

# The fit of home to foreign market environment: An exploratory study of the relationship of congruence to performance

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## Abstract

This research draws on the foreign market entry and organizational strategy literatures to address the relationship between home and foreign market environmental congruence and overseas venture performance. Theoretical arguments from prior studies have been juxtaposed in that transaction cost and diversification perspectives hypothesize different outcomes of firm entry into heterogeneous or homogeneous market environments. Using polynomial regression we test hypotheses regarding the home and overseas environmental congruence–venture performance relationship, and the organizational factors which act as moderators of this relationship. The results show that traditional transaction cost and market replication theories fail to fully explain the value of environmental fit when matching overseas market with domestic market profiles. Furthermore, the findings reveal that the moderating effects of organizational factors on the market congruence–venture performance relationship are also counter-intuitive to traditional perspectives. Managerial implications, study limitations, and directions for future research are offered.

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## 1. Introduction

The search for match, or fit, between organizational and environmental structures has been a core concept in normative models of strategy formulation (Vorhies & Morgan, 2003; Zajac, Krattz, & Bresser, 2000). Recent examinations in this area have included human resource fit with environment (Wright & Snell, 1998), multinational subsidiary similarities (Rosenzweig & Singh, 1991), dynamic capabilities (Teece, Pisano, & Shuen, 1997), and flexibility (Ghemawat & del Sol, 1998), among a variety of other critical topics. Since strategic fit

has become a central tenet of strategy formulation, the firm's ability to achieve strategic fit has been deemed critical in the pursuit of specific performance goals (Ginsberg & Venkatman, 1985; Zajac et al., 2000).

While significant organizational and organizational–environmental fit research does exist, and the possibility for this research to provide models for effective *environment–environment* fit seems intuitive, to date no suitable framework exists for evaluating the benefits of choosing overseas markets which fit, or match, markets currently in the firm's portfolio. What remain unknown are the performance implications of congruence (or fit) between cross-national market environments, and the degree to which organizational factors moderate the congruence–performance relationship in multinational firms. This leaves a significant gap in the literature relative to the value of strategic market choices.

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Similar to Zajac et al. (2000), we see the vacancy of research in the environmental fit area as attributable to specific problems which hinder the theoretical development and empirical testing within this domain. First, “some researchers remain justifiably uncomfortable with the static orientation that the concept of fit has historically implied” (Zajac et al., 2000, p. 429). To date, the conceptual and methodological tools needed to predict and assess an organization’s strategy in changing environments are yet to emerge. Second, simple bivariate techniques popular in strategic research do not permit an accurate conceptualization or measurement of what is essentially a curvilinear phenomenon. Third, and perhaps most importantly, the theoretical arguments in prior foreign market entry studies, namely transaction cost and diversification theories, are juxtaposed in their perspectives of the value of market choices. Transaction cost advocates argue for the value of asset-specific transfers and market replication, while diversification theory posits that a diverse portfolio of markets reduces risk and enhances performance outcomes.

The objective of this article is to provide an exploratory study of the value of market congruence to the firm’s overseas ventures. First, we define environmental fit and then draw on both the strategy and foreign market entry literatures to argue that the relationship between the fit, or congruence, of the firm’s domestic and foreign market environments and overseas venture performance is significant. Second, the fact that a firm’s contingencies are both environmental and organizational implies a potential tension between a firm’s strategic fit position versus a fit between the firm’s strategy and its unique competencies (Zajac et al., 2000). Thus, we draw on the organizational theory and foreign market entry literature to model potential moderators of the environmental congruence–performance relationship, namely: (1) degree of vertical integration within the overseas market; (2) degree of global strategic orientation; and (3) degree of product standardization, versus the adaptation alternative. These relationships are illustrated in Fig. 1. In order to avoid the traditional problems with measuring strategic fit, we adapt the methodology of Edwards and Parry (1993) and utilize polynomial regression equation analysis to test the hypotheses.

The paper is organized as follows. We begin by reviewing the importance of domestic and foreign market environments and define the concept of fit, which ranges from *lack of fit* to *congruence*. Next, we review the conflicting theoretical perspectives which have hindered our ability to effectively predict the value

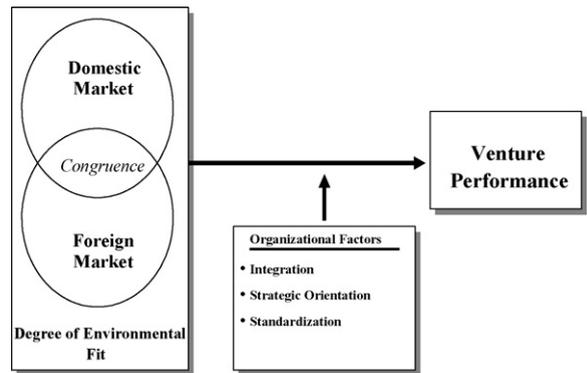


Fig. 1. Model of environmental fit.

of market congruence. Based on the extant literature, we then argue that venture performance is significantly influenced by the degree of domestic and foreign market environment fit. We then develop hypotheses based on the relevant literature pertaining to the potential moderators of the market congruence–venture performance relationship. Measurement and data collection are described next, followed by a detailed discussion of the data analysis strategy. Finally, the results are presented, along with their managerial and research implications.

## 2. Fit across home and foreign market environments

### 2.1. The importance of environment

Market environments are characterized by regulatory, economic, and competitive forces that influence the proactive and reactive decisions of firms.<sup>2</sup> For example, environments in which economic foundations and regulations change unpredictably and frequently, where competitors are unpredictable and aggressive, or where sales volume or profits are very volatile or turbulent, often significantly affect the performance outcomes of the firm’s market venture (Cavusgil & Zou,

<sup>2</sup> We understand that the literature provides numerous methods for measuring market environment. These include capacity and dynamism (Achrol & Stern, 1988), munificence and complexity, regulatory changes to specific industries (Forte, Hoffman, Lamont, & Brockmann, 2000), degree of segmentation (Choi & Rajan, 1997), etc. In our study, we measure market environment using a composite scale addressing competitive, economic, and regulatory levels. Our rationale for utilizing this measure is that these characteristics are often used as evaluators when managers consider potential markets for entry, and these characteristics are universal to the multiple industries and markets addressed in this research.

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