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## **Brand Adaptation as a Dynamic Capability in Entry Mode: The case of Spanish Automobile Market**

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### **Abstract**

Under the dynamic capability view, this paper tests the effect of brand entry mode -- labeled here brand standardization and adaptation -- on the post-entry performance of firms entering a foreign market. The empirical setting is the automobile industry in Spain at the end of 1990s when tariff and non-tariff reductions were introduced due to the integration of Spain into the European Union. This empirical context allows testing the entrance in Spain of non-European foreign brands already present in other European countries. The paper identifies two brand strategies through the trademarks registered by the firms across diverse countries. Our main results highlight that brand standardization has a positive impact on performance if it is coupled with high diversification of the product portfolio, but on the contrary, brand adaptation is preferred when the foreign market is characterized by high niche-specialized competition.

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**Keywords:** Foreign Markets, Internationalization, Brand, Product Strategy, Firm Performance, Trademarks, Automobile Industry.

## INTRODUCTION

Nowadays, globalization processes, due to major changes in the technology, in the labor market and in the economy, push companies to go and compete globally more as a necessity than a choice (Business Week, 2005; and Holt et al., 2004). On this line, scholars become increasingly interested in understanding firm post-entry performance (Brouthers, 2013; Martin, 2013; Gao et al., 2010) with a particular emphasis on how entry modes and firm characteristics could overcome the liability of foreignness (e.g. Brouthers, 2002). This has given new life to international business literature that has long been centered in discovering the ex-ante factors that might affect the entry in foreign markets (e.g. Belderbos et al., 2011; Xia et al., 2009) like the choice of the target country as well as the entry modes such as export, joint ventures, strategic alliances, subsidiaries (Leonidou, et al. 2007; Root, 1994).

One of the more challenging research lines analyzes brand entry modes (Townsend et al., 2009; Steenkamp et al., 2003; Douglas et al., 2001), as does this article, focusing on how companies adapt (or not) brands to new markets when they compete internationally. In doing so, this paper merges international business views of brand entry mode (Townsend et al., 2009; Steenkamp et al., 2003; Douglas et al., 2001) with the dynamic capability framework (Teece, 2014). The dynamic capability view postulates that international success depends on the ability of firms to transfer and adapt their strategic capabilities and resources abroad to accrue a competitive advantage (Teece, 2014; Vahlne & Ivarsson, 2014; Sapienza et al., 2006). As a corollary, the ability to deploy capabilities depends on how they are valuable in the new environment, and to what extent they need to be dynamically transformed (Oliver, 1997; Flores & Aguilera, 2007; Argote et al., 2003). These studies dwell on the importance of foreign differences (Alden et al., 1999; Szulanski & Jensen, 2006) and see brands as tools that facilitate the communication between firms and foreign customers.

Our main distinction is between brand standardization, meaning the use of a unique set of identifiers (name, image, etc...) to differentiate the product from competitors in multiple

markets, and brand adaptation, which, on the contrary, implies brand adjustments according to local foreign tastes (Steenkamp et al., 2003). We propose that branding (Rindova & Kotha, 2001) is a dynamic capability that is used to transfer a particular resource like the product portfolio abroad (Vahlne & Ivarsson, 2014).

However, dynamic capability is a process (Teece et al., 1997) that should be enacted when the expected benefits are higher compared to costs. For example, firms that use brand standardization could exploit economies of scale while firms that use brand adaptation should pay the costs of fine-tuning brands to local languages and cultures (Zou & Cavusgil, 2002). It is not therefore a trivial question asking under which conditions a dynamic capability conveys a superior performance in the process of internationalization. We posit that two are the contingencies to analyze: the basic capability/resource that assures the competitive advantage at home, and the type of environment in the new foreign market.

We consider firm product portfolio as the basic resource that could be dynamically transformed abroad with branding; particularly we focus on diversification, i.e. how broad is firm product proliferation across different market niches (Wu, 2013; Sakhartov & Folta, 2014). The environmental condition in the foreign market that enhances the coordination and coherence of this dynamic capability is the level of competition created by specialized producers, i.e. firms specialized in one market niche (Santaló & Becerra, 2008).

We test our hypotheses with data from the automobile industry. This is a globalized industry, with strong international competitors that show an important heterogeneity in their marketing and product approaches (Townsend et al., 2009). We consider the penetration in just one foreign market, Spain, because we can exploit a quasi-experiment type of setting. Given the process of integration into the European Union, Spanish automobile industry had been subject to a gradual but significant reduction in tariff and non-tariff protections during the nineties, so that the number of non-European foreign brands increased fivefold in a short time

period. Since these non-European competitors were already selling their products in the other European countries that were already part of the European Union, this setting allows a clearer estimation of the brand-foreign strategy and firm performance relationship. Having one country as a test-bed allows also us to put safely in the background any cultural difference (i.e. ethnocentrism). In this vein, our empirical findings suggest that dynamic capability (i.e. brand adaptation) is a viable strategy when firms show low product diversification and when the type of competition in the foreign market is specialized.

This paper extends the literature on post-entry performance in foreign markets under a dynamic capability perspective (Teece, 2014; Sapienza et al, 2006). It is one of the first empirical contributions that show performance implications of a dynamic capability (brand adaptation) in international business (Chabowski et al., 2013; Brouthers & Xu, 2002; Brouthers et al., 2000; Townsend et al., 2009). This performance depends on the characteristic of the resource transformed, i.e. the structure of the product portfolio, and on an external contingency like the type of competition in the foreign market. Theoretically, we propose that since dynamic capabilities are costly processes their profitability should be posed under severe scrutiny.

Furthermore, we use trademarks registered at the European Patent and Trademark office to proxy the brand entry mode by measuring whether non-European firm penetrating in Spain were using trademarks similar to those used in other European countries. The use of trademarks as a measure of the brand activity of firm is quite new (Krasnikov, Mishra, & Orozco, 2009), and pioneering in the international business literature (Giarratana & Torrisi, 2010).

In the next section, we offer an overview of the background studies; we then present the hypotheses, before moving into a description of the data set and empirical approach. We next detail the results and describe our robustness checks. Finally, we conclude by discussing the limitations of our study, as well as its implications for theory and practice.

## BACKGROUND LITERATURE

### Dynamic capabilities for internationalization

Traditionally, international business literature was devoted to understand entry motivations in foreign markets (e.g. Belderbos et al., 2011; Johanson & Vahlne, 1977; 2009; Xia et al., 2009) grounding on location specificity, firm assets, entry conditions and liabilities of foreignness (e.g. Brouthers, 2013; Brouthers & Hennart, 2007; Gao et al., 2010; Hitt et al., 2000). Several studies have also explained the entry mode choices such as joint ventures, strategic alliances, and subsidiaries highlighting the trade-off between control, ownership, and costs (e.g. Brouthers, 2002; Herrmann & Datta, 2002; Kogut & Singh, 1988; Woodcok et al., 1994).

Recently, scholars have started shifting their attention towards the importance of developing dynamic capabilities – traditionally intended as the “ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments” (Teece et al., 1997: 516) – to international business; in this interpretation, dynamic capability means to customize resources and competences to diverse foreign environments (e.g. Teece, 2014; Vahlne & Ivarsson, 2014; Pitelis & Teece, 2010). Thus, dynamic capabilities are necessary to valuably compete in markets characterized not only by global competition, mobile capital, technology, and labor, but also by context-specific attributes (Oliver, 1997; Flores & Aguilera, 2007). To decrease liability of foreignness (Hymer, 1976; Zaheer, 1995) firms could therefore, transform, reconfigure, and adapt their home-country resources and capabilities in a new set of competences that could be easily legitimized in an institutional and cultural-distant foreign market.

There are three main angles through which we can understand how dynamic capabilities enrich the international business (e.g. Pitelis & Teece, 2010; Teece 2014). The first one is the position, representing the basic resources and capabilities that the firm is using at home to compete (Barney, 1991). Heterogeneous markets require resources and activities to be ad hoc

orchestrated (Teece et al., 1997) to create cross-borders value (Pitelis & Teece, 2010), otherwise positions/resources could be damaged (Teece, 2014).

The second angle is the process, namely the core of the dynamic capability system, which includes those functions of coordination/integration, learning, and reconfiguration/transformation (Teece et al., 1997; Teece, 2014) that are essential to moving the resource and capabilities from home-country to abroad. Dynamic capabilities are path dependent and idiosyncratic, since they typically evolve through learning mechanisms (Eisenhardt and Martin, 2000; Zollo and Winter, 2002). Thus, learning paths (Barkema & Vermeulen, 1998; Barkema & Schijven, 2008) and mechanisms to transfer companies' routines and practices internationally (Kostova & Roth, 2002; Luo, 2000; Morosini et al., 1998; Westney, 1987) fuel the development of dynamic capabilities.

Finally, the third element is the international strategy implementation, meaning the capacity to “purposefully create, extend, and modify its resource base” (Helfat et al., 2007: 4). Its micro-foundations are the managerial capabilities (Adner & Helfat, 2003), which are central in the asset orchestration, strategic decision-making, and knowledge transfer to sustain continuous change (Brown & Eisenhardt, 1997, Helfat et al., 2007) and coherence in relationship with the salient characteristics of new foreign environment (Rumelt, 2011).

However, reconfiguration, coordination, and orchestration processes underlying dynamic capabilities come at a resource- and context-dependent cost (Winter, 2003, Teece et al., 1997). In terms of international success, therefore, managers should perform the canonical better-off test (Ghemawat, 2003): dynamic capabilities are enacted and maintained when their operation costs are inferior to the benefit generated in new country environments (Winter, 2003).

## **Branding Strategies**

Beyond the traditional studies on entry modes, liability of foreignness, and post-entry performance (e.g. Belderbos et al., 2011; Barkema, et al., 1996; Brouthers & Brouthers, 2000; Delios & Beamish, 2001; Johanson & Vahlne, 1977; 2009; Xia et al., 2009), a novel stream of investigation focuses on branding strategies (e.g. Brouthers & Xu, 2002; Brouthers, Werner & Matulich, 2000; Townsend et al., 2009) starting from the consideration that branding strategies and foreign environmental conditions provide a basis for a sustainable foreign market performance (Brothers et al., 2000). This emerging interest on branding in international business literature (Giarratana & Torrisi, 2010) goes hand in hand with a combination of factors including advances in communication, information, and transportation technologies that has accelerated the process of markets' globalization (Douglas & Craig, 1989; Levitt, 1983; Ohmae, 1989). It goes without saying that marketing studies were pioneering the research on the critical role of brand standardization under the label of global branding (Craig & Douglas, 2000; Zou & Cavousil, 2002).

Yet, there is a lack of general agreement about what constitutes a standardized brand and evidence about the performance implications of brand entry choices (Whitelock & Fastoso, 2007; Ozsomer & Altaras, 2008, Steenkamp, 2014). A standardized brand might represent the similar use of brand names across countries (Yip & Hutlt, 2012), the sales of goods or services across multiple country markets, maintaining the brand core identity (Townsend et al., 2009), the standardization of positioning and marketing mix strategies (Ozsomer & Altaras, 2008; Schuiling & Kapferer, 2004; Schuiling & Lambin, 2003), or brands that are perceived as one by the consumers (Alden et al., 2006; Ozsomer & Altaras, 2008; Steenkamp et al., 2013; Sritzhakova et al., 2008). We adopt the definition of Steenkamp et al. (2003) meaning with brand standardization the use of a unique set of identifiers (name, image, etc...) to differentiate the product from competitors in multiple markets; conversely, brand adaptation implies brand adjustments according to local foreign tastes (Steenkamp et al., 2003).



The empirical evidence up to date still bears measurement inconsistencies (see the review by Ozsomer & Altaras, 2008) and inconclusive empirical findings (Steenkamp, 2014). Some of the results could be nevertheless pinpointed: standardized brand adoption by firms and performance depend on consumers' preference characteristics like ethnocentrism (e.g. Alden et al., 2006; Steenkamp et al. 2003), brand ownership and price (Winit et al., 2014), or product typology (Eckard, 2005; Steenkamp, 2014).

### **Brand Adaptation as a Dynamic Capability**

As noted by Townsend et al., (2009) the process of internationalization is gradual and depends not only on firm-level features, but especially on environmental ones. Hence, brands that attempt to match heterogeneous tastes of foreign consumers could be interpreted as dynamic capabilities, since it entails a process of integration, construction and reconfiguration of home-based competences to address foreign environment characteristics (e.g. Teece et al., 1997). Better said, we inherited the idea (see Rindova & Kotha, 2001; also Chabowski et al., 2013 for a review) that the choice of firms to adapt brands is a dynamic capability.

This granted, firm product portfolio represents the basic resource that could be dynamically transformed in the short run through branding. In particular, we focus on diversification of product portfolio, the salient feature stressed by literature on product proliferation (Wu, 2013; Sakhartov & Folta, 2014). Moreover, because products are genetically considered global, i.e. tangible product features tend to match a demand outside the home country (Branch, 2001), we assume that the product portfolio is the position (Teece, 2014), one of the resources that firms aim to exploit abroad. The process underlying the development of this dynamic capability (Vahlne & Ivarsson, 2014) is represented by the learning mechanisms directed to sell products through branding in new markets; this implies how to adjust or co-develop a brand within a foreign market in order to reach an institutional fit (Vahlne & Ivarsson, 2014). Lastly, at the level of strategic implementation, managerial decision - and

capability – will opt for the most appropriate entry mode, choosing between brand standardization vs. adaptation.

This strategic decision is entangled by the trade-offs between costs and benefits. On the one hand, brand standardization benefits from economies of scale in marketing activities – same image and brands in different markets (e.g. Ozsomer & Altaras, 2008; Townsend et al., 2009; Whitelock & Fastoso, 2007; Winit et al., 2014), but on the other hand it might be loosely coupled with the new market. Thus, brand standardization could imply benefits at the cost level, but more liability of newness for the scarce institutional and cultural fit. For example, Brouthers, Werner & Matulich (2000) show how firm's strategies that reinforce home-based stereotypes, and not adaptation, to foreign markets have a higher likelihood of achieving success.

Brand adaptation derives its strength from cultural sensitivity, authenticity, and responsiveness to local needs, because these brands adapt better into foreign markets (e.g. Ozsomer, 2012; Schuiling & Kapferer, 2004; Steenkamp et al., 2013; Taylor, 2010). This capability benefits from a proper alignment with the market of reference, but it is less cost efficient given due the new brands generation and management. The final step of strategic implementation determines the most appropriate option.

Dynamic capabilities mean also master uncertainty and continuously calibrate and co-align resources and capabilities with the external environment (Teece, 1986; Pitelis and Teece, 2010). Granted, we posit that the characteristics of the basic resource and an environmental condition are important factors to assess the strategic implementation step (Teece, 2014) in internationalization. First, the position is represented by a firm resource and capability generated at home, and we look at the diversification vs. specialization of product portfolio (e.g. Wu, 2013; Sakhartov & Folta, 2014). We assume that this is a sticky resource at least in the medium term, and that firm do not change their product portfolio across

different countries. Second, the coordination and coherence is factored in by an environmental condition that we define as the level of specialized competition in the foreign market (Santaló & Becerra, 2008).

## **HYPOTHESES DEVELOPMENT**

In this section, we develop two main hypotheses. The first considers the deployment of a dynamic capability in presence of different levels of product diversification. The second theorizes on the efficacy of this capability given the intensity of specialized competition in foreign markets.

Diversification of product portfolio is one of the most common resources that defines heterogeneity across competitors (Sakhartov & Folta, 2014); it is also referred as across-niche product diversification, breadth or within industry diversification and it implies the simultaneous presence of products of the same firm in different submarket niches (Eggers, 2012; Zahavi & Lavie, 2013).

When portfolio diversification is high, firms offer a wider array of products, which could reduce the liability of foreignness (Dastidar, 2008). By targeting simultaneously different niches, portfolio diversification increases the probability of fit with heterogeneous customers' preferences, and thus, reduces the risk of a liability of newness, especially when consumers manifest preference for one-stop-shop offering (Barroso & Giarratana, 2013; Sakhartov & Folta, 2014; Ye et al., 2012; Dhingra, 2013). However, under this condition, the development of a dynamic capability produces higher average costs. Indeed, new brands should be created and managed across time the more are the countries and the product niches targeted by a focal company. Needless to say these activities are cost-enhancing since they absorb managerial attention and financial resources (Degraba & Sullivan, 1995).

On the contrary, opting for brand standardization allows firms to decrease average costs, because they can exploit economies of scale in marketing activities, i.e. a unique brand for all products (Dhingra, 2013). By definition standardized brands tend to communicate broad meanings and ideas with scarce reference to product attributes so that they can more easily transferred across different product niches (Steenkamp et al. 2003).

In sum, in presence of high product portfolio diversification, developing adaptive dynamic capability does not increase considerably the marginal returns of firm resource, and in addition, it also tends to increase average costs.

When a firm has a low portfolio diversification, it specializes in a niche with a precise combination of customers' preferences satisfied by some product attributes; usually the quality of these product attributes commands the success of a product and therefore should be successfully promoted through branding advertising (Krasnikov, et al., 2009). This represents a more risky option for firms entering a foreign market, because the probability of a mismatch between customers' average tastes and product offer is higher, other things being equal. Consequently, the possibility that customers could perceive the product as distant or not culturally aligned could be significant, especially when the particular segment in which the firm is specialized is not popular or diffuse in the foreign country.

This substantive liability of foreignness could be reduced only with an attentive marketing advertising that communicates familiarity cues of the product to the foreign customers. Even if the devotees of a particular product represent a consistent part of the foreign demand, they most probably require a narrative adapted to their foreign flavours because legitimacy is based on explanation of product attributes (Suzlanski & Jensen, 2006). Thus, higher returns could not be conveyed through brand standardization (Chabowski et al., 2013; Steenkamp et al. 2003).

Being specialized, the firm would incur in lower average costs in advertising, given the lower need of brand investments to market a limited array of products – i.e. promoting the same niche product, targeting homogeneous customers... - and therefore, brand adaptation does not require a burdensome investment. In this case, developing a dynamic capability does not imply significant cost increases, and it has higher returns in transferring the resource abroad. Therefore, we formulate:

H1: The relationship between brand adaptation (standardization) and performance in foreign markets is moderated by the level of diversification of product portfolio, in such a way that the more a firm is specialized (diversified), the more a brand adaptation (standardization) produces positive performance effects.

The second contingency is related to a canonical environmental characteristic, the type of competition in the foreign market. Recent works have shown how firm's performance depends not just on the average intensity of competition within the industry but also on the type of competition within the niches to which particular products belong (Cottrell & Nault, 2004; de Figueiredo & Kyle, 2006). Santaló & Becerra (2008) address this issue showing that in segmented industries the intensity of specialized competition, i.e. competition generated by niche-specialized producers, is a key to understand performance. Following this study, we consider the level of specialized competition in the foreign market as a local structural feature.

Our main argument posits that when the local competitive landscape is characterized by a high specialized competition, companies tend to compete on product attributes, i.e. tangible differentiation. In these contexts, companies compete to present themselves as superior on an array of product characteristics, and customers are typically assumed to be well-informed and interested on the single combination of tangible attributes (e.g. Stavins, 1995; Greenstein

& Wade, 1998; Ruebeck, 2005; Khessina & Carroll, 2008; de Figueiredo & Kyle, 2006). Therefore, product attributes command familiarity and loyalty (Hui, 2004).

Along this reasoning, companies that opt for brand standardization could be posed at disadvantage, because they do not have any foreign-specific brand image; it is difficult to communicate properly the attributes to foreign customers with brands used in different cultures and languages. At the same time, brand standardization generally implies the communication of a general meaning with scarce references to product attributes (Chabowski et al., 2013; Steenkamp et al. 2003).

Differently, brand adaptation helps companies to connect with foreign customers and they include the option to highlight tangible differences in the product attributes with a local language. Thus, when the foreign environment is characterized by high specialized competition, the dynamic capability tends to be of high value because it decreases the liability of foreignness. In sum, the second hypothesis reads:

H2: The relationship between brand adaptation (standardization) and performance in foreign markets is moderated by the level of specialized competition; in such a way that brand adaptation (standardization) produces more positive (negative) performance effects as specialized competition increases.

## **EMPIRICAL ANALYSIS**

### **Empirical Setting**

We consider the automobile industry as an appropriate empirical setting for two main reasons. On the one hand, this industry is a consolidated global market characterized by the presence of high variety of firms from different countries operating on an international scale

(Townsead et al., 2009). On the other hand, this setting is useful for disentangling the effects of brand strategies and product proliferation on firm's performance in foreign markets because it is characterized by several competing firms with multiple product models marketed in different market niches. This setting allows to elaborate theoretical reasoning that might be generalized to industries with economies of scales from productions, by economies of scope from demand, presence of customers' heterogeneity, and finally, by segmentation in different submarket niches.

This granted, our empirical analysis focuses specifically on the Spanish automobile market between 1990 and 2000. The Spanish market represents an interesting case because after Spain joined the European Union, sensible reductions of import barriers were introduced from the late 1980s. This novel internationalization openness led to a significant increase in the number of non-European foreign firms in Spanish market. After the tariff reduction competitors increased from<sup>1</sup> 19 to 31 thanks to 12 non-European firms that penetrated the Spanish market (i.e. Chrysler, Daewoo, Honda, Hyundai, Mazda, Mitsubishi, Nissan, Subaru, Suzuki, Toyota, Kia, and Galloper).<sup>2</sup>

Moreover, the Spanish automobile market is appropriate for our study for three important reasons. First, brand standardization vis-à-vis adaptation entry strategies are measurable given that all the non-European brands<sup>3</sup> had already penetrated other European countries with different approaches before entering Spain. Second, the brand strategy chosen by the non-European firms at the entry does not change during the same period, while it is observed an important variation in the level of product portfolio diversification and competition over time. For example, as a response of new entries the number of car models offered in the

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<sup>1</sup> The European firms in the Spanish automobile market between 1990 and 2000 are Citroen, Peugeot, Ford Europe, Opel, Renault, Seat, Volkswagen, Audi, Alfa-Romeo, BMW, Fiat, Jaguar, Lancia, Porsche, Rover, Saab, Skoda, Volvo, and Yugo.

<sup>2</sup> All the non-European firms entered the Spanish market using a wholly-owned subsidiaries (WOS) entry mode.

<sup>3</sup> Given that all non-European firms operate with only a brand during the period considered, we will indifferently refer to brand or firm.

Spanish market by European brands increase from 101 to 229 during the 90s. This empirical features offer a good setting for identifying the moderator role of diversification and competition in the relationship among performance and brand strategy.

### **Empirical Strategy and Data**

We employ a two-step Heckman's (1979) model. This method implies two-stage estimation: the first step estimates with a probit model the choice of the branding entry mode (i.e. brand standardization vs. brand adaptation), while the second step evaluates the firm performance given the brand entry mode. The probit model is conditional on a firm decision of penetrating a foreign market. Similar empirical methods have been used by previous literature on entry modes and performance (Brouther, 2002; Shaver, 1998; Reeb et al., 2012) because the two-stage Heckman softens biases derived from unobserved characteristics that simultaneously affect performance and entry strategies (Bascle, 2008).

As far as concerns the first step, the probit regression assumes that a focal firm has to choose one entry brand mode (brand standardization vs. brand adaptation strategy). Given the binary nature of the decision, a probit specification reads as follows:

$$\textit{Brand Standardization}_{ij} = \gamma w_{ij} + \mu_i$$

where *Brand Standardization*<sub>ij</sub> is a binary variable that indicates whether the firms i decided to operate in the new foreign market j using a brand standardization strategy, *w*<sub>ij</sub> is a vector of explanatory variables, and  $\mu_i$  an error term normally distributed (i.e. zero mean and unit variance).



To estimate the second stage (i.e. the performance model), we use the estimates of  $\gamma$ , to correct the bias coming from self-selection  $\lambda$ ,<sup>4</sup> (Heckman, 1979). The performance equation is the following:

$$Performance_{ijt} = \beta x_{ijt} + \delta Brand\ Standardization_{ij} + \beta_{\lambda} \lambda_{ij} + \varepsilon_{it}$$

where  $Performance_{ijt}$  is the performance of the firm  $i$  in the country  $j$  at period  $t$ ,  $x_{ijt}$  is a vector of explanatory variables that affect performance, and  $\varepsilon_{it}$  is an error term normally distributed with zero mean and variance  $\sigma$ . The vector of explanatory variables that affect performance includes the variables correlated with the brand strategy choice,  $w_{ij}$ , with the exception of at least one variable. To employ a two-step Heckman's (1979) model it is required that at least one of the explanatory variables that affect the brand entry choice does not affect the firm performance to rule out identification problems.

We employ two datasets to estimate the model. The first one, used to estimate the probit model, is an annual panel drawn from Goldberg and Verboven (2001)<sup>5</sup> that contains annual information about the 12 non-European brands competing in six European countries (i.e. Belgium, France, Germany, Italy, the U.K, and Spain) for the period 1970-1999. From this dataset we collected information on sales and model characteristics in the European automobile markets for each entry of a non-European brand that enters in one of these European countries. Our final sample consists of 29 observations due to the 12 non-European foreign firms at risk at entry in European countries (one observation for every European country entered).

The second dataset, employed to estimate the performance model, consists of a quarterly panel data from 1990 to 2000, for each car competitor present in Spain in this period. For each firm we retrieved data on size and advertising expenditures, price, sales, presence in

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<sup>4</sup> Given the probability density function and cumulative function of the standard normal distribution,  $\phi$  and  $\Phi$  respectively, the correction for self-selection is  $\lambda = \phi(\gamma w) / \Phi(\gamma w)$  if Brand Standardization=1, and  $\lambda = -\phi(\gamma w) / [1 - \Phi(\gamma w)]$  if Brand Standardization=0.

<sup>5</sup> Data available at <http://www.econ.kuleuven.be/public/ndbad83/frank/cars.htm>

submarkets, and their model characteristics (the source are ANFAC, the Spanish magazine “Spain Guide of Car Buyers”, the Spanish firm, and Infoadex). From this dataset we collected information for each non-European brand during the ten years. Our final sample consists of a panel data with 279 observations.

Finally, both dataset are extended with trademark information. To address properly the diversity of brand strategies of non-European firms, we retrieved information on trademarks that are active both in Spain and other European countries (source European Trademark Office, ETO). For each brand we downloaded all the trademarks registered at the ETO in all European countries since its entry. For each trademark, we also collect information on trademark type (i.e. stylized characters, word, figurative and combined). Trademarks could be a collection of words, symbols or designs, and their combinations, that identifies and distinguishes the source of the goods and services among competitors; specifically a trademark allows the owner to exclude others to use similar trademarks to sell same products in the same markets. Trademark information accounts both for the category of products or services that protects and for the type of brands (words, image...). Accordingly, recent research in innovation (Mendoca et al, 2004; Gao & Hitt, 2012) has mainly used product/service category data to identify product innovation while works pertaining more to the marketing domain (Krasnikov et al., 2009; Melnyka et al., 2014) has utilized the “type” to define branding approaches. This paper follows the latter approach in treating trademarks.

## **Variable Definition and Measures**

### **Brand Entry Mode Model.**

**Dependent Variable.** Brand Standardization is the dependent variable in the brand entry mode probit that takes the value 1 if the firm follows a brand standardization strategy at the entry and zero otherwise. As we anticipated, in order to define the brand strategy we used trademarks

(Krasnikov et al. 2009), and in particular trademark type information (word, combined, figurative, or stylized characters). Given a firm that decides to operate in the new foreign market, we identify the type of trademark that the firm is using in the new foreign market  $j$  and in other European markets in which it operates. Next, we compute the proportion of European markets in which the firm is applying similar type of trademarks to the new foreign market. Figure 1 shows the histogram of the proportion of countries with similar trademarks for all the brands considered and Table A1 in the Appendix shows some examples.

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Given this distribution, with mean 0.33, we construct the Brand Standardization dummy variable, considering that a firm applies a brand standardization entry mode when its proportion is greater than the mean

**Independent Variables.**

The set of independent variables includes firm sales dispersion among European markets, product efficiency, annual, firm and country dummies.

Sales dispersion is a Herfindhal index that captures the sales dispersion of a focal firm in Europe. To measure it, we use the ratio between  $Sales_{ikt}$  of the firm  $i$  in the country  $k$  at time  $t$  and the  $Total Sales_{it}$ , meaning the sales of the firm  $i$  in all European markets in which the firm operates at time  $t$ . More specifically, the measure for firm  $i$  at time  $t$  in the country  $j$  is defined as:

$$Sales\ dispersion_{ijt} = \sum_k \left( \frac{Sales_{ikt}}{Total\ Sales_{it}} \right)^2$$

To avoid identification problems in the performance models, we assume that sales dispersion affects brand entry mode but it does not affect firm performance in the new market. Sales dispersion is not measuring international experience both in terms of age or number of foreign countries, but how much the company

foreign sales depends on different (or single) markets before the new entry; this is likely to affect the mode of entry in a new country, but not the post-entry performance.

Product efficiency is measured by the average gasoline consumption of the car models that a focal firm is selling in all the European markets. It signals the average positioning of a firm product portfolio before the new entry.

Finally, we add annual, firm, and country dummies as further controls of common market shocks, firm transaction cost and country's specific market or institutional context variables (Brouthers, 2002).<sup>6</sup>

## **Performance Model**

### **Dependent variable**

Performance. Various measures of performance have been employed in past entry mode studies to investigate the relationship between the entry mode and the performance like managers' evaluation (Brouther, 2002) and firm survival (Shaver, 1998). Here, we define the performance as the firm car model margins multiplied by the number of units sold at time t for each company i. Because our theoretical predictions refer to the firm's performances in the foreign market based on variations in demand (q) and margins (p – mc), we follow Kadiyali et al. (1999) who used a supply–demand structural model to estimate firm margins. Performance reflects the firm's ability to charge higher prices and increase its market shares, while also controlling for the underlying cost structure.<sup>7</sup> The final measure is the aggregation at firm level profits accrued for each model. Therefore,

$$Performance_{it} = \sum_{r \in F_{it}} (p_{rt} - mc_{rt}) q_{rt}$$

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<sup>6</sup> Firm controls also allow to capture different awareness levels among firms in the new markets.

<sup>7</sup> The main limitation of this approach is that we assume that firm maximizes profit only taking in to account the Spanish market, although fixed cost as, for example, international marketing efforts are control to get the performance measure.

where  $F_{it}$  is the set of products offered by firm  $i$  at period  $t$ , and  $p_{rt}$ ,  $mc_{rt}$ , and  $q_{rt}$  are respectively the price, marginal costs, and units sold of product  $r$  during period  $t$ .<sup>8</sup>

### **Independent variables**

In the second step, our core covariates are the brand standardization strategy, the firm intra-industry diversification (or product breadth), and the market competition.

Brand Standardization, is a dummy that takes the value 1 when firms follow a brand standardization strategy at the entry and zero otherwise, and it is defined in a similar way than in the probit model, ie based on the type of trademarks registered by the firms in the European markets.

Diversification indicates the extent of the product breadth of a focal firm (across niche diversification). We use the Berry index of dispersion to measure it. For firm  $i$  at time  $t$ , it is defined as

$$Diversification_{it} = \left[ 1 - \sum_s \left( \frac{N_{ist}}{N_{it}} \right)^2 \right] * 100$$

where  $N_{ist}$  is the number of products offered by firm  $i$  in niche  $s$  at time  $t$ . The Berry index varies theoretically from 0 (i.e. the firm sells product in only one niche) to 100 (i.e. the highest diversification). Each car model is classified by ANFAC (The Spanish Association of Car and Truck Producers) into one of the seven major niches (small, compact, intermediate, luxury intermediate, luxury, sport, and minivan) that are defined by ANFAC according to mechanical, design, and equipment characteristics.

Specialized Competition is defined as the number of European and non-European competitors that compete with a specialized offer in the same product niches in which a focal firm is offering products. This measure draws upon Santaló and Becerra (2008) who considers a firm  $i$  specialized in a niche  $j$  if the weight of the niche  $j$  in the firm's product portfolio (i.e.,

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<sup>8</sup> More details about the Performance computation could be found in Barroso & Giarratana (2013).

number of models) is greater than the observed weight of the niche  $j$  in the industry, i.e. a focal firm  $i$  is specialized in niche  $j$  at time  $t$  if  $(N_{ijt}/N_{it}) > (N_{jt}/N_t)$ .

To test Hypotheses 1 and 2, we interact respectively Brand Standardization with Diversification and Specialized Competition. It is worth to note that while brand entry mode does not change over time, diversification and competition show a high level of dynamic heterogeneity, as shown by Figures 2 and 3. These variations allow us to identify the interaction effects from the panel data estimation.

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Insert Figure 2 and Figure 3 about here  
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As additional control for the level of market competition, we introduce General Competition that corresponds to the number of car models sold in the market by all the competitors, a proxy for the competitive saturation at any time  $t$ .

The set of control variables includes quarterly and annual dummies control for seasonal components and common market shocks, such as variations in market demand or industry production costs. We also introduce a series of firm-level controls like Firm Size and Firm Size<sup>2</sup> measured by the total assets (source: Bureau van Dijk's OSIRIS) to control for economies of scale (i.e. Size and Size<sup>2</sup>). Advertising ratio refers to the percentage of the firm's advertising expenditures, standardized by the total expenditures in the industry (source: OSIRIS). With this ratio, we capture firm heterogeneity in advertising investments and isolate the effect of common variations in advertising expenditures driven by industry trends. Experience is the number of years from the entry year in the foreign market and it captures potential learning economies in the internationalization processes. How in the entry brand entry mode model, we also introduce as control Product efficiency.

Finally, we also include a measure of cultural distance between the country of origin of a focal firm and Spain. In particular, Cultural distance is computed as the ratio of the Inglehart

Index of a focal firm country over the Spain value. Inglehart framework (Inglehart & Welzel, 2005) was preferred over other cultural indices because of the two bipolar dimensions of post-materialist and individualism. These two bipolar dimensions have been shown to have a direct effect on consumer behaviors and therefore on branding activities (Melnyk et al., 2014).

We display the basic statistics and correlations for our variables in the Table 1. As this table shows, the competition variables are not highly correlated and they capture different aspects of rivalry.

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Insert Tables 1 about here  
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## **RESULTS**

In terms of first step, results are in Table 2. They show that higher disperse sales among foreign markets are negatively correlated with Brand Standardization strategy choice but companies with higher fuel-efficient product portfolios tend to choose a global brand entry mode.

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Insert Table 2 about here  
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Our main findings in support of our hypotheses are reported in the Table 3, which includes the estimation results for the performance models with Model 1 that represents the baseline model with only the control variables; Models 2–4 progressively add each variable of interest, and Models 5-7 replicate the previous model with the correction for self-selection. Considering the full specification model in Table 3, the results support our two hypotheses. Our findings show first, that the Brand Standardization strategy has not always a significant effect. In support of the Hypothesis 1, the empirical evidence shows that diversification interacts positively with the global brand entry strategy ( $p < .01$ ). In other words, the effect of Brand Standardization strategy on performance is positive and significant at higher levels of

firm product diversification. In particular, according to Model 4 the threshold level of diversification that means a positive impact of global brand strategy is around 25. Concerning the role of Specialized Competition, our results confirm the existence of negative interaction effect between specialized competition and global brand strategy ( $p < .01$ ), in support of Hypothesis 2. This result suggests that the effect of a Brand Standardization entry strategy on performance is much more negative at higher levels of competition. The significance of these findings remains stable also considering the self-selection correction although the coefficient associated to correction for self-selection is significant (Models 5-6-7). These results point out that the problem of self-selection has to be taking into account in studies that evaluate the brand strategy choice and performance relationship although this effect might not be crucial as our study highlights. To sustain further this point, we can acknowledge that the coefficient associated to correction for self-selection is negative suggesting that unobservable heterogeneity, which predisposes firms to choose a Brand Standardization strategy, does mean a higher performance in the new foreign market. It could be a consequence of the brand strategy is chosen by firm consider all market in which the firms operate and not the new market in particular. Considering the controls, we notice that the direct effect of both Diversification and Specialized Competition are negative and positive significant in our final model (Model 4 and 7), respectively. Furthermore, we notice that firms with higher experience in the market have better performance. Higher cultural distance means lower performance. Firms with higher advertising expenditures, compared with their competitors, achieve better performance. The size coefficient when is significant it show a non-linearity pattern, confirming the presence of economies of scale.

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Insert Table 3 about here  
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### **Robustness Checks**



Further analyses are reported in Table 4. Models 2-4 report additional results employing an alternative measure to capture Brand Standardization entry strategy, labeled as Brand Standardization %. In particular, we consider the variable as a continuous measure indicating the proportion of countries in which the company operates with similar type of trademarks to the trademark registered in the country in which the firm enters (Spanish market). Thus, higher level of the variable Brand Standardization % indicates a higher tendency of the company to use a global brand entry strategy mode.

Moreover, still in Table 4, Models 4-6 replicate the previous analysis using instrumental variables for Brand Standardization %. This is an alternative and additional approach to control for the endogeneity problem. Models 1-3 are estimated employing ordinary least squares method, while Models 4-6 are estimated by GMM method using sales dispersion as instrument for the Brand Standardization strategy.

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Insert Table 4 about here  
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Also with this analysis, our main results do not change, and therefore, our hypotheses rest confirmed also taking into account the endogeneity problem.

## **CONCLUSIONS**

This paper explores the role of branding as an entry strategy in foreign countries, and tests the effect of adopting either brand standardization and adaptation strategy on the post-entry performance. The empirical setting is the penetration of non-European car brands in the Spanish market after the process of tariff reduction due to the integration of Spain into the European Union. This empirical context allows testing the penetration in Spain of foreign brands that were already present in other European countries. Our results shed lights on the importance that contingencies, both at the firm and foreign market level, could play when a

company chooses a different branding strategy as an entry mode in foreign country. In particular, we highlight how adopting a brand standardization strategy increases performance when it is associated with across-niche product diversification, and detrimental if the foreign local market is highly niche- specialized.

This work contributes to the literature of international business and strategy in two main ways. First, building on the new research stream of international business studies (Brouthers & Xu, 2002; Brouthers et al., 2000; Townsend et al. 2009), it shows how a brand entry strategy can influence the company's performance in a foreign market. We also bridge the international business realm with the field of strategy on product strategies (e.g. Dhingra, 2013; Siggelkov, 2003; Hui, 2004), showing that the creation of value of a global brand is correlated not only to foreign tastes but also to the actual product portfolio decisions of companies.

From empirical standpoint, we offer two distinct novelties. We introduce two peculiar measures: the trademarks as a new way to capture the branding strategy across countries and the estimation of the company performance by exploiting simultaneous factors of supply and demand including cost margins. In addition, we try to address the concern of endogeneity of brand choice at entry by using a Two-Heckman model and GMM estimation.

Our findings have a number of implications for practitioners. If the first suggestion is to fine-tune product and brand strategies, avoiding errors like adopting an adapted brand if a company is diversified, a more critical one is to evaluate in the correct manner the level of competition in the new market. Standardized brands suffer mostly when a foreign market is highly segmented with several specialized existing competitors; therefore, these markets pose an important hurdle for diversified companies. One solution is to avoid these markets, a more nuance one is to enter with a joint-venture with local distributors who can take care of the branding strategy; a final one is to enter only with a selected part of the product portfolio adopting a brand adaptation strategy.

For scholars of international business, our study could be the base of distinct research paths on the relationship between firm performance and brand entry strategy. Up to date the scholars' focus was mainly on the consumers' reception of brand standardization vs adaptation (e.g. Alden et al., 2006; Steenkamp et al., 2003; Winit et al., 2014). We inform about the salience of analysing brands in terms of strategy choice and to triangulate it with other contingencies. Given that our study is strongly country and industry dependent, further studies that account for the use of broader datasets could provide conclusions that are more far-reaching. We also show that trademarks could be a useful measure that could be applied in international business studies (Giarratana & Torrisi, 2010); trademarks information accounts for firm names, product niches, country, trademark life and death dates and its basic characteristics (words, image, symbols). This means that with trademarks a researcher could trace firm entry and exit in a foreign country in a specific product niche with a particular brand approach.

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**Table 1. Descriptive Statistics and Pairwise Correlation.**

|                                    | <b>Mean</b> | <b>SD</b> | <b>Min</b> | <b>Max</b> | <b>(1)</b> | <b>(2)</b> | <b>(3)</b> | <b>(4)</b> | <b>(5)</b> | <b>(6)</b> | <b>(7)</b> | <b>(8)</b> | <b>(9)</b> | <b>(10)</b> | <b>(11)</b> |
|------------------------------------|-------------|-----------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|
| <b>(1) Performance</b>             | 1.268       | 1.308     | 0.018      | 6.397      | 1          |            |            |            |            |            |            |            |            |             |             |
| <b>(2) Brand Standardization</b>   | 0.387       | 0.488     | 0          | 1          | -0.001     | 1          |            |            |            |            |            |            |            |             |             |
| <b>(3) Brand Standardization %</b> | 0.331       | 0.253     | 0          | 0.714      | 0.045      | 0.876      | 1          |            |            |            |            |            |            |             |             |
| <b>(4) Diversification</b>         | 52.04       | 26.13     | 0          | 83.33      | 0.549      | 0.307      | 0.324      | 1          |            |            |            |            |            |             |             |
| <b>(5) Specialized Competition</b> | 26.23       | 14.43     | 6          | 69.00      | 0.312      | 0.355      | 0.351      | 0.592      | 1          |            |            |            |            |             |             |
| <b>(6) General Competition</b>     | 127.6       | 20.41     | 89.53      | 159.9      | 0.414      | -0.002     | 0.029      | 0.351      | 0.397      | 1          |            |            |            |             |             |
| <b>(7) Cultural Distance</b>       | 0.640       | 0.019     | 0.602      | 0.649      | -0.200     | 0.184      | 0.152      | -0.358     | -0.233     | -0.234     | 1          |            |            |             |             |
| <b>(8) Experience</b>              | 7.022       | 3.598     | 1          | 14.00      | 0.451      | 0.112      | 0.041      | 0.341      | 0.267      | 0.621      | 0.426      | 1          |            |             |             |
| <b>(9) Size</b>                    | 35.95       | 31.70     | 2.54       | 155.3      | 0.396      | -0.080     | 0.034      | 0.278      | 0.213      | 0.093      | 0.283      | 0.438      | 1          |             |             |
| <b>(10) Advertising Ratio</b>      | 1.245       | 2.815     | 0          | 21.62      | 0.542      | 0.094      | 0.087      | 0.334      | 0.263      | 0.183      | -0.212     | 0.132      | 0.139      | 1           |             |
| <b>(11) Product Efficiency</b>     | 7.371       | 0.767     | 5.592      | 8.931      | 0.172      | -0.192     | -0.251     | 0.041      | 0.128      | -0.100     | -0.421     | -0.094     | -0.369     | 0.156       | 1           |

**Table 2. First Step Model - Brand Strategy Choice Model.**

| Probit Model Estimations |                      |
|--------------------------|----------------------|
| Sales Dispersion         | -2.579*<br>[1.532]   |
| Product Efficiency       | 2.333***<br>[0.755]  |
| Constant                 | -11.52***<br>[3.827] |
| Annual Effects           | Yes                  |
| Brand Effects            | Yes                  |
| Country Effects          | Yes                  |
| Observations             | 29                   |
| Pseudo R-squared         | 0.590                |

Notes: Heteroskedastic consistent standard errors are in parentheses.

(\*\*\* p<.01; \*\* 0.05 p<.05; \* p<.01 )

**Table 3. Performance Model of Brand Standardization Strategy (dummy as independent variable)**

|  | Model 1                  | Model 2                  | Model 3                  | Model 4                          | Model 5                  | Model 6                  | Model 7                  |
|--|--------------------------|--------------------------|--------------------------|----------------------------------|--------------------------|--------------------------|--------------------------|
| <b>Explanatory variables</b>                       |                          |                          |                          |                                  |                          |                          |                          |
| Brand Standardization                              |                          | 0.179<br>[0.121]         | -0.581<br>[0.387]        | -0.497<br>[0.446]                | -0.163<br>[0.107]        | -0.292<br>[0.338]        | -0.239<br>[0.384]        |
| Brand Standardization *<br>Diversification         |                          |                          | 0.013*<br>[0.007]        | 0.028***<br>[0.009]              |                          | 0.002<br>[0.007]         | 0.017**<br>[0.008]       |
| Brand Standardization *<br>Specialized Competition |                          |                          |                          | -0.0373***<br>[0.00941][0.00918] |                          |                          | -0.035***<br>[0.009]     |
| <b>Controls</b>                                    |                          |                          |                          |                                  |                          |                          |                          |
| Diversification                                    | -0.004<br>[0.002]        | -0.006***<br>[0.002]     | -0.008***<br>[0.002]     | -0.010***<br>[0.002]             | -0.002<br>[0.002]        | -0.003<br>[0.002]        | -0.005**<br>[0.002]      |
| Specialized Competition                            | -0.005<br>[0.005]        | -0.007<br>[0.006]        | -0.008<br>[0.006]        | 0.010*<br>[0.006]                | -0.006<br>[0.005]        | -0.007<br>[0.006]        | 0.010**<br>[0.005]       |
| General Competition                                | 0.016<br>[0.032]         | 0.017<br>[0.032]         | 0.016<br>[0.031]         | 0.019<br>[0.031]                 | 0.015<br>[0.030]         | 0.015<br>[0.030]         | 0.018<br>[0.030]         |
| Cultural Distance                                  | -43.57***<br>[5.426]     | -48.08***<br>[5.398]     | -53.26***<br>[6.127]     | -46.87***<br>[5.646]             | -38.23***<br>[4.398]     | -39.46***<br>[5.105]     | -34.69***<br>[4.746]     |
| Experience   | 0.267***<br>[0.031]      | 0.283***<br>[0.032]      | 0.306***<br>[0.036]      | 0.272***<br>[0.034]              | 0.200***<br>[0.026]      | 0.206***<br>[0.032]      | 0.183***<br>[0.030]      |
| Advertising ratio                                  | 0.129***<br>[0.025]      | 0.126***<br>[0.025]      | 0.122***<br>[0.025]      | 0.124***<br>[0.024]              | 0.095***<br>[0.023]      | 0.095***<br>[0.023]      | 0.010***<br>[0.023]      |
| Size   | 0.052***<br>[0.005]      | 0.054***<br>[0.006]      | 0.049***<br>[0.006]      | 0.046***<br>[0.005]              | 0.066***<br>[0.007]      | 0.065***<br>[0.007]      | 0.061***<br>[0.007]      |
| Size <sup>2</sup>                                  | -0.0003***<br>[3.95e-05] | -0.0003***<br>[4.16e-05] | -0.0003***<br>[3.96e-05] | -0.0003***<br>[3.54e-05]         | -0.0004***<br>[4.79e-05] | -0.0004***<br>[4.77e-05] | -0.0003***<br>[4.33e-05] |
| Product Efficiency                                 | 0.296***<br>[0.071]      | 0.304***<br>[0.073]      | 0.194**<br>[0.085]       | 0.139<br>[0.085]                 | 0.415***<br>[0.077]      | 0.391***<br>[0.091]      | 0.324***<br>[0.092]      |
| Correction for<br>self-selection                   |                          |                          |                          |                                  | -0.0006***<br>[0.00013]  | -0.0006***<br>[0.00013]  | -0.0006***<br>[0.00012]  |
| Seasonal Effects                                   | Yes                      | Yes                      | Yes                      | Yes                              | Yes                      | Yes                      | Yes                      |
| Annual Effects                                     | Yes                      | Yes                      | Yes                      | Yes                              | Yes                      | Yes                      | Yes                      |
| Observations                                       | 279                      | 279                      | 279                      | 279                              | 279                      | 279                      | 279                      |
| R-squared  | 0.861                    | 0.862                    | 0.865                    | 0.876                            | 0.874                    | 0.874                    | 0.884                    |

Notes: Heteroskedastic consistent standard errors are in parentheses.

(\*\*\* p<.01; \*\* 0.05 p<.05; \* p<.01 )

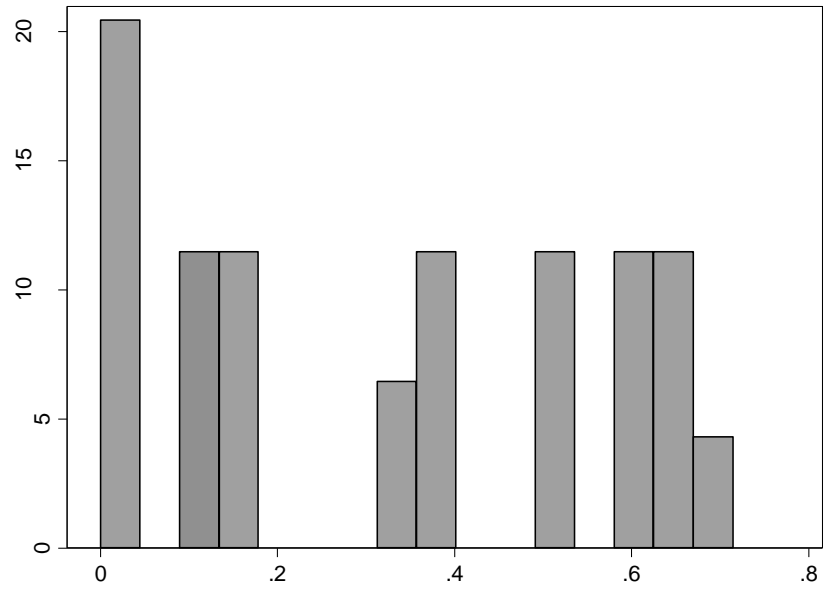
**Table 4: Performance Model of Brand Standardization Strategy (proportion as independent variable)**

|  | <b>Model 1</b>           | <b>Model 2</b>           | <b>Model 3</b>           | <b>Model 4</b>           | <b>Model 5</b>           | <b>Model 6</b>           |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Explanatory variables</b>                         |                          |                          |                          |                          |                          |                          |
| Brand Standardization %                              | 0.412<br>[0.259]         | -0.819*<br>[0.451]       | -0.263<br>[0.494]        | -0.997**<br>[0.427]      | -1.115**<br>[0.468]      | -0.575<br>[0.500]        |
| Brand Standardization %<br>* Diversification         |                          | 0.025**<br>[0.011]       | 0.045***<br>[0.012]      |                          | 0.021**<br>[0.009]       | 0.041***<br>[0.011]      |
| Brand Standardization %<br>* Specialized Competition |                          |                          | -0.065***<br>[0.021]     |                          |                          | -0.062***<br>[0.021]     |
| <b>Controls</b>                                      |                          |                          |                          |                          |                          |                          |
| Diversification                                      | -0.007***<br>[0.002]     | -0.015***<br>[0.004]     | -0.020***<br>[0.005]     | 0.005<br>[0.004]         | -0.006*<br>[0.003]       | -0.012***<br>[0.004]     |
| Specialized Competition                              | -0.007<br>[0.006]        | -0.008<br>[0.006]        | 0.016*<br>[0.008]        | -0.001<br>[0.005]        | -0.006<br>[0.006]        | 0.018**<br>[0.008]       |
| General Competition                                  | 0.017<br>[0.032]         | 0.017<br>[0.031]         | 0.020<br>[0.031]         | 0.064**<br>[0.027]       | 0.144***<br>[0.024]      | 0.140***<br>[0.023]      |
| Cultural Distance                                    | -50.83***<br>[6.066]     | -64.02***<br>[8.548]     | -61.61***<br>[7.883]     | -21.62***<br>[6.834]     | -41.78***<br>[5.875]     | -40.76***<br>[5.652]     |
| Experience   | 0.307***<br>[0.039]      | 0.370***<br>[0.050]      | 0.346***<br>[0.047]      | 0.148***<br>[0.037]      | 0.252***<br>[0.037]      | 0.236***<br>[0.035]      |
| Advertising ratio                                    | 0.127***<br>[0.025]      | 0.119***<br>[0.025]      | 0.126***<br>[0.025]      | 0.134***<br>[0.025]      | 0.126***<br>[0.026]      | 0.131***<br>[0.026]      |
| Size   | 0.050***<br>[0.005]      | 0.049***<br>[0.005]      | 0.048***<br>[0.005]      | 0.054***<br>[0.006]      | 0.050***<br>[0.005]      | 0.049***<br>[0.005]      |
| Size <sup>2</sup>                                    | -0.0003***<br>[3.77e-05] | -0.0003***<br>[3.64e-05] | -0.0003***<br>[3.38e-05] | -0.0003***<br>[4.72e-05] | -0.0003***<br>[3.61e-05] | -0.0003***<br>[3.39e-05] |
| Product Efficiency                                   | 0.287***<br>[0.070]      | 0.163**<br>[0.080]       | 0.137*<br>[0.075]        | 0.349***<br>[0.066]      | 0.271***<br>[0.071]      | 0.239***<br>[0.069]      |
| Seasonal Effects                                     | Yes                      | Yes                      | Yes                      | Yes                      | Yes                      | Yes                      |
| Annual Effects                                       | Yes                      | Yes                      | Yes                      | Yes                      | Yes                      | Yes                      |
| Observations   | 279                      | 279                      | 279                      | 279                      | 279                      | 279                      |
| R-squared  | 0.863                    | 0.866                    | 0.875                    |                          |                          |                          |

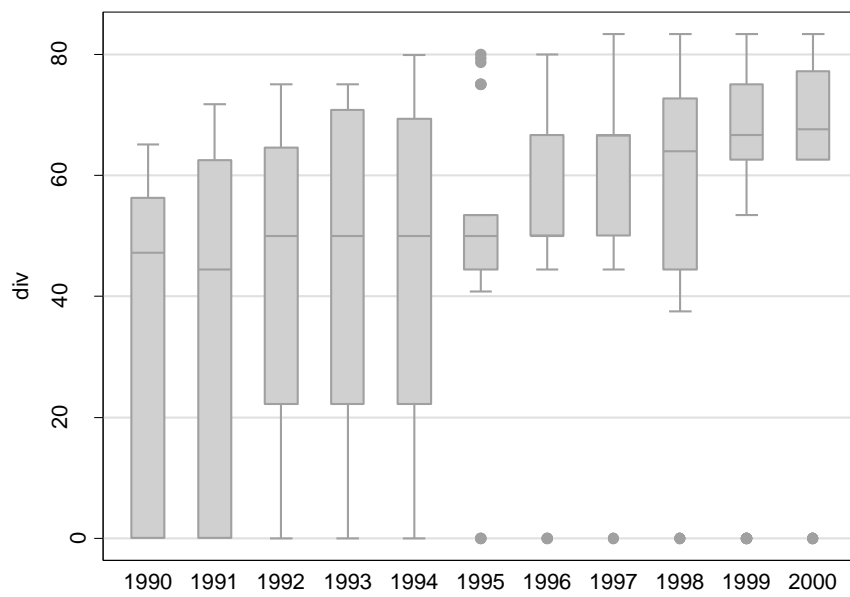
Notes: Heteroskedastic consistent standard errors are in parentheses.

(\*\*\* p<.01; \*\* 0.05 p<.05; \* p<.01 )

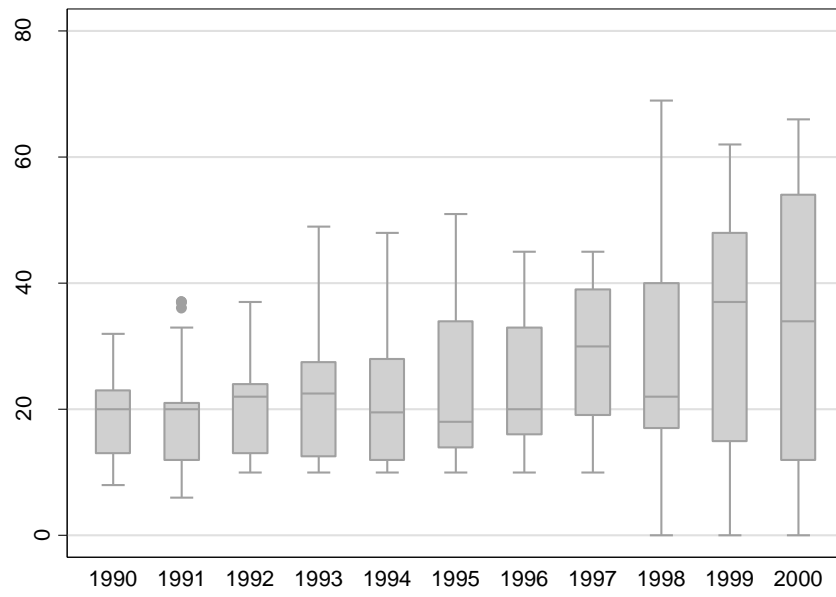
**Figure 1: Histogram of Standardization Strategy (% of countries with similar trademarks)**



**Figure 2: Evolution of the Level of Diversification by Year**



**Figure 3: Evolution of Specialized Competition by Year**





**APPENDIX. Table A1: Examples of Standardized vis-à-vis Adaptive Brands**

|                       |   |   |   |
|-----------------------|---|---|---|
| <b>Trademark</b>      |  |  | <b>SUZUKI</b>   |
| <b>Type</b>           | Combined  | Figurative  | Word  |
| <b>Country</b>        | Spain   | Denmark   | Finland   |
| <b>Classification</b> | Adaptive Brand  |   |   |
| <b>Trademark</b>      |  | DAEWOO  |  |
| <b>Type</b>           | Combined  | Word  | Combined  |
| <b>Country</b>        | Spain   | Benelux   | Germany   |
| <b>Classification</b> | Standardized Brand  |   |   |