across firms had a mean of only 3.14, with a range of from 1 to 12. However, these individuals, more often than not, aren't part of a price management team and therefore the synthesis of the pricing decision is questionable. Only 40% of respondents indicated that a special pricing team was utilized in their export ventures, and there seems to be a reliance on a single hierarchical model for setting prices. Understanding that the experience and expert knowledge of product managers in their areas of responsibility, a more concerted pricing effort by management is called for. A greater integration of product managers into the pricing "network", or team, while at the same time leaving overall responsibility with

higher level decision makers within the business unit (e.g., marketing managers and export directors) would resolve problems associated with relying on a single individual for pricing a product while at the same time reduce hierarchical problems resulting from several individuals at different levels of the organization being involved in setting prices. A price management team located within the business unit combines autonomy with the benefits associated with multiple decision makers, such as market experience and knowledge of competitors.

Table 5.3 Location and Organization of the Export Pricing Decision

Question	Percentage Responding
<i>“Generally, where are the pricing decisions made?”</i>	
Parent Headquarters	32
By our distributor/subsidiary in the export market	7
In our own business unit	60
<i>“If these decisions are made in your own organization, at what level are they made?”</i>	
Your senior management	63
Your mid-level management	27
Your sales force	6
<i>“Is there a special pricing team which determines the product price?”</i>	
Yes	40
No	60
	Mean
<i>“How many people are involved in the pricing decision?”</i>	3.14

PROBLEMATIC AREAS WITHIN THE EXPORT PRICING PROCESS

This dissatisfaction with export pricing would lead us to believe that while managers understand the importance of the pricing process, as well as its effect on overall export operations, barriers to effective pricing exist, preventing managers from implementing an efficient, potent pricing strategy. Why else would firms largely ignore the only marketing decision variable which directly produces profits, and the one most easily modified by management? To find out, managers were asked the following question: “if you are not fully satisfied with your export pricing approach, what problems exist, and what improvements and/or changes would you make?” The answers given by the managers are enlightening indeed, and are as much a lesson to upper-level managers as to those managers directly responsible for managing the product within the export market (see Table 5.4). An overwhelming number of responses to this open-ended question dealt with management’s belief that the firm simply was not supplying the monetary and manpower resources necessary to accumulate the quality information necessary to be competitive on price. Many remark that there is too much emphasis on a pre-set, cost oriented pricing model and not enough incorporation of demand and competition related factors. One export director in charge of pricing semiconductors to Latin America complained that his repeated requests for market research funding had been denied, and that he was forced to base his pricing on costs simply because he had no other information to integrate into the decision making process. Another manager in charge of overseeing the exports of optical equipment to Europe stated that she was “pricing in the dark”, since she could not keep track of competitive prices and that her

Table 5.4 Overview of the Problematic Export Pricing Environment

Problem Area	Managerial Comments
Commitment of resources to pricing efforts	“Our firm simply will not supply the funds to conduct in-market research”
	“We devote far too many resources to research regarding product attributes and none regarding our competition’s pricing structure”
	“We have no idea what the real market demand is, and [headquarters] won’t support our efforts to gather primary data in order to effectively price”
	“Quite simply, we have no idea what exchange rates and inflation rates do to our price, and HR won’t allow us to hire a specialist”
Centralization of decision making	“We are restricted by headquarters to a pricing window that keeps us from being competitive”
	“Our pricing system is antiquated, and senior management never gives us an accurate picture of total costs of the product”
	“While I am responsible for setting product price in my export market, I am constantly being over-ruled by headquarters”
	“We cannot change our prices quickly enough to react to the export market because too many people are involved in the pricing decision”
	“We set the product prices, but headquarters won’t let us change those prices more than once a year”

Table 4 (cont.) Overview of the Problematic Export Pricing Environment

Problem area	Executive Comments
Unrealistic production costs	“The production costs alone of our product are higher than the competitive price in our export market. I can’t compete once distribution costs are added on” “Our knowledge of the customer and his purchasing power, as well as our competition, is rarely integrated into overall strategy. Therefore we are expected to sell products far too expensive for our customers” “Our R&D division continuously places expensive variations on our product that our clients don’t want and can’t afford, despite our warnings”

clients constantly bought from the lowest bid. Her inability to convince her firm to fund research in her market resulted in her prices being “wildly inaccurate.” Without the commitment of the firm to support research regarding competitive, demand, and market conditions, managers are often left little choice but to use cost-oriented pricing techniques. Too often, individual product or export managers simply don’t have the resources within their unit to gather information without assistance from headquarters.

Next, managers expressed concern that their knowledge was being under-utilized by headquarters, and that their skills, daily management of the product, and knowledge of the market provided them with the ability to price within their export markets more effectively than those individuals involved in the pricing decisions at higher levels of management. Repeatedly, export managers stated that they were handcuffed by the firm in making pricing decisions, that while they were responsible for the profitability of the

product and for its final price, senior level management too often gave “pricing windows” from which prices could not go above or below. Export managers stated that this prevented them from maneuvering prices in order to accommodate clients who were suffering from exchange rate fluctuations or who had received lower quotes from competitors. Customer loyalty only goes so far, too many orders are lost due to managers having to consult headquarters in order to match competitive offers. Similarly, the individual responsible for pricing the export was often over-ruled by senior level management, which not only decreases the degree of on site autonomy, but also undermines the relationships between export managers and their buyers.

Related to the issue of over-centralization of the pricing decision is the problem of over-administration of the process. For example, one marketing manager responsible for the exporting of custom alloy fittings to Mexico indicated that he was operating in a highly competitive environment, and that his ability to change prices in order to meet competitive moves in the market was critical to maintaining his market share. Unfortunately, he was part of a pricing “team”, consisting of four members at different levels of the organizational hierarchy. By the time these team members are consulted and an agreement reached on a price, the sale is often lost. Another export director in charge of pricing leather goods to Asia stated that while the final price decision was his, headquarters would not allow him to change that price for up to a year, this due to senior management desires to accurately forecast earnings and production requirements.

This problem of senior management control is not surprising, over-centralization of the international pricing decision has been a problem for years (Cavusgil 1988). The extended distance between manufacturer and point of purchase also lengthens the lines of

communication between those individuals who are familiar with the product's cost structure (senior level managers), and those who are closer to the market (export managers in charge of pricing). Senior level managers are rarely familiar with the dispersion of prices across competitors or with the demand structure within the individual markets. As a result, export managers have to limit themselves to pricing within a certain price-structure set by the upper-level management within firms, which are generally based on fixed and variable costs of the product. In other words, the experience and knowledge of the export manager are often not injected into the pricing process. This expertise could be invaluable in the export markets characterized by high levels of price competition intensity, promotional price cutting by alternative suppliers, or volatile inflation and currency rates (see Diamantopoulos and Mathews 1995). Instead, more cost oriented pricing is used.

Undoubtedly, the issue of conflict between the manufacturing and R&D contingencies within the firm and the export manager responsible for selling the product in the overseas market is a major contributor to management's dissatisfaction with the pricing process. In fact, more managers cited unrealistic production costs as the major problem in their pricing strategies than any other lone factor. As one exporter of biotech equipment to Europe stated, "R&D has no idea what our customers are willing or able to spend per unit, yet they keep giving us fancy, unnecessary modifications that increase the production costs to such an extent that we just can't sell them in our market." Several managers felt that they were being set up for failure since headquarters expected them to make profits in developing nations with products that were barely affordable in the U.S. Complaints that the R&D and manufacturing divisions of the firm were not familiar with

price escalation issues in export markets indicated that often managers felt helpless in their efforts to price competitively. In far too many cases, lack of communication and understanding between these key sections of firm operations resulted in a product price which did not meet objectives.

The relative importance placed on pricing by exporters is not represented in the effort, and resulting effectiveness, of the pricing process of the firm. Clearly, an anomaly in firm strategy exists if a decision variable is consistently viewed as critical to operations, yet those individuals responsible for the implementation of that variable are largely dissatisfied with the results. Far more often than not, an ad hoc, cost-oriented approach to pricing exports is undertaken instead of a well defined, systematic approach based on accumulated market and competition-related information. Instead of this cost-oriented approach being the result of apathy or negligence on the part of export managers, it is often the bi-product of a lack of communication or concerted efforts between those export managers and senior level management, as well as manufacturing divisions. These problems often take place in three distinct areas. First, export managers often feel that they are not supported with the resources necessary to accumulate the market and competition related information sufficient for competitive pricing efforts. Second, a centralized price decision-making process often stifles the efforts of export managers to become or remain competitive in rapidly changing overseas markets. Third, the issue of production costs and their sometimes detrimental effect on the pricing efforts of managers, as well as a lack of symbiotic objectives between export managers and product design groups, often prevents managers from pricing their products low enough to be competitive.

The results of this study indicate that in order to effectively price goods in export market, there is a need for frequent communication between the export managers and headquarters management. This communication should take the form of a quality exchange of information regarding accurate production costs, competitive products and pricing schedules, customer purchasing power and demands, and market related information such as regulations and exchange rate volatility. Concurrently, if senior level managers expect high performance from their export markets, an increase in the priority level of export market research may be necessary. As is, many managers in charge of pricing products in those markets simply do not have the information available that will enable them to price their products based on demand and competition related factors as well as costs. An integration of the export manager's knowledge of market and competition into the overall pricing strategy will also benefit performance, too often these individuals feel they are being under-utilized within that process. It may even be that in many cases the resources that the firm needs to price effectively are embedded within the organization: all the knowledge necessary to take a market-oriented approach toward pricing may reside in lower level product and country managers, this knowledge accumulated through working with clients, distributors, and sales-force personnel in the export markets. A large resource commitment to information gathering may not be necessary.

The pricing of products will continue to be a critical aspect of export operations for the firm. What is evident is the need for cooperative efforts between the separate functional areas of the firm, as well as the different hierarchical levels of management. Input by those individuals familiar with cost structure as well as managers with an

understanding of market and competitive dimensions is a necessary function for the effective export pricing efforts of the firm. Without this integration, the reliance on quick, cost-oriented pricing procedures will continue to result in less than satisfactory export pricing efforts.

CHAPTER SIX

DISCUSSION AND CONCLUSION

This dissertation has examined export price decision making in the context of the internationally active firm operating in an oligopolistic export market. A comprehensive approach has been utilized to provide conceptual guidance during the collection of the empirical material. This differs significantly from previous research which tended to rely on qualitative data and universalist explanations of pricing behavior (Diamantopoulos and Mathews 1995). From a methodological standpoint, both qualitative and quantitative techniques were used in the collection of primary data. The statistical analysis of these efforts has resulted in a detailed picture of export pricing behavior, with specific interest in focusing on the importance of both organizational and environmental variables as drivers of export pricing strategy.

By undertaking a major study regarding pricing strategies in an international context, particularly in an area so under-investigated as that of the pricing of exports, the results provide yet another stepping-stone towards continued research. Here, the insights offered by the findings are of value both from the theoretical perspective and the managerial outlook. In the way of theory contribution, the research successfully links the Industrial Organization and Resource-Based theories by providing empirical evidence that those variables that are both organizationally oriented and environmentally oriented effect the export pricing strategies of the firm. While these theories have in the past been linked with export *marketing* strategy, their relationship with the pricing processes in an

international context, with all of the complex economic stimuli that drive prices in the marketplace, has yet to be determined. The managerial value of this research is more clearly evident. With the pricing of exports still being more of a mystery to international business managers than other aspects of the marketing mix, this study provides valuable insight into which strategies affect the export performance of the firm, how these strategies differ from traditional, domestic oriented strategies, as well as what environmental and organizational variables affect those strategies. Given the significant linkages between several export pricing strategy dimensions and export performance, and, just as importantly, the lack of significant linkages between strategies that have been traditionally considered valuable predictors of performance, a re-evaluation of the pricing process of the exporting firm should be undertaken.

In providing a background for this study, it was stated that much of the export pricing literature that existed to this point was largely conceptual in nature, and what limited empirical work that had been presented was often conflicting. While this study does support some of the export pricing strategy literature, it also refutes several previous studies. Just as critical, this investigation addresses several key issues that in the past simply were not investigated by researchers. The purpose of Chapter 5 will be to discuss the findings of this research, and where appropriate, compare these findings with those of previous studies. This will be accomplished by first discussing what export pricing strategy is and how it should be defined in future research. The performance implications of export pricing strategy are then covered in detail. Next, the organizational and environmental factors that affect this strategy will be addressed, as well as those variables which have been traditionally thought to drive strategy but which have been revealed

here to be non-insignificant. Following this section, managerial implications are discussed. Since managerial relevance is of particular interest to this study, these implications are considered to be a critical indicator of its value. Finally, directions for future research and conclusions are offered.

WHAT IS EXPORT PRICING STRATEGY?

When analyzing the research which has addressed the export pricing concept to date, one notes that a variety of different approaches have been used to define exactly what constitutes export pricing strategy. It is evident that the approaches used to investigate this strategy to this point have focused on a single dimensional perspective of the pricing process, and that this approach has limited the effectiveness of the research. Most scholars (e.g., Samiee and Roth 1992, Walters 1989) have concentrated solely on the methods by which managers determine their end prices, i.e., whether a cost-based or market based approach is used. Other studies have focused on the use of foreign currencies (Lanconi 1991). The majority of work has concentrated on the antecedent variables which drive strategy (Cavusgil 1988, Katsikeas and Morgan 1994, White and Niffenegger 1980, Samiee 1987). The trend is clear: export pricing strategy has generally been considered a single dimension when applied by the firm. One major contribution of this study is the identification of export pricing strategy as a *multi-dimensional* construct, consisting of four separate dimensions not suffering from mutual exclusivity. These dimensions are export pricing objectives, export price setting philosophy, export price determination, and export pricing implementation, which provide a systematic categorization of a variety of constructs which affect performance.

These dimensions are in turn comprised of individual strategy constructs, from two to four each. This multi-dimensional perspective is indeed justified, and should be considered in further investigations, as the empirical results support this view. Each of the constructs identified in the conceptual framework exhibits good internal consistency, from .701 (price coordination) to .921 (foreign currency choice). As discussed in chapter three, the multi-dimensional nature of the export strategy construct is not a mutually exclusive one, as is shown by the correlations among the individual strategies. Several of these correlations are significant yet not to such a degree as to rule out separate constructs. It is evident, for example, that firms utilizing a market based export pricing strategy may also take a competitive posture in the use of price as a competitive tool. Most importantly, the study has shown that export performance is affected in a significant manner across the strategy dimensions. At the same time, these dimensions are themselves affected to a variety of degrees by the organizational antecedents and environmental antecedents. This further supports the argument that export pricing strategy is best viewed as a multi-dimensional construct.

THE EFFECT OF EXPORT PRICING STRATEGY ON EXPORT PERFORMANCE

Justification for the exploration of export pricing strategies is given by the clear statements, by both scholars and managers, of the critical nature of the pricing decision in business. This relationship between pricing strategies and firm performance has been well documented (Gabor 1988, Monroe 1990, Morris and Morris 1990, Nagle 1987). Yet a clear gap in the literature exists in addressing particular international pricing strategies

and performance. Several studies have provided a foundation for the strategy-performance investigation, but only in a limited sense. Still, previous studies such as Walters (1989) and Rao (1984) have indicated that, within an exporting context, pricing strategies do affect firm performance. Past works, however, have raised questions regarding the degree that export pricing has on performance (e.g., Cavusgil and Zou 1994). What was lacking was the understanding of which strategies are of use to managers in increasing performance levels, and the degree of impact that these strategies have on enhancing the firm's position in the market. Therefore, an understanding of the effect of export pricing strategies on export performance is an important step in international marketing research.

The results presented in this dissertation provide answers to those questions which heretofore have not been empirically addressed. Primarily, these results indicate that seven separate strategy constructs representing all four strategy dimensions are found to be significantly related to export performance. Just as important are the findings that several strategies that have been traditionally considered key indicators of performance were found to not affect performance significantly. By examining these constructs individually we can better understand how they affect, or fail to affect, performance.

Within the dimension of export price setting philosophy, four distinct constructs exist. The first, competitive posture, was defined as the degree of importance that management attaches to price as a competitive tool. Performance, particularly in increasingly competitive and dynamic global markets, is reliant on competitive pricing as a means by which firms adapt their offerings to fit demands in their overseas markets (Quelch and Hoff 1986, Walters and Toyne 1989). This perspective is supported by the

research results, which show a significant positive relationship between performance and the use of price as a competitive tool by management. Managers responded that the use of price to penetrate and maintain a competitive position in export markets was a prevalent approach, and it is believed that this study was the first to ask this question directly, and the results show that the use of price as a competitive weapon is a potent alternative for management.

The next construct within the philosophy dimension is senior management control. This construct provided perhaps the most surprising results of the study, and refuted the research hypothesis that decreased senior management control of the pricing decision increases export performance. Baker and Ryans (1973) had stated the degree of price setting autonomy outside of upper level management will determine in part whether the firm bases its price on costs or competition, and that increased autonomy enhances performance. The critical role of the location of the pricing decision (Abratt and Pitt 1985, Clague and Grossfield 1974) and the distance from point of sale of that decision will affect firm performance, yet the results indicate that the greater the degree of senior management control the better the performance of the firm. The overall responses indicate, however, that the majority of pricing decisions are made by the more senior management within their own business unit, as opposed to management at the parent headquarters level. In other words, while the sales force is given little autonomy in setting prices, the pricing decision is generally not performed by individuals far removed from daily product management.

In many firms, it is established policy that prices will be annually reviewed with few changes in the short run to enable customers to lock in prices for their own costing

and pricing purposes (Diamantopoulos 1995, Garda 1984). Results indicated, however, that most firms are reviewing their prices every nine months or so, and that there is little variance in how often managers are reviewing or changing product prices. This lack of variance may account for the nonsignificant effect that frequency of review has on performance. Increased volatility in the markets may have closed the gap in cross-industry pricing review times to where most firms are monitoring their prices frequently and consistently.

Different from frequency of review, pricing flexibility is the willingness to change prices based on special circumstances. Correlation analysis does indeed indicate that these are two distinct constructs. Often the willingness to change prices based on the special circumstances faced by customers (e.g., purchasing power, end user volume demands) will be necessary to ensure long term customer satisfaction. This follows the work of Porter (1980, 1986), Ohmae (1990), and Kogut (1988), who state that increased environmental dynamics call for increased flexibility by management. This is certainly true when it comes to pricing exports, as the results indicate that there is a significant, positive relationship between pricing flexibility and export performance. It is evident that consideration of customer needs and abilities in purchasing, and a willingness to change price accordingly, is beneficial to performance.

The third dimension of the strategy construct, export price determination, refers to the specific methods the management employs to calculate and achieve the final price of the product. Due to the need for more than one pricing action for all product in all environments (Davies and Hughes 1975), there are a number of different methods available to the firm, yet they can best be categorized as either cost-based pricing

methods or market based pricing methods. The traditional investigations of pricing within a domestic context have often been founded on market versus cost based pricing techniques (Tellis 1986, Monroe 1990), and this study has extended this type of investigation into the international context. Researchers have often noted that managers have been hard to break from a cost based pricing approach due to the ease of the method when compared to market based pricing. Yet, time and again the literature has warned that, in a domestic context, basing product price simply on cost is a dangerous endeavor. The results were no different in this study. Market based pricing strategies are shown to significantly affect performance in a positive manner, while inversely, cost based strategies have a significant, negative effect on performance. Unfortunately, many firms are still basing their prices on costs, and close to seventy percent of firms stated that they rarely put much time or effort into their export pricing decisions.

The final dimension of export pricing strategy is that of pricing implementation, which is defined as the day-to-day management and tactical moves which allow firms to combat or take advantages of anomalies in the market. Managers have often complained about the gray market imports from other markets where unauthorized distributors were taking advantage of cross-market price margins (Cavusgil and Sikora 1988, Cespedes, Corey, and Rangan 1988). Uniform pricing, therefore, was predicted to enhance performance and combat the loss of sales due to this action. The results, however, do not support this perspective, at least not to a significant degree. Again, the volatility and dynamic nature of international business may simply preclude any effective coordination across markets for an extended period. Concurrently, most managers indicated that they have little control over who distributes their products, and indeed, in this study the

majority of managers indicated that unauthorized imports of their products are not a problem.

Conventional wisdom states that as competitive levels in the global marketplace increase, firms wishing to maintain or develop relationships with clients must offer many of the same customer oriented services as their competitors. Piercy (1983), as well as Diamantopoulos and Hart (1993) argue that this means exporters will have little choice but to offer prices calculated in market currencies or third country currencies as preferred by the customer. Customer satisfaction enhances performance, resulting in the hypothesis that increased use of market and/or third country currencies leads to higher levels of performance. This study shows, however, that while increased use of currencies other than U.S. dollars is positively related to performance, it is not a significant relationship. In fact, the vast majority of managers indicated that they rarely use anything but U.S. dollars, and that their overseas buyers almost never request the use of their own currencies in transactions.

While not hypothesized relationships, the investigation of the pricing objective-performance interaction is an interesting one since objectives are often considered drivers of other types of strategies (Diamantopoulos and Mathews 1995). Pricing objectives were defined as the strategic and economic goals desired by management in pricing their product. Close to two dozen separate objectives have been identified by scholars (Diamantopoulos and Mathews 1995, Morris and Morris 1990), yet these objectives are easily categorized into two areas, competitive objectives or profit oriented objectives. These two separate constructs indeed effect performance in clearly distinct fashions. Competitive objectives positively and significantly enhance firm performance, while

profit oriented objectives affect performance significantly, but with a negative relationship. Again, this indicates an importance on more competitive oriented, market driven decision making by the firm.

While the main focus of this section is the strategy-performance relationship, it should be remembered that direct effects on performance account for a significant amount of variance. Although limited in nature, this study's investigation of direct antecedent effects on performance did also explore what Cavusgil and Zou (1994) revealed, that management's commitment to the export venture had a significant, positive effect on performance. This finding is reinforced here, with commitment to the venture being a strong, positive influence on firm performance. This is a good reminder that performance is not solely driven by the strategy of the firm, in this instance at least a specific organizational variable directly influences the export performance of the firm.

THE EFFECT OF INTERNAL ORGANIZATIONAL FACTORS ON EXPORT PRICING STRATEGY

Literature founded on the resources-based theory posits that internal organizational resources, capabilities, organizational processes, business attributes, information, and knowledge controlled by the firm will enable it to implement strategies to improve its efficiency and effectiveness (Barney 1991, Collis 1991). It is important to establish whether internal organizational factors affect the deliberate conception and implementation of strategy, since these factors have at times been ignored by scholars who instead have concentrated upon external industry and market oriented factors as drivers of firm decision making (Scherer and Ross 1990). The justification for including

both resource-based (organizational) factors and industrial organization-based (environmental) factors in the model was based on the successful inclusion of these variables in past studies (e.g., Cavusgil and Zou 1994), yet they have yet to be justified in an international pricing context. At the same time, however, it is important that these internal variables drive several export pricing strategies, and are not limited to just one, this to help support the argument for a multi-dimensional strategy construct. What is evident in this study is that managers are faced with several firm and product specific variables, as well as industry and market related variables, which significantly affect their pricing decisions in the export market. This lends credence to the theoretical support that the IO-based and Resource-based theories are linked, in that both internal factors and external factors drive export pricing strategy, which in turn significantly effects export performance.

By looking in detail at the study results, we can see that through extrapolating such studies as those by Samiee (1987), Nagle (1988), Cavusgil and Zou (1994), Katsikeas and Morgan (1994), Baker and Ryans (1973), and Abratt and Pitt (1985), among others, inclusion of specific internal variables in the conceptual framework, and empirical validation of these variables as drivers of pricing strategy in an exporting context, is possible. Specifically, it was hypothesized that product maturity, international experience of the firm, firm size, input cost volatility, use of information systems, number of production facilities, commitment to the export venture, and product standardization all significantly influence export pricing strategy. Results show that the use of price as a competitive tool is significantly influenced by the number of production facilities, allowing firms to switch production locations according to lower labor and

resource costs and allowing them to compete on price due to lower fixed and variables costs. For the same reasons, the number of production facilities also positively influences pricing flexibility in a significant manner.

In exploring the relationships between export pricing determination and the antecedent variables, two interesting developments appeared. First, commitment to the export venture was indeed significantly and positively related to market-based pricing, while not to cost-base pricing. Market-based pricing dictates that management devote time and resources to monitoring market conditions and competitive moves within those markets. This will come only when firms are committed to the extent to which they put aside standard, simplistic pricing, based solely on costs and not reliant on market information. Second, and contrary to predictions, the international experience of the firm was found to be a significant predictor of cost-based pricing over market-based pricing. Perhaps this is due to pricing procedures that are burdened by the baggage of preconception and bias that has characterized so many pricing efforts. These older firms may simply be applying imbedded pricing formulae which were useful in decades past when competitive levels were not as high as at present, or when the diversity of market related factors was less than what newer firms must deal with today during their initial export market entries.

By employing periodic tactical moves which allow the firm to combat or take advantage of anomalies in the market, it is possible for the firm to monitor prices that are otherwise considered pre-set and profitable. By coordinating prices across markets, managers can alleviate much of the pressure put on the firm by gray market (parallel) imports. Following past research (Duhan and Sheffett 1988, Weigland 1989), price

coordination was predicted to combat this type of arbitrage brought about by wide price margins between markets. Cespedes, Corey, and Rangan (1988) showed that as prices rise and fall within individual markets, the exporter may need to change prices in other markets in order to avoid parallel imports. It is intuitive that the degree of product standardization across markets will affect the ability of firms to coordinate their prices, since product adaptation incurs costs in developing alternative product variations (Cavusgil, Zou, and Naidu 1993), and these costs are in turn reflected in the price. In this study, it is shown empirically that the degree of product standardization does indeed have a significant, positive relationship with price coordination strategies, supporting past research in this area.

The majority of firms in this study indicated that their use of any currencies beside U.S. dollars is extremely limited. There was very little indication that buyers were suggesting the use of their home country currencies, or the use of third country currencies in transactions. As a result, the findings in this portion of the study were somewhat surprising, given that researchers such as Piercy (1983) and Diamantopoulos and Hart (1993) indicated that the use of market and third country currencies in exporting was critical to developing or maintaining a competitive position in the market. This study does show, however, that the firms that are utilizing non-U.S. dollar currencies in their pricing implementation are larger, more resource rich firms. These larger companies have the ability to absorb potential losses due to fluctuations in the currency markets, and may be more proficient in the management of those currencies (Scharrer 1980).

HOW EXTERNAL ENVIRONMENTAL FACTORS AFFECT EXPORT PRICING STRATEGY

The focus on IO-based theory and its positioning that industry and strategic groups are considered identical in terms of strategic resources they control has been prevalent in the research. The perspective that the external environment imposes requirements to which a business must adapt (Hannan and Freeman 1978, Bartlett and Goshal 1991) is widespread and the justification that these factors affect firm strategy has been accomplished through a number of studies. However, within the pricing research these factors were yet to be empirically shown to affect strategy in an international context. In this study, both industry oriented and market oriented external variables are shown to significantly affect export pricing strategy.

The philosophy that an annual review of product price is sufficient has been popular with management believing that price should be changed no more than once a year, enabling customers to lock in their prices for their own costing and pricing purposes (Diamantopoulos 1995). As discussed in the section on strategy above, however, this study found that most firms are reviewing their prices more frequently than once a year. Perhaps managers are learning that the policy of an annual pricing review can tempt forward buying by distributors who are aware of the firm's price review schedule (see Garda 1984). More likely, however, it is environmental volatility that drives firm's to increase the frequency of their price review. Indeed, in this study competitive intensity of the industry was found to have a significant relationship with frequency of review. Farley, Hulbert, and Weinstein (1980) showed that in a domestic capacity, industry competitive levels forced managers to have their prices under continuous review, and this

finding is supported here in an international context. The research by Cavusgil (1988) noted that exchange rate volatility will also drive management to frequently review their prices, since those firms exporting to markets with widely fluctuating currencies will by necessity heavily monitor their prices in order to maintain a price within the purchasing power of their clients, but not so low as to miss potential profits. This is supported empirically here in that management's frequency of pricing review is positively and significantly related to foreign currency volatility in the market. Obviously, with the increasing volatility in the world's export markets, management will be inclined to pay more attention to their prices, while at the same time consider the pricing and ordering considerations of their customers.

It should be understood that the efficient and accurate evaluation of costs is a critical aspect of effective export pricing. Just as important is the understanding that this evaluation is not itself a sufficient foundation for pricing strategy (Diamantopoulos and Mathews 1995, Monroe 1990, Gabor 1988). Managers ignoring such issues as customer sophistication may find themselves priced out of the market. As this study shows, firms are more likely to use market-based pricing than cost-based pricing when the degree of customer sophistication is high. Sophisticated customers will be very familiar with the cost structures of all potential suppliers. Concurrently, he or she will be in the habit of searching for the best price and will avoid being a captive buyer subjugated to long term contract commitments. Dealing with sophisticated customer will mean monitoring both that customer's demands and the competitive offerings of alternative suppliers, which in turn calls for a market-based pricing strategy.

As discussed in the previous section regarding internal antecedent variables, the degree of price coordination across markets is influenced by the degree of product standardization. Similarly, it is shown by this study that foreign currency volatility will increase management's price coordination efforts. Inflation or devaluation of local currencies can result in elevated product prices in the target market, while the prices in adjacent markets remain static, thus opening a window of opportunity for unauthorized importers. As a result, firms must coordinate their prices to avoid the cannibalization of their market share by their own products. It is evident that the more markets that a firm exports to, the greater vigilance that firm must have regarding exchange rate fluctuations.

The above discussion leads us to the use of foreign currencies by firms as a strategy. Again, this study found that many firms simply don't use any currency other than U.S. dollars, and that their clients are not inclined to request the use of local or third country currencies. Following Abratt and Pitt (1985), who stated that the degree and caliber of industry wide competition is perhaps the most important factor in the firm's export pricing decision, and that most firms will adjust the elements of their total offer in order to meet competitive situations (Farley, Hulbert, and Weinstein 1980, Lecraw 1984), it was predicted that competitive intensity of the industry would have a significant, positive relationship with the use of foreign currencies by the exporter. The study found this to be true; those companies that do utilize currencies other than U.S. dollars characteristically operate in industries that are highly competitive and that offer clients a variety of alternative suppliers. In many situations the exporter has little choice but to offer comparable currency options as those of competitors.

Table 6.1 A Summary of Research Findings By Strategy Construct

Construct Label	Major Findings
Export Pricing Strategy <i>Pricing objectives (Profit)</i> (PROFOBJE)	Not affected by competitive intensity within the market or industry. A significant negative relationship with export performance.
<i>Pricing objectives (Competitive)</i> (COMPOBJE)	Competitive intensity of the market and industry found not to be related to competitive objectives. A significant, positive driver of export performance.
<i>Price setting philosophy</i> <i>Competitive posture</i> (POSTURE)	Number of production facilities found to be positively related to use of price as a competitive tool, which in turn has a positive relationship with performance
<i>Senior management control</i> (SRCONTROL)	FX volatility, competitive intensity of market and industry, channel length, and customer sophistication found to have no relationship with sr. management control. Yet this variable has a positive influence on performance.
<i>Frequency of review</i> (FREQ)	Competitive intensity of the market and FX volatility are found to be drivers of frequent review of prices. No significant relationship between frequency of review and performance.
<i>Flexibility</i> (FLEXIBIL)	The number of overseas production facilities is a predictor of pricing flexibility, which is in turn positively related to performance.
<i>Price determination</i> <i>Market-based pricing</i> (MKTBASED)	Commitment to the export venture and customer sophistication positively effect the use of market-based pricing. Performance is enhanced by this technique.
<i>Cost-base pricing</i> (COSTBASE)	Significant, positive relationships with international experience and customer sophistication. Negatively related to performance.

Table 6.1 (continued)***Pricing implementation******Price coordination across markets
(PRICECOO)***

Degree of product standardization found to have a positive relationship with price coordination, but no linkage between coordination and performance.

Currency choice (FXCHOICE)

Competitive intensity of market and industry, as well as firm size, have positive relationships with FX choice. No relationship between FX choice and performance.

DIRECTIONS FOR FUTURE RESEARCH

This dissertation sets the stage for a more analytical and deliberate approach to export pricing by (1) identifying relevant variables as antecedents to export pricing strategy, and developing a model for export pricing strategies addressing the relationships of these variables and export performance, (2) advancing and testing the research hypotheses that have allowed the statistical testing of these relationships, and (3) providing the means for developing a “best practices” framework for export managers in their export pricing. This study has offered insights into how export marketing managers can improve the export performance of the firm through more effective export pricing strategies and practices. From a philosophical standpoint, the evaluation of both external environmental forces and internal organizational characteristics as initially described by Cavusgil and Zou (1994) is critical for managers exporting to overseas markets. Concurrently, managers must understand that an export pricing strategy is determined by a dynamic set of variables, and that successful participation in international export markets is reliant on strategies capable of quick response due to constantly shifting economic, competitive, and customer related forces.

Future research can advance the knowledge of export pricing in a number of ways. First, in suggesting a contingency approach to export pricing studies and the subsequent offering of the conceptual framework, every effort was made to identify antecedent variables to the pricing strategy-performance relationship. Identification of all variables, however, is extremely difficult due to the almost endless list of situational variables in the decision making process (Achrol, Reve, and Stern 1983). Therefore the antecedent variables addressed in this study have been limited to those believed to be relevant in order to increase the generalizability of the framework and have it remain manageable. As the reader will notice, a large number of possible relationships between antecedent variables and the different dimension of the strategy construct exist, most of which were not hypothesized due to lack of support in previous literature and therefore were not included in this study. However, it is clear that the investigation of these relationships will provide further insight as to which environmental and organizational variables drive strategy; each of these relationships should be tested to enable a complete evaluation and detailed understanding of the structure-strategy environment. Second, this dissertation has concentrated solely on the structural aspects of export pricing to upper- and mid-stream value chain customers rather than end-user consumers, and therefore little focus has been placed on the effectiveness of export prices from the perspective of consumers. Investigations in this area would be useful to those managers directly exporting to the end-user. Third, the study has focused primarily on the export pricing of manufactured goods. Future endeavors should undertake the pricing processes of service exporters, since these practices would be expected to be significantly different than those of tangible manufactured exports. Fourth, the perspective of this study has been solely that of U.S. exporters. An interesting extension of this work would be in the

area of cross- cultural studies, comparing the export pricing strategies of Asian or European managers with those of U.S. firms. Finally, the investigation of importer buyer behavior and the effect of price on the purchasing efforts of these operations would provide interesting results from the viewpoint of exporters trying to increase their sales or customer satisfaction in overseas markets.

In short, future research at the operational level should investigate the complex set of interrelationships that effect the export pricing strategy/antecedent variable relationships, and to what extent management strategy choices and pricing practices are driven by those variables yet to be investigated. The study provides a foundation for future research regarding "best" practices in export pricing, what role firm, product, industry, international market, and other environmental variables may play in setting export pricing strategies, and how managers ought to make decisions about export pricing. To date, the literature has focused on decision variables other than pricing: managers have had relatively little opportunity to benefit from academic research on international pricing in general and export pricing in particular. This research provides an important link not only between existing pricing research and international marketing studies, but between theoretical concepts and managerial applications as well.

CONCLUSION

Traditionally, many firms have treated the pricing of their exports as an afterthought. Similarly, researchers have considered export pricing as a minor aspect of overall pricing strategy. The pricing process as a strategy that leads to enhanced competitive positioning of the product or increased economic benefit of the venture has yet to be exploited by most

firms. Its usefulness as a competitive tool remains greatly unexplored, despite general agreement regarding the critical nature of pricing as a marketing strategy. Today, marketing managers are compelled to take a more systematic and proactive approach to setting prices for export markets, due to an increasingly competitive global environment, a need for expansion to foreign markets to augment market share and economies of scale, as well as complex international governmental regulations and gray market considerations. Given the understanding by management that a variety of organizational and environmental conditions must be considered when pricing their exports, the use of price as a decision variable can be a valuable strategy for enhancing export performance.

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