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The trade-off between institutionally proximal and distal markets: The impact of home market pressures on firms' export market selection

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ABSTRACT

This study uses an organizational change perspective to analyze firms' export market selection (EMS) to adapt to home country market pressures. We argue that firms' strategic objectives influence whether they will enter institutionally proximal or distal markets. A model with two curvilinear (U-shaped and inverted U-shaped) relationships is found by testing 1940 Taiwanese export firms based on two official datasets. The model shows that firms are more likely to increase their exports to institutionally proximal markets and to decrease their exports to institutionally distal markets if they have an increasing but still controllable degree of competitive and marketing pressures in the home country. This response represents an incremental change by exporting firms. However, firms increase their exports to institutionally distal markets while decreasing their exports to institutionally proximal markets if they have an excessively increasing degree of competitive and marketing pressures in the home country. This response represents a radical change by exporting firms. We find that export firms' strategic objectives in choosing different organizational change styles (incremental or radical) are highly related to this trade-off in their EMS decision making.

1. Introduction

For native firms in a small country, exporting is an easy non-entry mode to quickly pursue foreign markets (Krammer, Strange, & Lashitew, 2018). Firms can use business-to-business (B2B) arrangements (e.g., their outsourcing supply chains and intermediary channels) to export, or they can serve only B2B foreign customers (Lindsay, Rod, & Ashill, 2017; Narula, 2002; Peng, Wang, & Jiang, 2008). In both cases, export market selection (EMS) is a critical marketing issue for the firms (Brewer, 2007; He, Lin, & Wei, 2016). Many studies have examined the impact of differences in institutional profiles between the home and host countries, i.e., the impact of institutional distance on firms' EMS decision making (Hernández & Nieto, 2015; Magnani, Zucchella, & Floriani, 2018). Institutional distance can raise strategic concerns regarding the liability of foreignness and transaction costs that create barriers to exporting to an unknown foreign market (Hutzschenreuter, Kleindienst, & Lange, 2016). While most studies emphasize that firms should accumulate the necessary resources to satisfy the customized demands of markets at different institutional distances (Papadopoulos & Martin, 2011), few studies analyze the strategic meaning of institutional distance for firms' EMS decision-making from the perspective of B2B marketing management

(Beugelsdijk, Kostova, Kunst, Spasafora, & van Essen, 2018). This study argues that the meaning of institutional distance for exporting firms should be analyzed by understanding how the firms' managers "subjectively" evaluate the institutional distance of different markets, which will influence the firms' strategic objective in choosing different export markets (Williams & Grégoire, 2015).

Greater institutional distance creates difficulties for exporting firms transferring their home-country competences to other foreign markets (Beugelsdijk et al., 2018; Kostova, 1999). The common Uppsala approach predicts that exporting firms are initially likely to select target markets at a close institutional distance and then move to more distant countries later, once they gradually learn (Brewer, 2007; Williams & Grégoire, 2015). To avoid the different norms in institutionally distal markets, most firms export to institutionally proximal markets to exploit their existing know-how. Only firms that enjoy a unique advantage in the host country can export to institutionally distal markets. However, this view based on the Uppsala approach cannot explain why some experienced exporting firms still switch their EMS emphasis between institutionally proximal and distal markets (He et al., 2016). It has been noted that many Asian born-global firms select Western institutionally distal markets as their first target export market (Moen & Servais, 2002). Magnani et al. (2018) also show that some young firms

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enter institutionally distal markets due to strategic goals to escape home competition threats. These inconsistent claims suggest a gap in the understanding of the strategic impacts of institutional distance on EMS.

To solve this puzzle, we argue that the role of home market factors in firms' EMS decision making should be elucidated. Unlike the Uppsala approach, the systematic approach sees EMS as a firm's rational response to external market conditions (He & Wei, 2013). The literature places more emphasis on firms' reactions to market (e.g., customers and competitors) and non-market (e.g., government) constituents in the host countries (Brouthers & Nakos, 2005; Douglas & Craig, 2011). We argue the significance of home market pressures in firms' EMS, which has been recently acknowledged in internationalization literature (Chen, Sousa, & He, 2016; Martineau & Pastoriza, 2016). Literature also shows that the influence of home market pressures on EMSs has shown mixed results. For example, studies of European firms show that domestic customer pressures increase the firms' exports to both institutionally proximal and distal markets to reduce risk (Ellis & Pecotich, 2001; Hessels & Terjesen, 2010). However, Brewer (2007) reports that many Australian first-time exporting firms seek out West Asian (institutionally distal) markets rather than institutionally proximal markets (e.g., New Zealand and Europe) when home market competition intensifies.

This study contributes to the argument that firms' EMS can be regarded as their organizational change adaptation to home market pressures. Unlike foreign direct investment (FDI), exporting represents non-equity internationalization without sufficient physical investment in the host country, and it is mainly based on firms' leveraging of home-country resources (Narula, 2002; Peng et al., 2008). Compared with FDI firms, exporting firms are more heavily subject to home market conditions (Ke, Ng, & Wang, 2010). We assume that the institutional distance issue for an exporting firm may still be largely based on its home market constituent pressures (Kostova, 1999; Xu & Shenkar, 2002). The EMS between institutionally proximal and distal markets can represent firms' organizational change responses to cope with home market pressures (Cavusgil & Knight, 2015; Cheng & Yu, 2008). The aim of this research is to fill the research gap by answering the following key question: "What are exporting firms' organizational change responses under home market pressures, and how do they affect the firms' EMS decisions between institutionally proximal and distal markets?"

Organizational change is prompted by external market constituent forces, such as competitive and marketing pressures in the home market (Anderson & Anderson, 2010). Different firms have different strategic objectives, and they can also evaluate EMS decisions differently in attempts to cope with home market pressures. Therefore, the EMS of institutionally proximal markets or that of distal markets may represent different types of organizational change for firms responding to different levels of perceived pressures in the home market. Two typical types of organizational change are incremental and radical change. Incremental change refers to a steady flow of improvements that are relatively minor. Radical change represents a shift across operational trajectories (McKendrick & Wade, 2010). Whether firms choose incremental or radical change to adapt to market pressures has been extensively debated (Malhotra & Hinings, 2015). We argue that different firms will contingently have different evaluations of similar home market challenges due to their managers' subjective cognitive thinking (Greenwood & Hinings, 1996). It is interesting to see how these differences can cause variations in individual firms' selected organizational change responses that influence their EMS (Herscovitch & Meyer, 2002).

This paper begins with a review of the relevant literature, definitions of the main study concepts, and an explanation of the theoretical basis for the hypothesized relationships. Second, we describe the sample, measures, and statistical methods used. Third, we present the statistical results. Finally, we conclude with the research findings and provide suggestions for future studies. Fig. 1 presents our research

framework.

2. Literature review and hypotheses

2.1. Market constituent pressures and organizational change

Changes in the external environment compel organizations to adapt, and managers are urged to initiate changes in their organizations (Bleiklie, Enders, & Lepori, 2015). The external drivers that push firms to make organizational changes can come from both the market and non-market environments. Market constituents (e.g., customers, suppliers and competitors) are participants in economic transactions, whereas non-market constituents (e.g., regulators and social interest groups) are reflected in social, political, and legal issues (Hoffman, 2001). In particular, the uncertainty and dynamics regarding market constituents can increase managers' perceptions of pressures (Wu, 2010). Managers interpret these market pressures and then shift their firms' business goals as organizational change responses to adapt to these pressures. Non-market and market stakeholders frame firms' change management issues differently. Firms typically view market constituent pressures by considering performance, sustainability, customer demands and efficiency implications. In contrast, non-market issues typically exert conformity and isomorphism pressures on firms to gain favorable public opinion. Since this study uses the B2B view to understand the organizational change responses of exporting firms, it emphasizes market constituent pressures (Huq, Chowdhury, & Klassen, 2016).

Numerous studies have focused on the drivers of organizational change. At the organizational level, competitive survival and conflicts among the main marketing interests are considered two main drivers of change (Bleiklie et al., 2015). For market constituents, the hyper-competition among firms is the first major force pushing them to change to cope with intense rivalries (McKendrick & Wade, 2010). Second, innovations in marketing and technology can also seriously change organizations because these innovations greatly affect the choices of consumers, whose product preferences will change (Delmas & Toffel, 2008). Both home "competitive" and "marketing" pressures are related to higher operating costs and the possibility of failure, so firms must change themselves to maintain their performance. As stated above, there are two main types of change: incremental and radical approaches have been described in relation to an organization's nature and the level of managerial control over such organizational change responses (Micelotta, Lounsbury, & Greenwood, 2017). Different types of change also reflect the manner and pace by which an organization initiates change actions to achieve its strategic objective to adapt.

First, incremental or first-order change refers to minor changes that alter certain small aspects, in which the firm seeks to improve the present situation but to retain the general working framework. Incremental change occurs because external pressures are not strong enough to destroy the internal inertia, so firms insist on maintaining their existing marketing logics. Therefore, firms adopting incremental change only adjust their existing strategic objectives by improving their complementary marketing routines (Armenakis & Bedeian, 1999). Incremental change actions include new pricing and promotion practices that are designed to attract consumers. Such actions may include better packaging, lower prices or innovative advertising. Implementing such changes requires the organization to enhance its existing marketing practices to attract similar demand. The firm does not need to fundamentally change its strategic objectives. Incremental change is small in scale, but it occurs frequently for firms. Adopting incremental change allows exporting firms to exploit other similar markets quickly because it is easy to achieve (Burnes, 2008).

Second, radical or second-order change refers to transformations in which the organization completely changes its strategic objectives and marketing logics (Meyer, Gaba, & Colwell, 2005). When radical change occurs, it causes a strategic reorientation by firms, including the

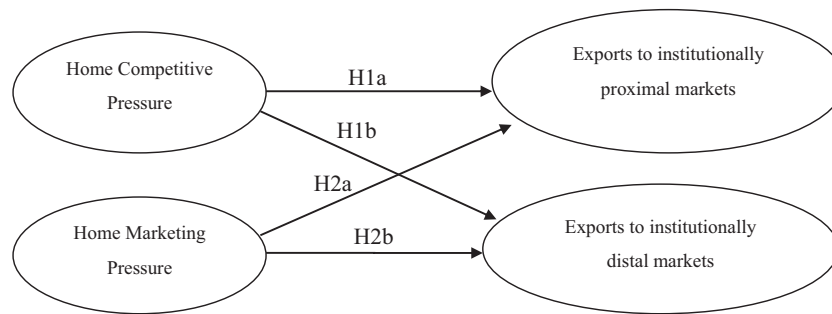


Fig. 1. Research framework: Conceptualization of export market selection.

development of new products to enter other markets (Greenwood & Hinings, 1996). The marketing logic of the organization is reconsidered during radical change because strong external pressure has forced the firm to break its structural inertia. Radical change alters firms' existing strategic objectives, but it is infrequent because commitments to engage in significant innovation and changes to the core of organizations are costly (Herscovitch & Meyer, 2002). Radical change may occur rarely, but it is large in scale and scope. An exporting firm adopting radical change seeks to explore potential new markets to cope with external market pressure.

2.2. Institutional distance and firms' EMS

The literature has long emphasized that cultural, physical, institutional, and other differences between countries critically influence firms' internationalization (Williams & Grégoire, 2015). The core idea of “distance” is that it impacts the ability of a firm to transfer existing home-country business practices to achieve legitimacy in a foreign market. In addition to cultural distance, the importance of institutional distance has been increasingly noted because of the critical institutional profile differences between developed countries and emerging markets (Zaheer, Schomaker, & Nachum, 2012). Based on this perspective, firms are less likely to enter markets that are institutionally distal because doing so may increase internal knowledge transfer challenges and conflicts (Xu & Shenkar, 2002). Substantial institutional distance can create uncertainty and raise concerns regarding the performance of an exporting firm. One of the main reasons for such concerns is that exporting firms may not be able to exploit their home-country knowledge and resource advantages in an institutionally distal host country. These firms may not be able to successfully meet the different customer demands in institutionally distal markets, as the distance could “hinder the collection and interpretation of information” regarding customer preferences (Yu & Cannella, 2007).

Chao and Kumar (2010) argue that firms can have two different responses when facing markets with substantial institutional distance: (1) they may decide to invest significant resources in overcoming the knowledge transfer challenge, which raises concerns about high costs, or (2) they may decide not to enter the institutionally distal markets because the firms feel that they cannot obtain benefits from doing so. To summarize, in order to achieve sales goals in institutionally distal markets, exporting firms must depend on the support of other host-country partners, even though they face problems controlling the opportunistic behavior of local partners (He et al., 2016). The higher transaction costs from cooperating with local business partners resulting from greater institutional distance may also reduce exporting firms' willingness and capability to exploit their home-country competitive advantages to satisfy different market demands. In contrast, exporting firms can more easily apply their home-country experience in institutionally proximal markets because they can use similar behavioral patterns to find similar business partners and satisfy similar customer demands (Håkanson, 2014).

It has been argued that if exporting firms have been educated in institutionally proximal markets, they can make use of such knowledge to enter institutionally distal markets (He & Wei, 2011). However, many born-global firms challenge this view by exporting to multiple markets regardless of institutional proximity (Cavusgil & Knight, 2015). In addition to internal factors, research has suggested that external factors (e.g., the level of global integration of the industry and the market size of the home country) influence born-global firms' rapid EMS of institutionally distal markets (Lindsay et al., 2017; Moen & Servais, 2002). Magnani et al. (2018), however, suggest that the influence of managerial discretion and the strategic objectives of exporting firms can add to the explanatory power of institutional distance for firms' EMS. Strategic objectives may lead a firm to enter markets characterized by great distance and can provide a motive to face the liability of “large institutional differences”. The authors argue that the influence of institutional distance should be reflected both in objective aspects (e.g., the differences in the legal and regulatory frameworks between two countries) and the subjective point of view of decision makers in exporting firms. This subjective institutional distance encompasses differences in managers' evaluations of customer preferences and product demands, which, taken together, provide exporting firms with insights into the market potential and risks of a given country (Hutzschenreuter et al., 2016). Substantial institutional distance may also influence exporting firms' business relationships and choice of local intermediary partners, since they may see themselves in an asymmetric position with regard to obtaining key local information (Beugelsdijk et al., 2018).

We argue that exporting firms make a trade-off in choosing between institutionally proximal and distal markets because they have different strategic objectives. From the perspective of organizational change, ambivalence and uncertainty lead to the heterogeneous responses of organizational decision makers. When organizational performance falls below a satisfactory or acceptable level, firms are likely to initiate extensive organizational change actions. A holistic view considers organizations to be systems composed of both core elements and elaborating elements. Firms adopting incremental change aim to change their elaborating elements, while radical change is used to change their core elements (McKendrick & Wade, 2010). In other words, most exporting firms are familiar with incremental change because they still view change as hazardous and hope to avoid such risks. Incremental change is reflected in partial compliance with external pressures by adjusting or elaborating upon marketing routines (Raaijmakers, Vermeulen, Meeus, & Zietsma, 2015). Only if firms are cautioned that external pressures may weaken their existing market status and reduce their performance level will they adopt radical change of their basic marketing logics. Such a change particularly occurs when home market pressures are strong enough to severely harm their survival and ultimately force them to abandon their existing home-country based capabilities and advantages (Cheng & Yu, 2008).

It is our assumption that firms' different organizational change responses are reflected in their EMS: firms face a trade-off in continuing

to depend on existing successful strategic objectives by adjusting their marketing practices to attract similar customer demand (i.e., incremental change) or in using another strategic objective to develop new marketing logics to seek potential but unknown marketing opportunities in strange markets (i.e., radical change). In general, incremental change is more easily and frequently imitated by most firms. Therefore, initially, the responses of exporting firms will mainly reflect their incremental-change tendencies. However, as market conditions deteriorate, the fear of failure among many followers in the institutionally proximal markets may increase. If this trend increases to a significant extent, the possibilities and benefits of adopting radical change will increase enough to offset the initial incremental change efforts. This study thus argues that the overall influences of incremental change will appear earlier than those of radical change, and the entire appearance of radical change will be delayed. Two types of home market pressures, home competitive pressure and home marketing pressure related to firms' adoption of the two types of organizational change, are discussed below.

2.3. Home competitive pressure

The pressure of industry competition is critical to instigating organizational change. Home competitive pressure refers to unpredictability in competitor behaviors, rivalry for critical supply sources and threats of newcomers' entry (Zhang, Jiang, Shabbir, & Duan, 2015). Home competitive pressure represents the market constituent pressure jointly created by competitors and suppliers. Home market industry rivalry can intensify firms' expansion abroad to other similar markets in order to avoid vulnerability due to domestic competition (Martineau & Pastoriza, 2016). When the degree of competition does not change the "rules of the game", the strategic objectives of most firms will be to safeguard their home market status, as structural inertia makes firms believe that they can improve their existing practices to overcome likely controllable external pressures (Nachum, 2001). Substantial institutional distance disturbs firms' knowledge about the suppliers and customers in a new export market. This difficulty will cause incremental-change firms to more emphasize institutionally proximal markets. Similar institutional profiles can reduce the difficulties in marketing-mix adaptation and enhance the speed of entry to a host market when facing increasing home-market competition (Paul, Parthasarathy, & Gupta, 2017).

Competitive pressure in the home market also means that firms may lose more profits due to increasingly intense industry rivalry. Firms need to increase their competence in the home market or seek additional sales from other markets to compensate for such potential losses (Ju & Zhao, 2009; Li, 2010). Facing potential competition challenges, firms will sell their successful products to attract customers in other similar markets to easily mitigate the possible losses in the home market (He et al., 2016; Navarro, Losada, Ruzo, & Diez, 2009). Using existing marketing logic to cope with home competitive pressure implies that firms view institutionally proximal markets as extensions of their home market demand (Krammer et al., 2018). Most of these firms still use marketing standardization strategies to increase their efficiency in markets with similar institutional profiles (Helm & Gritsch, 2014). Under likely controllable home competitive pressure, exploiting value from existing strategic objectives by improving the firm's marketing routines to enter other similar markets can be a good choice for firms that do not wish to change their core elements.

However, if firms are worried that the existing industry roles may have already changed, they will have a very high degree of home competitive pressure. Facing an overwhelming degree of home competitive pressure tends to push organizations to develop another new strategic objective (Bleiklie et al., 2015). Overwhelming fears resulting from unpredictable competition often create instability regarding short supplies of key materials and inputs. Such dynamics can alert firms to avoid similar markets, thus preventing future resource rivalry battles

between existing competitors (Micelotta et al., 2017). Fierce home competitive pressure also causes firms to be more concerned about profit damage and failure risk in the home market. If the home competition intensifies, increasing numbers of firms may become sensitive and uneasy, as they may already have lost opportunities to use incremental change to overcome the competitive challenges at home. As stated above, most firms choose to export to institutionally proximal markets to quickly exploit value, and they may ultimately encounter each other in the institutionally proximal markets. If this multimarket competition intensifies, increasing numbers of firms may abstain from entering institutionally proximal markets because they fear price-cutting competition among similar competitors (Zhang et al., 2015). Successfully exploiting institutionally proximal markets will no longer seem possible because many similar home-country competitors have already entered those markets, and the uniqueness of each exporting firm has been altered (Boehle, Qian, & Peng, 2016; Navarro et al., 2009). All these conditions can cause exporting firms to abandon entry into institutionally proximal markets if home competitive pressure intensifies. Thus, we hypothesize as follows:

Hypothesis 1a. An exporting firm's home competitive pressure has an inverted U-shaped relationship with its exports to institutionally proximal markets.

As stated previously, switching the EMS to dissimilar markets may reduce the efficiency for incremental-change firms and further increase their fears of low performance. These firms still believe that they can cope with the home competitive pressure by exploiting institutionally proximal markets. They will also reduce or suspend attempts to serve institutionally distal markets because of their limited production capacities at a given time (Chetty & Blankenburg Holm, 2000). Due to resource constraints, exploring unusual institutionally distal markets may be viewed as a risky, costly and unnecessary commitment for them.

However, overwhelming amounts of home competitive pressure can create an atmosphere in which firms must be innovative and differentiate themselves to obtain new competences (Micelotta et al., 2017; Yang & Gabrielsson, 2017). Davis, Diekmann, and Tinsley (1994) argue that the transformation of competitive rules can change the legitimacy-conferring criteria for firms. That is, high home competitive pressure triggers environmental selection processes and leads to the emergence of new organizational practices (Lee & Pennings, 2002). Firms that face an overwhelming amount of home competitive pressure will adopt radical change and abandon the originally preferred institutionally proximal markets since they will diversify their exports to other substitutable markets where their home competitors may still ignore (Witt & Lewin, 2007). Excessive home competitive pressure makes firms break out of their structural inertia in order to survive by developing market differentiation capabilities (Surdu & Mellahi, 2016). These firms have a strong willingness to enter unknown but unexplored institutionally distal markets in order to avoid attacks from other successful firms in an institutionally proximal market (Sun, Peng, Lee, & Tan, 2015). Therefore, these firms will adopt radical change and use another strategic objective to adapt to home competitive pressure by exploring institutionally distal markets. We thus proposed the following:

Hypothesis 1b. An exporting firm's home competitive pressure has a U-shaped relationship with its exports to institutionally distal markets.

2.4. Home marketing pressure

Home marketing pressure is defined as uncertainty in product demand, technological innovation and differentiated customer preferences in the home market (Beckman, Haunschild, & Phillips, 2004). Home marketing pressure can increase concerning future market conditions, such as the disruptive effects of emerging channels, changeable customers, new market segmentation, and shorter product life cycles

(Tatikonda & Montoya-Weiss, 2001). The primary source of home marketing pressure is the dynamics of customer preferences, such as the growing market fragmentation that can occur to meet new values, expectations, opinions and behaviors of consumers (McDermott & O'Connor, 2002).

Any marketing innovation is risky, even one building on existing technology and detailed customer behavior studies (McKendrick & Wade, 2010). Lacking full knowledge of future customer preference trends, one popular solution for firms to solve the problem of home marketing pressure is to imitate other successful firms or to copy their past experiences in other similar markets. Because firms develop a specific set of marketing-mix routines to satisfy similar customer preferences (Katsikeas, Samiee, & Theodosiou, 2006), Szymanski, Bharadwaj, and Varadarajan (1993) argue that more home marketing pressure can drive firms to select a few exporting markets to widely exploit their existing standardized marketing advantages. Therefore, firms are likely to emphasize satisfying customers in institutionally proximal markets where they can easily achieve their planned sales goal using their existing marketing logic. Satisfying familiar customer preferences in a similar market also helps firms easily expand their sales base by using existing marketing resources. These firms only improve their existing practices to cope with home market uncertainty. The managers of such firms believe that they can easily use their existing successful products to satisfy similar customers (Dow, 2000).

By contrast, if firms face overwhelming home marketing pressure, they may be convinced that the home market uncertainty will greatly change their original customer behavioral patterns. These firms may be concerned that the marketing routines used to satisfy familiar customers may need to be largely substituted by unknown innovative methods under market re-fragmentation (Leonidou, Katsikeas, & Samiee, 2002). Due to short product life cycles, the early recognition of future market opportunities is critical for the success of incremental change, and the late adoption of incremental change (i.e., market followers) can be risky (McKendrick & Wade, 2010). Faced with a very uncertain market trend, firms may not prefer attempting to improve their existing marketing logic because it is difficult to determine the value of such improvement. They may also fear that similar marketing improvements in institutionally proximal markets may have to be replaced with other improvements in the short term (Bleiklie et al., 2015). The fears of being “left behind” in “frequent incremental change games” as previously occurred in the home market may reduce their entry into institutionally proximal markets (Nachum, 2001). We thus hypothesize as follows:

Hypothesis 2a. An exporting firm's home marketing pressure has an inverted U-shaped relationship with its exports to institutionally proximal markets.

There are possible conflicts in marketing logics when firms have more than one target EMS at the same time (Lee, Beamish, Lee, & Park, 2009). Therefore, when facing likely controllable home marketing pressure, firms avoid marketing inconsistencies due to possible deviations from market practices (Micelotta et al., 2017). For example, product differentiation can sometimes confuse the brand image for loyal existing customers. Firms can also increase the distance sensitivity of exporting by moving production closer to the market with the greatest number of similar consumers (Lindsay et al., 2017). Therefore, if firms use marketing standardization to satisfy many similar demands in institutionally proximal markets, as Hypothesis 2a predicts, they must reduce their involvement in institutionally distal markets to avoid such marketing conflicts, since this approach can reduce their marketing efficiency and detract from the consistency of their brand image (Dikova, Jaklič, Burger, & Kunčič, 2016).

In contrast, if firms realize the intense home marketing pressure, the potential interest dissatisfaction can push them to adopt radical change to transform their marketing logics. The expected profit damage due to market transitions can provoke these sensitive firms to use a new

strategic objective to solve their profit crisis (Yang & Gabrielsson, 2017). These firms will develop a different set of marketing practices to avoid a similar product imitation rivalry that occurred in the home market (Lindsay et al., 2017). Unknown, re-segmented customer preference trends due to home market transitions also push firms to seek opportunities in other strange but still unexplored markets (Calantone, Kim, Schmidt, & Cavusgil, 2006; Dikova et al., 2016). For example, many small and born-global firms are pushed to seek other market opportunities by developing differentiated products because they failed to satisfy mainstream customer preferences in the home market (Cheng & Yu, 2008; Witt & Lewin, 2007). Accordingly, we propose the following:

Hypothesis 2b. An exporting firm's home marketing pressure has a U-shaped relationship with its exports to institutionally distal markets.

3. Methodology

3.1. Research background

This study investigates the remarkable year of 2007, during which Taiwan faced a significant market transition, by examining an officially published, large-scale set of survey data. It is remarkable that Taiwan's terms of trade deteriorated to < 100 after 2006, meaning that the country moved into a deficit in its total exporting sales value. In the Taiwanese case, a long-term decrease in manufacturers' export prices was the main reason for the deteriorating terms of trade. The plummeting terms of trade in Taiwan were largely due to extreme price competition among other Asian countries for products such as semi-conductors and computers. Increasing material and commodity prices also caused problems, with high inflation and significantly decreased consumer expenditures because of an aggressive open market policy. Due to its proximal institutional distance, Mainland China (including Hong Kong) has been Taiwan's major export market (accounting for > 30% of total export sales value) since the 1990s. However, from 2008 to 2010, Taiwan's export ratio to China significantly decreased, and the official reports show that many Taiwanese export firms switched their target market to European and American markets. This study thus analyzes the specific case of Taiwanese firms' remarkable responses in their EMS.

3.2. Database

We use data from an officially published database developed by the Department of the Budget, Accounting, and Statistics (DGBAS) of Taiwan in 2007. This study includes 1940 export firms, and the database includes several large-scale surveys completed by the CEOs of firms in various manufacturing sectors. The questionnaire items in the official dataset were pretested by interviewing thousands of executives and academics. The official surveys also followed rigid sampling procedures, e.g., populations were stratified by industry distribution. To reduce concerns regarding common method variance (CMV), this study integrates data from two official surveys that investigate the status quo of each firm's operations in domestic and foreign markets, their operational challenges, the firms' status, and their perceived external pressures, among other factors.

3.3. Measurement of the selected proxy indicators

3.3.1. Dependent variable

The ratio of export sales in institutionally proximal and that in distal markets to total export sales are used as the two dependent variables in this study (Geringer, Tallman, & Olsen, 2000). The total export sales values (in NTD dollars) include both the direct and indirect exports of each firm. This study then refers to a series of official investigations by Taiwan's Bureau of Foreign Trade from 1996 to 2006. Among the top

twenty export markets for Taiwanese firms, China, Singapore, the Philippines and Vietnam are the four markets perceived by firms as the most institutionally proximal markets. Conversely, Canada, Germany, Japan and the United States are treated as the top four institutionally distal markets. Second, by comparing the measures for regulatory and normative institutional distance scores developed by Xu, Pan, and Beamish (2004), this study uses China (score = 4.51) and the Philippines (score = 4.38) as the institutionally proximal markets for Taiwan (score = 4.83), while Canada (score = 5.86) and the United States (score = 5.83) are the selected institutionally distal markets. All four markets are crucial to Taiwan's export sales. Chinese and Southeast Asian markets have been the primary export markets for most Taiwanese firms since 2001. The similar Sino-cultural heritage and emphasis on interpersonal linkages between Taiwan and these areas also causes many Taiwanese firms to view entry into these markets as the most "accredited" business pattern in their industries. By contrast, Canada and the United States are rule-based systems. Failure to comply with these rules yields predictable negative consequences (Chao & Kumar, 2010). High individualism and risk-pursuit-related social norms also characterize the typical Anglo-Saxon nature of these two countries.

3.3.2. Independent variables

This study selected multiple formative indicators to measure home competitive and marketing pressures (Diamantopoulos & Winklhofer, 2001). We selected these items based on the operational definitions used in previous studies (e.g., Barry, Kemerer, & Slaughter, 2004; Cheng & Yu, 2008; Wu, 2010). Each of the items in the database was measured on a dichotomous scale, with 0 indicating sensing no pressure and 1 indicating sensing pressure. There are 32 selected indicators from the dataset. The response of each indicator is perceived (score = 1) or not perceived (score = 0) for each type of pressure. By checking the relations among the indicators' meanings, we separated these 32 items into eight factors, and each factor has four indicators. We then summarize the scores for each of the four indicators of each factor, which range from four to zero. Finally, the eight variables measuring the types of external pressure are equally divided into (1) pressures from competitors and supply conditions ("home competitive pressure") and (2) pressures from customer preferences and product innovations ("home marketing pressure").

First, "home competitive pressure" includes four aggregated items: (1) direct, intense rivalry among exporting firms, (2) dynamic changes in related industry technologies, (3) insufficient supply conditions among related industries, and (4) the extent of the price-cutting rivalry in the home country. Second, the four aggregated items for home marketing pressure are (1) compression of the product life cycle, (2) the need to find more domestic marketing channels, (3) the uncertainty of predicting future customer preferences and tastes at home, and (4) diminishing demand from existing niche markets in the home market.

3.3.3. Control variables

EMS is a complex decision-making process for firms, and this study controls for three types of variables. First, firm-specific advantages (FSAs) are controlled for as crucial factors (Anand & Delios, 2002): (1) total market sales (sales); (2) the total number of employees (size); (3) the firm's marketing capability (based on six aggregated items), including brand awareness, corporate image, pricing, the placement of distribution channels, sensing and responding to market demand, and distinct market segmentation; and (4) the firm's R&D capability (based on four aggregated items), including the uniqueness of its products, its technology innovation competence, the quality of its human resources, and its accumulation and application of intellectual property. The data for "sales" and "size" were log-transformed to reduce their skewness. The capability indicators in the database were measured on a three-point scale (high, medium, or low); the scores were then averaged to represent the level of a firm's marketing and R&D capabilities. Second, the internationalization of the firm is also controlled for based on (1)

the ratio of foreign outsourcing to total assets and (2) the ratio of foreign production to total production (Chen et al., 2016). Third, export activities can be influenced by other non-market home regulatory pressure. This study combined four aggregated indicators that queried exporting firms about their perceptions of (1) the instability of Taiwan's trade policy, (2) restrictions arising from Taiwan's extant economics and politics, (3) the difficulties establishing free trade agreements, and (4) the environmental protection restrictions imposed on exporting firms (Cheng & Yu, 2008). Marketing capability, R&D capability and home regulatory pressure all have multiple aggregated items and were developed based on a similar process to that for the two independent variables.

3.3.4. Reliability and validity checks of predictive variables

We check both the reliability and validity of our independent variables, since they were selected in our research design. First, the composite reliability (Cronbach's alpha) values of the two independent variables and three multiple-item control variables (marketing capability, R&D capability and regulatory pressure) are from 0.51 to 0.61, indicating a medium level of reliability for each factor. Given the exploratory nature and the value of these unique factors adopted from the secondary dataset, we believe that the medium level of reliability (approximating 0.50) of these items is still acceptable in an exploratory analysis (Nunnally, 1978). The intra-correlations among the items related to all these constructs were all significantly positive. In addition, an exploratory factor analysis was also conducted. The Kaiser-Meyer-Olkin indexes were 0.58 and 0.62 for home competitive and home marketing pressures, respectively, which indicates acceptable data adequacy (Zwick & Velicer, 1986). The four items of home competitive pressure have convergent factor loadings ranging from 0.53 to 0.49 and communality estimates ranging from 0.56 to 0.51. The four items of home marketing pressure have convergent factor loadings ranging from 0.60 to 0.56 and communality estimates ranging from 0.61 to 0.53. The three control variables similarly have medium levels of convergent factor loadings ranging from 0.67 to 0.56. The tests show acceptable reliability for our developed measurement scale.

Second, to enhance the content validity, the authors also solicited four professors and seven industry experts in the management and marketing areas to act as subject matter expert raters (Lawshé, 1985). We asked these experts to rate whether each of the selected indicators reflects the nature of the independent variables (home competitive and marketing pressures) and the three multiple-item control variables (marketing capability, R&D capability and regulatory pressure) for Taiwanese export firms. No item was discarded because not more than half the panelists indicated that an item was not necessary. Thus, we believe that all the items have at least some content validity. Content validity has two meanings: "item content validity" and "scale content validity" (Lynn, 1986). As suggested by Hinkin (1998), the "item content validity" of a scale should be evaluated by its relevance in mirroring the significance associated with actual knowledge. Hinkin and Tracey (1999) assert that experts with sufficient knowledge can judge "scale content validity". While the item content validity was assessed in our detailed literature review, we believe that the "scale content validity" issue is sufficient based on the approval of our ten experts; these experts have complementary knowledge in both the academic field and in practice to review the broad picture provided by the scale.

3.3.5. Instrumental variables

To avoid the risk of potential endogeneity, we endogenize our two independent variables by including instrumental variables in a supplementary three-stage least squares (3SLS) analysis. This econometric approach is a simultaneous equation estimation using the 3SLS approach. The 3SLS model is appropriate to handle endogeneity bias when researchers use secondary data with perceptual measures (Ambos, Nell, & Pedersen, 2013). Endogeneity might arise due to measurement errors that may occur, given that we cannot a priori rule

out the presence of unobserved variables that could affect the dependent variables (Hamilton & Nickerson, 2003). We use eight instrumental variables to produce consistent estimates and generalized least squares. In stages 1 and 2, we designed eight instrumental values for our two endogenous variables. The third stage produced a consistent estimate of the effect of the two endogenous variables on the final dependent variable.

Eight instrumental variables are selected for several reasons. First, firms' home competitive pressure is highly related to the degree of unambiguous market competition. The instrumental variables for home competitive pressure include "the total investment amount in the home country in the last year", "the degree of production automation in the home country", "the degree of public ownership", and "the degree of satisfaction with recent ROE (return on equity)". The items represent the resource commitments and competitive status of firms in the home market that affect the degree of firms' competitive pressure (Martineau & Pastoriza, 2016). Second, "the increase in the prior year's marketing expenses", "the increase in the prior year's R&D expenses", "the number of product lines", and "the status of market share leadership" in the home market reflect firms' efforts to handle transitions in marketing preferences. These factors are highly related to firms' degree of marketing pressure (Helm & Gritsch, 2014).

4. Results

Table 1 lists the correlations among all of the variables and shows that the largest correlation coefficient between the variables was 0.56. The data were analyzed using hierarchical ordinary least squares (OLS) regression models. Table 2 shows the results of the two sets of hierarchical regression models. For Model 1, Model 2 and Model 3, the dependent variable is the ratio of export sales to institutionally proximal countries to total export sales. For Model 4, Model 5 and Model 6, the dependent variable is the ratio of export sales to institutional distal markets to total export sales. To test the appropriateness of the model, the validity of each hierarchical regression model was examined. First, multicollinearity was determined. Because the VIF values for all of the variables are < 3 and the maximum condition index in the models yields a value of 6, multicollinearity should not be a serious issue. The control variables were first entered into the partial model. The first-order values of the three independent variables were then added to the full model. Finally, the corresponding squared terms of the three independent variables were incorporated into the squared model. These hierarchical models make it possible to compare the model fit between the linear and the curvilinear models and validate our hypotheses of curvilinearity. The adjusted R-squared values in all the models are significant, indicating significant increments in the explanatory power of the tested first- and second-order variables.

In Model 3, in which the dependent variable is the ratio of export sales to institutionally proximal markets to total export sales, home competitive pressure ($t = 2.43, p < 0.05$) and home marketing

pressure ($t = 4.23, p < 0.01$) were significantly and positively correlated with the dependent variable. The squared terms of both home competitive pressure ($t = -1.82, p < 0.1$) and home marketing pressure ($t = -2.17, p < 0.05$) were significantly and negatively correlated with the dependent variable. The relationships plotted in Model 3 are typically inverse U-shaped functions, as shown by the blue lines in Figs. 2 and 3.

Correspondingly, in Model 6, in which the dependent variable is the ratio of export sales to institutionally distal markets to total export sales, home competitive pressure ($t = -3.86, p < 0.01$) and home marketing pressure ($t = -3.25, p < 0.01$) were both significantly and negatively correlated with the dependent variable. The squared terms of both home competitive pressure ($t = 1.97, p < 0.05$) and home marketing pressure ($t = 2.08, p < 0.05$) were significantly and positively related to the dependent variable. The relationships plotted in Model 6 are U-shaped curves, as shown by the red lines (dotted lines) in Figs. 2 and 3.

In our supplementary 3SLS analysis, the results of the first two columns confirm that the instrumental variables work well as a group, accounting for an acceptable and significant variance in the three endogenous variables. We also inspected the nonsignificant bivariate correlations between the instrumental variables and the residuals. These tests tentatively suggest that the problem of endogeneity has been addressed in this study. The final two columns of Table 3 show results that are very similar to those in the regular OLS regressions. The results therefore pass the potential endogeneity bias check.

The two U-shaped curvilinear relationships are shown in Figs. 2 and 3. In the inverse U-shaped models, the turning point and the degree of bending are earlier (and steeper) for home competitive pressure (the turning point is at 0.65) than for home marketing pressure (the turning point is at 0.8). In contrast, in the U-shaped models, the curve for home marketing pressure (the turning point is at 0.6) bends earlier and is also steeper than that for home competitive pressure (the turning point is at 0.75). This comparison implies that home marketing pressure is more powerful than home competitive pressure in pushing firms' EMS to institutionally proximal markets whereas home competitive pressure can more strongly motivate firms to export to institutionally distal markets. We argue that export firms have different degrees of reaction between home competitive and marketing pressures.

5. Conclusions and discussions

This study examines firms' different organizational change responses to adapt to home competitive and marketing pressures and how such responses influence firms' EMS trade-offs between institutionally proximal and distal markets. Our examination elucidates more strategic meaning of institutional distance for exporters. The major findings and suggestions for future studies are discussed below.

First, the previous literature focuses on firms' knowledge, experience and resource accumulation in markets of diverse distances from

Table 1
Correlation coefficients.

	1	2	3	4	5	6	7	8	9	10
1. Export ratio to institutionally proximal markets	1									
2. Export ratio to institutionally distal markets	-0.07	1								
3. Home competitive pressure	0.08*	0.07	1							
4. Home marketing pressure	0.09*	-0.09	0.17**	1						
5. Size (total number of employees)	-0.02	-0.07	0.05	-0.01	1					
6. Sales (total sales)	0.05	0.06	0.02	-0.01	0.56**	1				
7. R&D capability	-0.04	0.02	0.00	0.01	0.00	0.01	1			
8. Marketing capability	0.08*	0.05	-0.01	0.01	0.04	0.05	-0.33**	1		
9. Ratio of foreign production	0.02	0.04	0.01	-0.01	-0.06	0.14*	0.04	0.04	1	
10. Ratio of foreign outsourcing	0.02	0.09**	0.04	-0.04	-0.15*	0.11*	0.02	0.01	0.20**	1
11. Regulatory pressure	0.04	0.08*	0.12*	0.13*	0.04	0.02	0.00	0.01	-0.01	0.02

Note: n = 1940; *p < 0.01; **p < 0.001 (two-tailed tests).

Table 2
OLS Estimates of firms' exports to target markets (T and beta values).

	DV = Export ratio to China and the Philippines (institutionally proximal markets)			DV = Export ratio to USA and Canada (institutionally distal markets)		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Constant	16.78	12.75	11.62	13.54	8.26	7.84
1. Size ^a	1.10 (0.03)	1.09 (0.03)	0.91 (0.02)	-2.07* (-0.05)*	-2.15* (-0.05)*	-1.96* (-0.05)*
2. Sales ^a	0.98 (0.02)	0.91 (0.02)	0.70 (0.02)	-1.44 (-0.03)	-1.17 (-0.02)	-0.95 (-0.01)
3. R&D capability	-1.78 (-0.04)	-1.73 (-0.03)	-1.8 ⁺ (0.04)	1.15 (0.02)	1.03 (0.02)	1.05 (0.02)
4. Marketing capability	-0.18 (-0.01)	-0.09 (0.00)	-0.17 (-0.01)	1.90* (0.05)*	1.62 (0.03)	1.56 (0.03)
5. Ratio of foreign production	-2.28* (-0.06)*	-2.30* (-0.06)*	-2.28* (-0.06)	2.21* (0.06)**	2.21 (0.06)*	2.19* (0.06)*
6. Ratio of foreign outsourcing	0.52 (0.02)	0.53 (0.02)	0.48 (0.01)	-2.23** (-0.06)**	-2.52** (-0.06)**	-2.47* (-0.06)*
7. Home regulatory pressure	-1.19 (-0.03)	-1.52 (-0.03)	-1.22 (-0.03)	1.90* (0.05)	1.64 (0.03)	1.73 (0.03)
Main effects						
1. Home competitive pressure (X1)		1.94* (0.05)*	2.43* (0.06)*		-3.33** (-0.08)**	-3.89** (-0.09)**
2. Home marketing pressure (X2)		3.62** (0.09)**	4.23** (0.10)**		-2.51** (-0.06)**	-3.25 (-0.08)**
Interaction effects						
1. X1 ²			-1.82 ⁺ (-0.04)			1.97* (0.05)*
2. X2 ²			-2.17* (0.06)			2.08* (0.06)*
F value	1.59*	3.20**	3.62**	5.00**	5.36**	4.77**
Adjusted R ²	0.02	0.04	0.07	0.04	0.07	0.09
R ² change		0.02*	0.03*		0.03*	0.02*

Note: n = 1940. T value coefficients are shown, and the Beta value coefficients are shown in parentheses. All variance inflation factors values were < 2.

⁺p < 0.1, *p < 0.05, **p < 0.01, ***p < 0.001, two-tailed test.

^a Log-transformed.

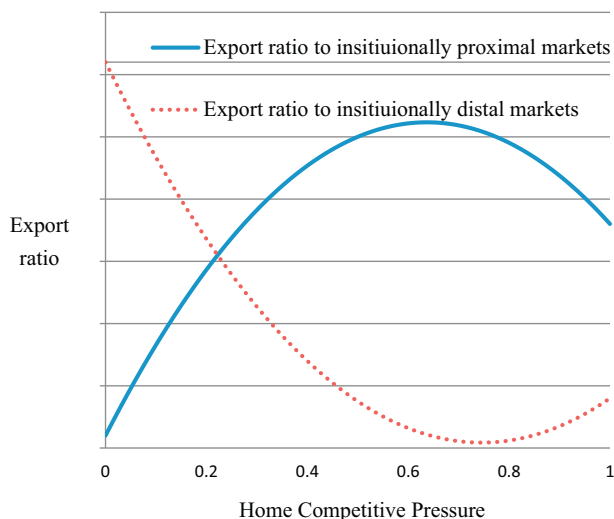


Fig. 2. Relationship between home competitive pressure and firms' EMS.

the home market as they seek to enjoy a variety of geographic location benefits (Dikova et al., 2016). Responding to Magnani et al. (2018) and Williams and Grégoire (2015), we take a strategic view of the similarity comparisons to re-conceptualize the meaning of institutional distance for firms' EMS. Firms' strategic objectives can be used to complementarily examine the effect of institutional distance on their EMS. In addition to the consideration of physical closeness (as predicted by the Uppsala approach), firms will also view institutional distance as a strategic reference point for the deployment of their marketing

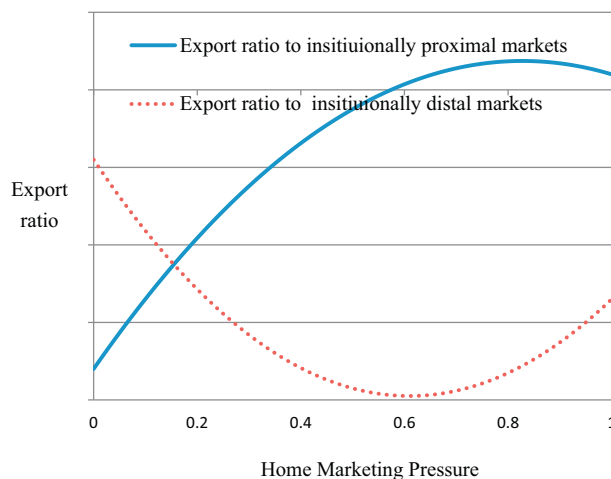


Fig. 3. Relationship between home marketing pressure and firms' EMS.

emphasis. Entry into institutionally proximal markets means that firms will maintain their marketing logics by conforming to home market pressures (i.e., incremental change). Entry into institutionally distal markets means that firms use radical change to develop new marketing logics via entry into dissimilar markets to escape from home market constraints. We take the holistic view that EMS decision making is a mixed result of firms' local knowledge accumulation and their strategic responses to home market restrictions (Krammer et al., 2018). Future studies should follow the organizational change logic to better elucidate firms' EMS evolutionary path from institutionally proximal markets to distal markets.

Table 3
3SLS regressions.

Variables	Home competitive pressure	Home marketing pressure	Export ratio to institutionally proximal markets	Export ratio to institutionally distal markets
Instrumental variables				
The total investment amount in prior year	2.10*			
The degree of production automation at home	2.49*	.		
The degree of public ownership	1.93 ⁺			
The number of product lines	1.81 ⁺	2.63*		
The degree of satisfaction with recent ROE	2.40*	4.14**		
The increase in home marketing expenses		2.97*		
The increase in prior year R&D expenses		2.27 *		
The status of market share leadership		3.12*		
Predictors				
Size ^a			1.56	−2.46*
Ratio of foreign outsourcing			1.03	−1.96
Ratio of foreign production			−2.88*	2.96*
Home regulatory pressure			1.06	−1.27*
Home competitive pressure			2.26*	−2.87*
Home marketing pressure			3.06*	−1.99*
(Home competitive pressure) ²			−1.84 ⁺	1.89 ⁺
(Home marketing pressure) ²			−2.34*	2.02*
Intercept			13.66**	16.52**
F value			3.25*	4.25*
Adjusted R ²	0.12	0.09	0.04	0.05

Note: n = 1940. T value coefficients are shown. All variance inflation factors values were < 3.

⁺p < 0.1, *p < 0.05, **p < 0.01, ***p < 0.001, two-tailed test.

^a Log-transformed.

Second, this study examines the impact of the home market on firms' EMS. Prior research focuses more on host country characteristics while paying less attention to features of the exporters' home countries (Sousa, Martínez-López, & Coelho, 2008). Although Krammer et al. (2018) and Luiz, Stringfellow, and Jefthas (2017) recently found that firms will increase their exports when they face increasing uncertainty in their home market, the authors did not further examine the different EMS patterns when adapting to home market pressures. We demonstrate that home competitive and marketing pressures can encourage firms to increase their emphasis on exports to institutionally proximal markets because structural inertia enhances their choice to engage in incremental change to exploit the value of similar markets. This is a familiar dilemma regarding organizational change experienced by many firms: firms' existing marketing competence becomes their inertia that prevents innovative market entry strategies. Only the “uncontrollable” home market pressures can push firms to break up the inertia to catch export opportunities in unusual markets. In practice, we argue that firms face a trade-off when emphasizing institutionally proximal or distal markets, which also reflects their strategic response priorities to cope with home market pressures. Responding to Cheng and Yu (2008), future studies should analyze the different organizational change responses of both equity- and non-equity-based internationalization as firms to adapt to home market pressures.

Third, this study provides an additional examination of why some born-global exporters select institutionally distal markets as their first target export market: the born-globals have no structural inertia and can use radical change to cope with home country pressures (Moen & Servais, 2002). As stated previously, we argue that export firms' preferred strategic objectives to develop new marketing logics to explore new markets are highly related to proactive EMS. Why do the born-global firms exhibit a high degree of international entrepreneurial orientation despite their relatively limited tangible resources and host country experience? In addition to their unique resources and capabilities of their founders (Cavusgil & Knight, 2015), we argue that their

radical change strategic response preference may be a main motivator. Some born-global exporters still emphasize institutionally proximal markets in a region, at least in their early years (Lopez, Kundu, & Ciravegna, 2009). Why do some born-globals choose aggressive EMS while others do not? Perhaps it is determined by their organizational change response (radical or incremental) preferences. We suggest that future studies attempt to elucidate the relationship between these born-global exporters' organizational change responses and their managers' entrepreneurial orientations.

Fourth, the EMS literature indicates that high transaction costs are essential as barriers inhibiting proactive entry into institutionally distal markets (He et al., 2016). In addition to concerns about high transaction costs in the host country (Shervani, Frazier, & Challagalla, 2007), we argue that the inertia resulting from export firms' limited operational scope in the home country market may also cause their passive EMS strategies. As predicted, the back-forward turning points of the four curvilinear models (all after 0.65) indicate stronger incremental change responses than radical change responses for exporting firms. That is, securing and improving sales in the originally preferred markets (institutionally proximal markets) may be the most popular change response method for export firms to address perceived home market pressures. The effects of structural inertia become obvious for most existing firms, and they can widely disseminate a “likely legitimate” marketing pattern (e.g., entry into other similar markets) when facing home market transitions (Greenwood & Hinings, 1996). Gaur and Lu (2007) also find an inverted U-shaped relationship between the institutional distance of the host country and the success of firms' international market entry. Entry into institutionally proximal or distal markets is a trade-off for export firms under high home market pressures concerning whether they want to tolerate the high level of market pressures in the existing market or take on the potentially high transaction costs in unusual markets. Both approaches have high risks and costs. Future studies should investigate this strategic balancing of firms' EMS.

Fifth, by comparing export firms' different reaction turning points between home competitive and marketing pressures, we reveal the B2B logic of EMS (Demirbag, McGuinness, & Altay, 2010). He and Wei (2013) find an influence of external B2B network partners on firms' exporting, but they do not clarify the effects of different B2B partners. Our results show that export firms are more adventurous when responding to home marketing pressure: it pushes firms to enter institutionally distal markets but to maintain their export emphasis in institutionally proximal markets. When addressing relationships with B2B customers, although the different customer interests and product preferences in institutionally distal market can increase the risk, most firms treat it as an opportunity to achieve geographic market diversification (Boehe et al., 2016). Yang and Gabrielsson (2017) find that home marketing pressure can cause entrepreneurial entry into other unknown markets by high-tech firms. However, although firms facing increasing home competitive pressure will reduce their exports to institutionally proximal markets more quickly, they will not increase their exports to institutionally distal markets very quickly. Home competitive pressure arises from unpredictable B2B industry rules among peer firms (i.e., competitors). In addition to competition, close industry relationships among peer firms also exist. On the one hand, intense competition can raise fears of peer antagonism; therefore, most firms will reduce their involvement in the original familiar and similar markets to reduce potential rivalries (Ju & Zhao, 2009). However, coalitions among existing industry competitors can also constrain firms' intentions to quickly deploy an EMS strategy because they may want to observe the responses of other peer firms (Paul et al., 2017). Future studies could analyze these B2B response differences in firms' EMS.

6. Limitations

This study has several limitations. First, our findings are based on cross-sectional data that were collected in 2006. The process by which individual firms respond to incrementally increasing institutional pressures in the long term remains unclear. A longitudinal research design should be considered in future studies. Second, the dichotomous scale variables in this study were selected and extracted from a published database. Primary data collection using a multiple-point scale is suggested for further studies. Third, although all of the R-squared values in our analyses are significant, the low R-squared values of the regression models may be a limitation of this study. A possible reason for this result is that only a few variables of the datasets are discussed. Other crucial factors should be considered in future studies.

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