Bridging Institutional Gaps: Market Segmentation, Management Models, and the Performance Mechanism of Horizontal Integration Strategies

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Abstract. This study examines how horizontal integration strategies shape firm performance in the context of China's simultaneous economic globalisation and domestic market segmentation. Drawing on survey data from 129 firms operating across regions, it develops a theoretical model based on the Integration-Responsiveness (IR) framework to analyse the performance effects of national integration and localisation strategies, as well as the moderating roles of market segmentation and management models. The findings indicate that both integration and localisation strategies positively influence firm performance, but through distinct organisational mechanisms. Management models significantly condition these effects: centralisation and headquarters-linked incentives strengthen the performance outcomes of integration strategies, whereas decentralisation and local incentive systems enhance the performance outcomes of localisation strategies. Institutional distance weakens the positive impact of integration strategies, while showing no significant effect on localisation strategies. The study contributes by extending the IR framework to a domestic emerging-economy context and by clarifying the interaction between institutional conditions and organisational design. In practice, it provides guidance for firms seeking to navigate market segmentation and optimise their horizontal integration strategies.

Keywords: Horizontal Integration; Market Segmentation; Management Model; Integration Strategy; Localization Strategy

1 Introduction

China's marketisation since the reform and opening-up has coincided with persistent regional heterogeneity in institutional and policy frameworks. Under fiscal incentives and performance evaluation, local governments may adopt administrative measures that protect local firms and tax bases, contributing to domestic market segmentation and frictions in factor mobility. Such segmentation not only weakens allocative efficiency but also raises transaction and coordination costs for cross-regional firms[1]. In this setting, firms face a strategic tension in designing horizontal integration: national integration strategies pursue scale economies through centralised decision-making and

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standardised processes, whereas localisation strategies emphasise adaptation to local regulatory and market conditions to secure responsiveness and legitimacy. The performance implications of these choices are likely contingent on the fit between organisational design and heterogeneous institutional environments.

Prior research has largely theorised the integration, responsivity trade-off in multinational contexts, leaving relatively limited evidence on analogous dynamics within emerging economies characterised by internal institutional fragmentation. China’s domestic market, therefore, provides a theoretically relevant setting to extend the IR framework to subnational institutional diversity. Internal management models shape how integration or localisation translates into performance. Differences in resource control and incentive alignment, often embodied in centralisation versus decentralisation, affect coordination efficiency and local responsiveness[3]. Institutional distance further increases coordination costs and legitimacy risks for firms attempting to implement unified strategies across regions, suggesting that market segmentation functions not only as an external constraint but also as a contextual moderator of strategic outcomes[2]. Building on this logic, this study examines the performance effects of national integration and localisation strategies and tests how these effects are conditioned by market segmentation (institutional distance) and management models.

2 Theoretical Foundation and Research Hypotheses

2.1 Localized Extension of the Integration-Responsiveness Model

The Integration-Responsiveness (IR) framework was initially developed to explain how multinational enterprises balance standardisation and local adaptation in global competition. This model emphasises that firms face two conflicting pressures: economic pressure for global integration and the need for differentiation in response to local markets. In the Chinese context, firms similarly face a domestic integration-local responsiveness dilemma when operating across regions[4]. Due to significant institutional, policy, and cultural differences, heterogeneity exists between different provinces in terms of legal systems, resource endowments, and market supervision. This complicates firms' nationwide expansion and coordination. This study introduces the IR model into the study of China's domestic market, proposing that the national integration strategy and the localisation strategy are two typical paths for firms' horizontal integration: the former emphasises resource sharing and process control. At the same time, the latter focuses on local adaptation and flexible adjustment. Based on this, the following hypotheses are proposed:

H1a: The national integration strategy has a significant positive impact on firm performance.

H1b: The localisation strategy has a significant positive impact on firm performance.

2.2 The Moderating Role of Market Segmentation and Institutional Distance

Market segmentation reflects local governments' protection and intervention in local economic activities, resulting in firms facing the challenge of institutional distance in their cross-regional operations[5]. The institution-based view holds that a firm's operational performance depends not only on its resources and capabilities but is also constrained by the supportiveness of the external institutional environment. When institutional differences are large, a national integration strategy may face higher transaction and coordination costs, thereby weakening its performance effect[6]. In contrast, a localisation strategy, through adaptive adjustments, can gain legitimacy advantages in different institutional environments. Therefore, the following hypotheses are proposed:

H2a: Institutional distance weakens the positive impact of the national integration strategy on firm performance.

H2b: Institutional distance has no significant impact on the relationship between the localisation strategy and firm performance.

2.3 The Moderating Role of Management Model

A firm's internal governance structure determines the effectiveness of strategy implementation. According to the resource-based view and contingency theory, the fit between organisational structure and strategy influences firm performance. A centralised structure is suitable for resource integration and process standardisation, while a decentralised structure is more conducive to local responsiveness and innovation. Incentive and performance appraisal methods further influence the effectiveness of strategy implementation. In the practice of Chinese enterprises, centralised management can strengthen headquarters' control and resource allocation efficiency, enhancing the execution effectiveness of the national integration strategy. Decentralised management allows local branches greater flexibility in dealing with complex environments, thereby enhancing the performance of the localisation strategy. Accordingly, the following hypotheses are proposed:

H3a: A centralised management model strengthens the relationship between the national integration strategy and performance.

H3b: A decentralised management model strengthens the relationship between the localisation strategy and performance.

3 Research Design

3.1 Sample Selection and Data Sources

To test the aforementioned hypotheses, this study selects firms with cross-regional operations within China as the research sample. The sample covers multiple industries, including manufacturing, construction, and modern services, ensuring its representativeness. Data were primarily collected through a combination of questionnaire surveys and in-depth interviews. The survey respondents were middle and senior managers from corporate headquarters and major regional branches. The research team distributed a total of 150 questionnaires, and 129 valid questionnaires were returned, resulting in a valid response rate of 86%. The sample firms are distributed across 31 provinces (excluding Hong Kong, Macao, and Taiwan). Most firms have been established for more than five years, possessing stable cross-regional operation experience. To ensure data reliability, two rounds of pre-testing and questionnaire revisions were conducted before the formal survey to confirm the reliability and validity of all measurement items.

3.2 Variable Definitions and Measurement

3.2.1 Independent Variables: Horizontal Integration Strategy.
The horizontal integration strategy is divided into two dimensions: national integration strategy and localisation strategy. The national integration strategy is evaluated by key indicators such as centralised decision-making, process standardisation, and resource sharing. The localisation strategy is reflected by indicators such as local autonomy, policy adaptation capability, and market response speed. All items were measured using a five-point Likert scale, ranging from 1 = strongly disagree to 5 = strongly agree.

3.2.2 Dependent Variable: Firm Performance.
Firm performance includes both financial performance and operational performance. The sales growth rate primarily measures financial performance, return on assets (ROA), and the level of cost control. Operational performance includes market share, innovation capability, and customer satisfaction.

3.2.3 Moderating Variables: Management Model and Institutional Distance.
The management model encompasses dimensions such as degree of centralisation, decision-making concentration, and incentive orientation, which reflect the firm's internal governance structure. Institutional distance is measured through subjective assessments of inter-regional differences in government regulation, policy stability, and law enforcement intensity, reflecting the external constraints firms face in different institutional environments.

3.2.4 Control Variables.
These include firm size, firm age, industry category, and regional economic development level, used to control for potential external confounding factors.

3.3 Research Method and Model Construction

To examine the proposed hypotheses, this study employs hierarchical regression analysis to assess both direct and moderating effects. The empirical strategy proceeds in three stages. Hierarchical ordinary least squares (OLS) regression is used to estimate the models. First, a baseline model evaluates the direct relationships between national integration strategy, localisation strategy, and firm performance while controlling for firm size, firm age, industry category, and regional development level.

Second, institutional distance is introduced to test its moderating role. Interaction terms between strategic orientations and institutional distance are incorporated to examine whether segmentation conditions alter the effectiveness of integration and localisation strategies. Third, the management model is included as an additional moderator. Interaction terms capturing the alignment between strategic orientation and organisational governance are used to evaluate how centralisation and decentralisation shape performance outcomes. All analyses are conducted using SPSS and AMOS. Reliability and validity tests indicate strong measurement properties, supporting the robustness of the empirical results.

4 Research Results and Analysis

4.1 Descriptive Statistics and Correlation Analysis

The results of the correlation analysis among variables show that the correlation coefficient between the national integration strategy and firm performance is 0.42 ($p < 0.01$), and the correlation coefficient between the localisation strategy and performance is 0.36 ($p < 0.01$). This indicates that both strategies are significantly positively correlated with performance. Institutional distance is negatively correlated with the integration strategy ($r = -0.31$, $p < 0.05$) and shows a weaker, non-significant correlation with the localisation strategy ($r = -0.12$, ns). The management model is positively correlated with both strategies, indicating that effective internal governance facilitates the implementation of strategies. These results provide preliminary support for the hypothesised relationships and justify subsequent regression analyses.

4.2 Main Effect Analysis

The regression results indicate that the national integration strategy has a significant positive impact on firm performance ($\beta = 0.32$, $p < 0.01$), and the localisation strategy also has a significant positive impact on performance ($\beta = 0.27$, $p < 0.01$). Standardised coefficients are reported to facilitate comparison across models. These results support H1a and H1b. The national integration strategy enhances resource utilisation efficiency by reducing redundant investment and coordination costs, while the localisation strategy enables firms to respond swiftly to local policies and market demands, thereby strengthening market competitiveness.

4.3 The Moderating Effect of Institutional Distance

After introducing the interaction terms, it was found that institutional distance has a significant adverse moderating effect on the relationship between the national integration strategy and performance ($\beta = -0.22$, $p < 0.05$), thus supporting H2a. In contrast, its moderating effect on the relationship between the localisation strategy and performance is not significant, supporting H2b. This suggests that when institutional differences across regions are substantial, standardised and centralised national strategies face more institutional constraints during implementation, leading to a weakened performance effect. The localisation strategy, due to its inherent flexibility and adaptability, is less susceptible to the interference of institutional distance.

4.4 The Moderating Effect of Management Model

Further analysis reveals that a centralised management model strengthens the relationship between the national integration strategy and performance ($\beta = 0.18$, $p < 0.05$), while a decentralised management model strengthens the relationship between the localisation strategy and performance ($\beta = 0.21$, $p < 0.05$). Both findings align with the expected hypotheses H3a and H3b. The results demonstrate that the alignment between organisational structure and strategic direction is key to enhancing performance. Centralisation helps ensure the consistent execution of the national integration strategy, whereas decentralisation motivates local units and enhances strategic flexibility.

5 Robustness Checks

To verify the robustness of the results, this study conducted subgroup analyses based on industry and firm size. The results show that the model has the highest significance within the manufacturing sample, followed by the service industry sample. The performance effect of the national integration strategy is stronger in large firms, while small and medium-sized enterprises (SMEs) perform better under the localisation strategy. These findings are consistent with the theoretical logic of this study, indicating that the conclusions are robust.

6 Discussion

The findings indicate that both national integration and localisation strategies enhance firm performance, but through distinct mechanisms shaped by institutional conditions. Integration strategies leverage headquarters' resource coordination and process standardisation, making them more effective in relatively homogeneous institutional environments. By contrast, localisation strategies support responsiveness and legitimacy under conditions of institutional diversity, highlighting the importance of strategic alignment with regional contexts.

The moderating role of institutional distance underscores how institutional complexity constrains standardised integration while leaving localisation strategies comparatively resilient. At the organisational level, the results suggest that governance design is central to strategy implementation: centralised structures reinforce integration consistency, whereas decentralised arrangements enable adaptive responses and innovation. Together, these findings emphasise that strategic effectiveness depends on the joint configuration of institutional context and organisational design rather than on a single optimal strategy.

7 Conclusion and Implications

Focusing on Chinese firms, this study develops an analytical model within the Integration-Responsiveness framework to examine how market segmentation and management models shape the performance of horizontal integration strategies. The findings suggest that both national integration and localisation strategies enhance firm performance, albeit under different institutional conditions. Institutional distance constrains the effectiveness of integration strategies, while the alignment between management models and strategic orientation emerges as a central mechanism through which strategy translates into performance.

The study contributes by extending the IR framework to a domestic emerging-economy context and by clarifying how institutional conditions interact with organisational design to influence strategic outcomes. In doing so, it advances research at the intersection of the institution-based and resource-based views. Managerially, the results highlight the importance of designing governance and incentive systems that flexibly balance efficiency and responsiveness across heterogeneous institutional environments. This research is subject to limitations related to sample size and cross-sectional design, which restrict the ability to capture dynamic strategic adjustments over time. Future research could employ longitudinal approaches and incorporate additional variables, such as digital capabilities, cultural heterogeneity, and political connections, to further unpack firms' adaptation processes under institutional complexity. Overall, the study provides a framework for understanding how firms navigate segmented domestic markets and offers empirical insights into strategic adaptation in emerging economies.

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