EVALUATING THE DYNAMICS OF EXPORT PERFORMANCE: MODERATING EFFECTS OF PROXIMATE ENVIRONMENT ON FIRM STRATEGIES AND EXPORT PERFORMANCE

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Thesis Abstract

Melih Astarlıoğlu "Evaluating the Dynamics of Export Performance: Moderating Effects of Proximate Environment on Firm Strategies and Export Performance"

Generic strategies are composed of three main firm strategies: "cost leadership", "differentiation" and "focus" strategies. Any firm who desires a prominent performance in the national or international business environment should follow one of these strategies and adapt itself to the demands of the relevant strategy. Competitive Advantage of Nations Framework (Diamond Framework), on the other hand, asks the question "why some nations prosper in some industries whereas others cannot" and is used to measure the competitiveness level of countries in certain industries. According to this framework, nations with favorable "factor" and "demand conditions", a proper "context for firm strategy and rivalry", together with complementary "related and supporting industries" are said to prosper better than the ones who lack these determinants. In this thesis, Competitive Advantage of Nations Framework is treated as a proximate environment for firms that are competing internationally and a moderating effect of this framework on the relationship between generic firm strategies and firms` export performances is proposed and tested. The empirical component of the thesis includes a survey of 154 exporting firms. Overall, results provide some, though limited support for the proposed relationships.

Tez Özeti

Melih Astarlıoğlu "İhracat Performansı Dinamiklerinin Değerlendirilmesi: Yakın İş Çevresi Koşullarının Firma Stratejileri ile İhracat Performansı Arasındaki İlişkiye Etkileri"

Firma stratejileri üç ana başlıktan oluşmaktadır: "düşük fiyat", "farklılaşma" ve "odaklanma" stratejileri. Ulusal ya da uluslararası iş ortamında başarılı olmak isteyen herhangi bir firmanın bu stratejilerden bir tanesini seçip, onun gereklerine uyum sağlaması gerekmektedir. Ülkelerin Rekabet Gücü Modeli ise, bazı ülkeler bir takım endüstrilerde başarılı iken diğerlerinin neden bu endüstrilerde başarılı olamadığı sorunuyla ilgilenmektedir. Bu model, "faktör" ve "talep koşulları", "firma stratejileri ve rekabet için uygun bir ortam", ve bunları tamamlayıcı nitelikte "ilgili ve destekleyici sektörlerin" olduğu ülkelerin uluslararası piyasada daha başarılı olduğunu, bu koşullara sahip olmayanların ise başarılı olamayacağını iddia etmektedir. Bu tezde Ülkelerin Rekabet Gücü Modeli, uluslararası piyasalarda rekabet eden firmaların sahip olduğu yakın çevre koşulları olarak ele alınmış ve önerilen modelde jenerik firma stratejileri ile firmaların ihracat performansları arasındaki ilişkiyi modere eden bir etken olarak kullanılmıştır. Tez çerçevesinde yapılan ampirik çalışmada 154 adet ihracatçı firmadan elde edilen bilgiler analiz edilmiş ve bu analizlerin ardından elde edilen bulgular genel anlamda önerilen modeli, sınırlı da olsa, desteklemiştir.

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to Dilay...

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CHAPTER 1

INTRODUCTION

According to Porter, the essence of formulating a competitive strategy is relating a company to its environment (Porter, 1985) and the state of competition in an industry depends on five competitive forces: “threat of new entrants”, “bargaining power of suppliers”, “bargaining power of buyers”, “threat of substitute products” and “rivalry among existing firms”. In coping with the five competitive forces in an industry and to gain “competitive advantage” in the market through value creation, firms should pursue any of the following generic competitive strategies: “cost leadership”, “differentiation” and “focus” (Porter, 1980). These strategies are valid both in national and international contexts and firms that fail to choose one of these strategies are called “stuck in the middle” companies and they are unlikely to secure sustainable profitability.

Competitive Advantage of Nations framework (Diamond Framework) is used to measure the competitiveness level of countries in certain industries and outlines four broad attributes of a nation that shape the environment in which local firms compete: “factor conditions”, “demand conditions”, “related and supporting industries”, and “firm strategy, structure and rivalry”. There are two additional factors that can affect the model indirectly: “chance” and “government”. According to Porter (1990), the collective strength of these attributes for a country promotes or impedes the creation of “competitive advantage” for that particular nation. The Diamond Framework, although criticized in the literature due to its deficiencies, is still a widely used framework both in the literature and in practice. Regarding the literature there are various studies checking the suitableness of this framework to certain countries. For instance, Öz (2002), in her study, applies it to the Turkish Business Environment and finds support for the Porter's Diamond Framework. Öz (2002) concluded by saying that the Framework is suitable and useful in determining the international competitiveness of industries in Turkey. With respect to the implementation of the Framework to the business environment, Global Competitiveness Report (GCR, 2002) published annually by the World Bank could be given. This report uses the Diamond Framework to build up the competitiveness index. For this study, each year countries are measured with respect to factors in the Diamond Framework and ranked in terms of the competitiveness index. Stakeholders who have an interest in the country take this index into consideration while making their investment decisions.

In this thesis, Diamond Framework is used as a moderator to the relationship between firm strategies and export performance. This situation, itself, is one of the main contributions of this study to the literature. Although there are some studies in the literature analyzing the relationship between firm strategies and export performance (i.e. Baldauf, et.al, 2000), there is no study treating the Diamond Framework as a moderator between this relationship. Moreover, although there are some authors using the Diamond Framework in quantitative studies, such as Cartwrigth (1993[1]), the Diamond Framework

[1] Porter's model is empirically tested by Cartwright (1993). He analyzed several industries in New Zealand and found that these industries are performing well internationally although they do not have the requirements for success as identified by Porter's framework (Rotterdam, et.al., 2007: 39).

is mostly used in qualitative studies in the literature[2]. By proposing a quantitative role to the Framework, this study contributes to the literature from this perspective as well.

Next chapter presents the literature regarding competitive strategies, Diamond Framework and the export performance construct. In that chapter, Resource Based View and Position School are compared while analyzing the “competitive advantage” construct and three aspects of the competitive strategy are focused in detail: cost leadership, differentiation, and focus. Next part in this chapter explains the Competitive Advantage of Nations Framework and the criticisms directed to it. Final section deals with the international competitiveness issue by focusing on the export performance of companies.

In Chapter 3, the research model is developed on the basis of literature and the findings of the qualitative study. This chapter presents the research objective, the conceptual model, hypotheses, measurement scales, data collection and data analysis methods.

Chapter 4 presents the statistical analysis of the empirical research. This chapter begins by describing sample characteristics, leading subsequently to descriptive statistics. After giving relevant statistical tabulations, the research section concludes by regression analysis, which is used as the statistical technique to assess the hypothesized relationships in the theoretical model.

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[2] For instance, Rugman and Verbeke (1993: 11) claim that since Porter’s case studies lack a homogenous analytical tool to determine the importance and precise impact of each determinant on the industries’ competitive position, it is extremely difficult to operationalize (put into practice) the Diamond.

Chapter 5 discusses the findings of the study and provides evaluations for the literature. The thesis concludes with the final chapter where recommendations regarding the implications of the study in the academia and in the business environment are provided.

CHAPTER 2

LITERATURE REVIEW

Competitive Strategies

The fundamental concept of “competitive advantage” can be traced back to the 1930s. During the 1930s, Schumpeter (1939) said that profit is “*the premium put upon successful innovation in capitalist society and is temporary by nature: it will vanish in the subsequent process of competition and adaptation*” (Schumpeter, 1939: 105). Creative destruction concept, generated by Schumpeter, claims that as soon as equilibrium is obtained in the business environment, this equilibrium is exposed to destruction and destruction forms a different equilibrium. This process continues forever due to developments in the industry, such that creation and destruction follow each other. At the center of Schumpeter’s theory of competitive behavior is the assertion that “competitive advantage” will become increasingly more difficult to sustain in a wide range of industries (Wiggins and Ruefli, 2005).

Later on, Selznick (1957) can be attributed with linking advantage to competency. During the 1960s and 70s several scholars (Andrews, 1971; Ansoff, 1965; Hofer and Schendel, 1978) created a framework, where internal and external analyses were used to find out the “competitive advantage” (Barney, 1991). In this model (see Figure 1), internal analysis searches for the strengths and weaknesses of a firm, whereas external analysis is looking for opportunities and threats in the proximate environment while pursuing a “competitive advantage”.

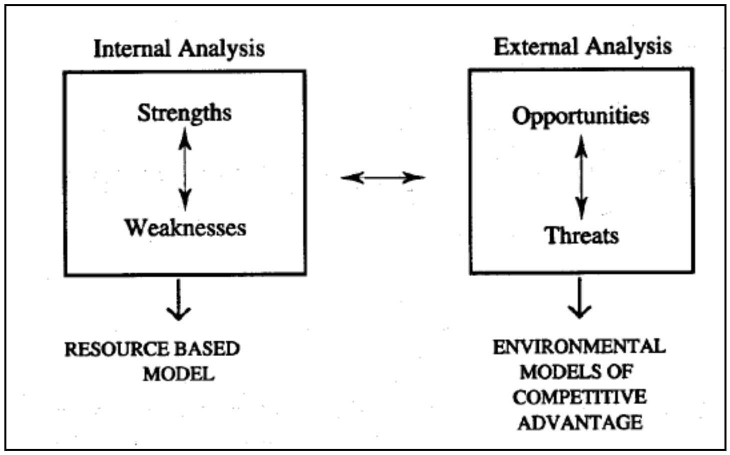

Figure 1: The relationship between traditional "Strengths Weaknesses Opportunities Threats" analysis, the Resource Based Model, and models of Industry Attractiveness (Source: Barney, 1991: 100).

Based on the findings of the 1960s and 70s which resulted in the abovementioned model, in the 1980s, the question of how a firm achieves and maintains a “competitive advantage” has aroused great attention in strategy literature, and resulted in the emergence of two dominant yet competing perspectives: competitive forces perspective (Porter, 1985) and the resource-based view (RBV) (Barney, 1991). According to competitive forces perspective, industry structure and a firm’s strategic positioning are primary drivers of “competitive advantage” (Zhou, et.al, 2009). In this view, which is also known as “the industry structure view”, supernormal profits are seen as a function of a firm’s membership in an industry with favorable structural characteristics (Dyer and Singh, 1998: 660). Unit of analysis in industry structure view is the industry. Before giving the details of this view, brief information on RBV will be presented in the following section.

Resource Based View

In this view, differential firm performance is seen as being related to firm heterogeneity rather than industry structure (Dyer and Singh, 1998). Moreover, RBV argues that "competitive advantage" stems from a firm's unique assets and inimitable capabilities (Zhou, et.al. 2009).

RBV gained attention in the literature during the 1990s and has been considered important for understanding the "competitive advantage" (Wernerfelt, 1984; Peteraf, 1993; Barney, 1991), especially in view of the fact that some firms demonstrate superior performance that cannot be explained by the ''traditional'' view of market imperfections (Dreyer and Gronhaug, 2004).

In RBV, there are two main assumptions: firms in an industry may be heterogeneous with respect to the strategic resources, and these resources may not be perfectly mobile across firms (Barney, 1991). Based on these two assumptions, the most central model for RBV is built:

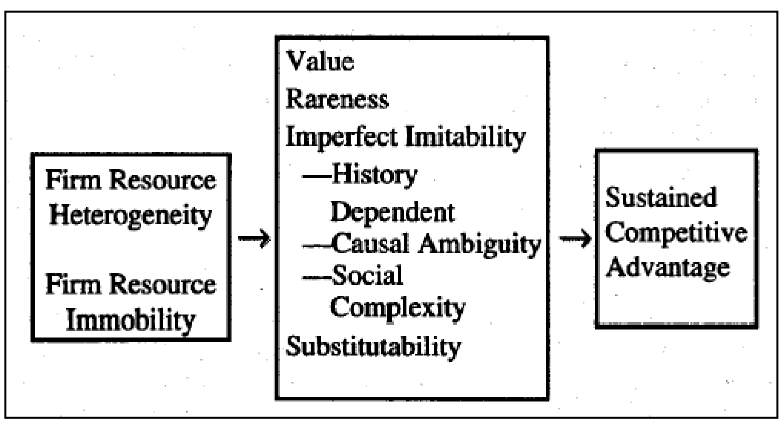

Figure 2: The RBV model (Source: Barney 1991: 112).

According to Barney (1991), firms will achieve “competitive advantage” over competing firms if they can accumulate resources and capabilities that are rare, valuable, and difficult to imitate. Barney (1997) later combined the condition of imperfect substitutability with that of imperfect imitability and added the firm’s ability to exploit the resource (Chan et.al. 2004). As we can see in Figure 2, firm resource heterogeneity and firm resource immobility are leading to valuable, rare, inimitable and unsubstitutable products or services. These attributes of firm resources are indicators of how heterogeneous and immobile a firm’s resources are and thus how useful they are in determining sustained “competitive advantage”.

According to Powell (2001: 881), RBV, in “*all its incarnations, begins with the assumption of firm heterogeneity, i.e., that no two firms possess identical resource or capability portfolios*”. If an industry is populated with identical firms that have the same resources with the rest of the industry, they cannot conceive of and implement a unique strategy. Since all firms have the same resources and implement the same strategies, they all will improve efficiency and effectiveness in the same way, and to the same extent. Thus, in this kind of industry there will be no firm that has sustained “competitive advantage” (Barney, 1991).

<u>The Industry Structure View</u>

The Harvard School Approach to the analysis of “competitive advantage” focuses mainly on the influence of the external environment on a firm’s strategy (Calcagno, 1996). As a member of this approach, Michael Porter has played an important role in the development of “competitive advantage” construct.

According to competitive forces perspective, industry structure and a firm's strategic positioning are primary drivers of "competitive advantage" (Zhou, et.al, 2009). In this view, which is also named as "the industry structure view", supernormal profits are seen as a function of a firm's membership in an industry with favorable structural characteristics (Dyer and Singh, 1998: 660).

The following table (Table 1) presents the differences between industry structure view and RBV. According to this table, the first thing that differs between two perspectives is the unit of analysis. In RBV, the unit of analysis is the firm, itself, whereas in the industry structure view, it is the industry. Other differences between these perspectives are based on primary sources of supernormal profit return, mechanisms preserving profits and ownership/control of rent generating process/resources.

Table 1: Comparison of the Industry Structure View and RBV

Dimensions	Industry Structure View	Resource Based View
Unit of analysis	Industry	Firm
Primary sources of supernormal profit returns	Relative bargaining power	Scarce physical resources (e.g. land, raw material, inputs)
	Collusion	• Human resources/know-how (e.g. managerial talent) • Technological resources (e.g. process technology) • Financial resources • Intangible resources (e.g. reputation)
Mechanism that preserve profits	<u>Industry barriers to entry</u> • Government regulations • Production economies/sunk costs	<u>Firm level barriers to imitation</u> • Resource scarcity/property rights • Causal ambiguity • Time compression diseconomies • Asset stock interconnectedness
Ownership/control of rent generating process/resources	Collective (with competitors)	Individual firm

Source: Dyer and Singh 1998: 674

According to Porter, competitive strategy is "*the search for a favorable competitive position in an industry"* (Porter, 1985: 1) and the state of competition in an industry depends on five competitive forces: threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products and rivalry among existing firms.

Five Forces Framework

The Five Forces Framework is depicted below:

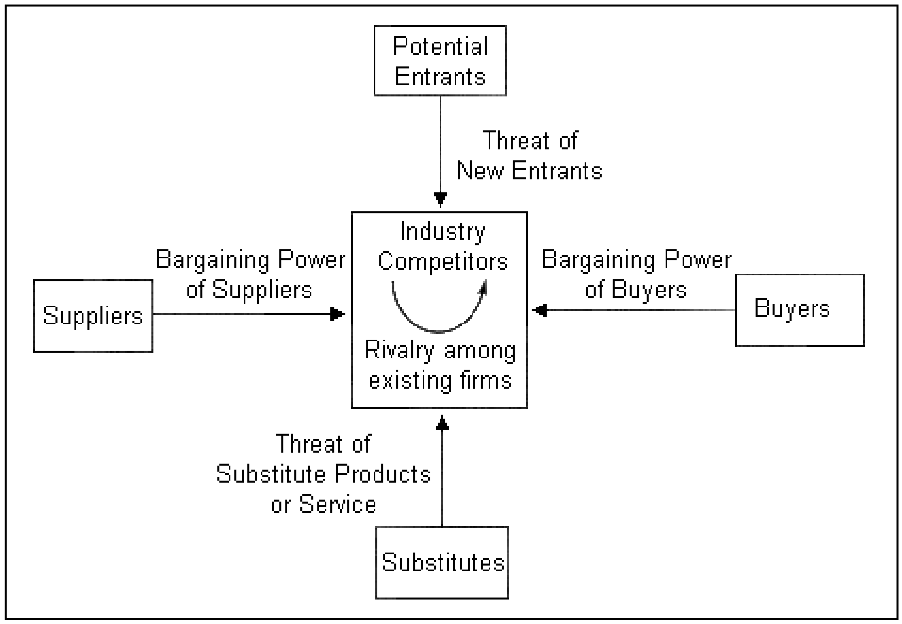

Figure 3: Porter's five forces framework (Porter, 1980: 4)

According to this framework, there are five forces affecting the state of competition in an industry. The first one is the entry barriers and these include elements related to the easiness and difficulties of entering a market. These elements are economies of scale, proprietary product differences, brand identity, switching costs, capital requirements, access to distribution, absolute cost advantages, government policy, and expected retaliation. The seriousness of the threat of entry depends on the existence of one or more of these elements and a potential entrant will not risk its resources in case of a serious reaction potential.

Secondly, determinants of supplier power are connected with the power of suppliers in the eyes of producers. Some elements of this force are differentiation of inputs, switching costs of suppliers and firms, presence of substitute inputs, supplier concentration, importance of volume to supplier, cost relative to total purchases in the industry, threat of forward and backward integration in the industry. Threat of supplier power might squeeze the profitability of an industry if any of these situations exists.

Similar to supplier power, the third force, buyer power, is connected with the power of buyers in the eyes of the producer. Analogous to supplier power, this threat also has the power of eliminating profits in an industry. Determinants of this force are buyer concentration vs. firm concentration, buyer volume, buyer switching costs relative to firm switching costs, buyer information, ability to integrate backward, substitute products, product differences, and brand identity.

Threat of substitute products is related to the relative price performance of substitutes, switching costs, and buyer propensity to substitute. Substitute products or services limit the potential of an industry by placing a ceiling on prices it can charge.

Level of rivalry in an industry include points related to rival and industry analyses and some examples are industry growth, product differences, fixed costs, brand identity, switching costs, diversity of competitors, exit barriers, corporate stakes, and informational complexity (Porter, 1985). Intense rivalry in an industry might be due to certain factors such as numerous competitors, slow industry growth, high fixed costs or perishable products, and high exit costs. In these cases, the rivalry in an industry is high, leading to low levels of profitability.

The collective strength of these forces determines the long run profitability of an industry. Every industry has a different combination in terms of these forces and thus has different levels of profitability. "*The goal of a competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against these competitive forces or can influence them in its favor*" (Porter, 1985: 4).

In coping with the five competitive forces, there are three generic competitive strategies that firms can pursue: (1) overall cost leadership, (2) differentiation, and (3) focus (Porter, 1980).

Generic Firm Strategies

These generic strategies are shown on the table below (Table 2):

Table 2: Generic Competitive Strategies

		Competitive Advantage	
		Lower Cost	Differentiation
Competitive Scope	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Cost Focus	Differentiation Focus

Source: Porter (1980)

According to this view, firms who want to be successful and has a sustainable profitability in their industry, should choose one of these strategies and concentrate on the demands of this strategy. If they cannot select a strategy and try to implement any two or three of them together, they are called `stuck in the middle` companies. In this case they are very vulnerable to attacks from competitors and it is very hard to sustain a profitable future for these companies.

Cost Leadership Strategy

Cost leadership strategy is dealing with cost reduction through efficient production and experience, tight cost and overhead control, cost minimization in areas like R&D, service, sales force, advertising, and so on (Porter, 1980: 35). Low cost position protects the firm against all five competitive forces. The bargaining power of suppliers and buyers decrease because in this low price range, there are not many companies to trade with. Moreover, new entrants and substitutes are threatened to enter due to low margins, and rivalry in the existing industry is not tough since there are only a few, if not one company which can offer these low prices.

One should be aware of "cost drivers" while making a cost analysis. Porter defines cost drivers as "the structural causes of an activity" and according to him these causes can be more or less under a firm's control. There are ten cost drivers that determine the cost behavior of value activities: economies of scale, learning/spillovers, the pattern of capacity utilization, linkages, interrelationships, integration, timing, discretionary policies, location and institutional factors (Porter, 1985: 70). By exploiting these drivers, a firm can gain cost advantage in its industry.

Differentiation Strategy

Differentiation, which decreases the price sensitivity of customers by establishing brand loyalty, creates a unique service or product in an industry. By so doing, a firm can distinguish itself from the rest of the players and their products/services. There are certain approaches to differentiation: design or brand image, technology, features, customer service, and dealer network (Porter, 1985). For instance, creation of brand loyalty will provide a firm insulation against competitive rivalry among existing firms and will also create an entry barrier for potential competitors. A differentiator company can enjoy high levels of profitability since it does not have to care about competitors and price wars between them.

Zhou, et.al. (2009: 1065) discusses two types of differentiation: innovation and market differentiation:

> *A market differentiation advantage occurs when a firm creates a unique image in the marketplace and achieves customer loyalty through meeting customers' particular needs (Miller, 1987), and an innovation differentiation advantage arises when a firm creates "the most up-to-date and attractive products by leading competitors in quality, efficiency, design innovations, and style.*

A firm pursuing a differentiation strategy should be aware of buyers' value and purchase criteria concepts. A firm can increase a buyer's value either by increasing the buyer performance or by lowering the buyer cost. On the other hand, the purchase criteria are composed of two forms of criteria: use and signaling criteria. Use criterion is related with the direct usage of the product, whereas the signaling criterion is related with the image of the product for the customer. The company should focus on both of these criteria in order to pursue differentiation strategy.

There are certain drivers for uniqueness. These are policy choices, linkages, timing, location, interrelationships, learning/spillovers, integration, scale, and institutional factors (Porter, 1985: 124-127). A firm must examine each of these drivers for its own circumstances and determine the best possible fit while trying to gain differentiation advantage.

Focus Strategy

The last strategy is about serving a particular segment of an industry. This strategy takes its roots from the argument that some segments are poorly served by broad based players. In this generic strategy a firm can either focus on a particular buyer group, segment of the product line, or geographic market. The aim of the company is to serve a smaller portion of the market but serve this segment as “best” as it can. By directing its capabilities to specific target segments, the focuser seeks “competitive advantage” even though it does not possess a “competitive advantage” in the market overall.

An organization may also choose a combination strategy by mixing one of the generic strategies of low-cost or differentiation with the focus strategy. To succeed in that, firms should still need to achieve either of these strategies but their market is more limited in scale. Regarding the focus – cost leadership strategy, firms might attempt providing outstanding customer service, improving operational efficiency, controlling the quality of products or services and extensive training of front-line personnel (Obasi, et. al., 2006: 50). Similarly, to serve the market with a focus – differentiation strategy, firms might try producing specialty products and services and producing products or services for high price market segments (Obasi, et. al., 2006: 51).

Porter (1980, 1985), emphasizes that businesses should commit to one and only one generic strategy. Failing to do so, firms are "stuck in the middle" and such firms lack "*the market share, capital investment, and resolve to play the low cost game; the industry wide differentiation necessary to obviate the need for a low cost position; or the focus to create differentiation of low cost in a more limited sphere*" (Porter, 1980: 41).

Before ending this section, a tabulation of the requirements for each generic strategy. may be appropriate. Table 3 depicts commonly required skills and resources together with common organizational requirements for each strategy. This list also serves as a check list for firms before deciding on a strategy.

Table 3: Requirements of the Generic Strategies

Generic Strategy	Commonly Required Skills and Resources	Common Organizational Requirements
Overall Cost Leadership	• Sustained capital investment and access to capital • Process engineering skills • Intense supervision of labor • Products designed for ease in manufacture • Low cost distribution system	• Tight cost control • Frequent, detailed control reports • Structured organization and responsibilities • Incentives based on meeting strict quantitative targets
Differentiation	• Strong marketing abilities • Product engineering • Creative flair • Strong capability in basic research • Corporate reputation for quality or technological leadership • Long tradition in the industry or unique combination of skills drawn from other businesses • Strong cooperation from channels	• Strong coordination among functions in R&D, product development and marketing • Subjective measurement and incentives instead of quantitative measures • Amenities to attract highly skilled labor, scientists or creative people
Focus	• Combination of the above policies directed at the particular strategic target	• Combination of above policies directed at the particular strategic target

Source: Porter (1980: 40-41)

In addition to the requirements needed for each strategy, there are also factors affecting the success of these strategies.

<u>Factors Affecting the Success of Generic Strategies</u>

There are some factors that are playing important roles in the determination of "competitive advantage". The first among them is the technology. Technology is influential in the value chain and thus plays a very important role in determining "competitive advantage", both in cost and differentiation strategies. A firm should be aware of this influence and the general path of technological change in its industry. Afterwards, this firm should choose the best technology strategy to enhance its "competitive advantage". For instance, it should decide whether it wants to be the technology leader or wants to follow the strategy of technology licensing.

Secondly, resources that the firm has, and the way it utilizes them is vital, as well. According to the Resource Based Theory, firms with rare, valuable, non-substitutable and non-imitable resources, would generate heterogeneity and thus distinguish themselves from the other players. Through these resources, they will benefit either from favorable cost or differentiation position. Resources are classified under three categories: physical capital resources (i.e. physical technology, plant, equipment, geographic location), human capital resources (i.e. training, experience, judgment, intelligence, relationships), and organizational capital resources (i.e. formal reporting structure, formal and informal planning, controlling and coordinating systems) (Barney, 1991). According to Lado and Wilson (1994) a firm's resources encompass all input factors—both tangible and intangible (trade secrets, contract, licenses, data bases, etc. (Hall, 1993), human and nonhuman - that are owned or controlled by the firm and that enter into the production of goods and services to satisfy human wants" (Amit and Schoemaker, 1993). According to Porter (1991), resources are not valuable in and of themselves. Resources are only meaningful in the context of performing certain activities to achieve certain "competitive advantage". Thus the competitive value of resources can be increased or decreased by certain factors, such as technology, competitor behavior, and buyer needs (Porter, 1991).

Thirdly, the analysis of substitution and complementary products are important in finding ways to widen industry boundaries, exposing industry segments that face a lower substitution risk than others, and developing strategies to promote substitution or defend against a substitution threat (Porter, 1985: 28). Thus a company who is good at these analyses can create a "competitive advantage" more easily and sustain it for longer time. According to Porter (1985), a company should not allow other firms to supply complementary products, but rather should control these products itself through bundling, or cross subsidization. It is imperative to have control over these products in order to properly adapt to demands of the generic strategy chosen.

Finally, industry segmentation and horizontal strategies are also effective on effectiveness of firm strategies. Segments in an industry stem from differences in buyer needs and cost behaviors. Segmentation is especially important for firms who are looking for a focus strategy. By investigating the differences in different segments of the industry, a focus strategy, either cost focus or differentiation focus, could be more healthily created. Horizontal strategies, on the other hand, are the strategies between different individual units of a multiple business firm and effectiveness of these relations between these units, at group, sector or corporate levels, has important effects on the results of generic strategies on firm performance. Similarly, interrelationships[3] among

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[3] There are three main interrelationships among business units: tangible, intangible and competitor interrelationships (Porter, 1985: 324). The first one of these strategies is related with sharing activities in the value chain among related business units. The second interrelationship, on the other hand, is related with the transference of management know-how among separate value chains. The third interrelationship,

business units and understanding the strategic logic of these interrelationships are also critical for the success of generic strategies such that having proper interrelationships among business units would complement on the effectiveness of the firm strategy.

Value Chain

Before completing this section, and proceed to Competitive Advantage of Nations Framework, the value chain framework and antecedents of the "competitive advantage" construct in the literature will be briefly represented.

The value chain framework is especially important as it is the tool to diagnose the problems with respect to the "competitive advantage" a firm is lacking. Value chain framework disaggregates a firm into its strategically relevant activities and tries to understand the main reasons or sources of cost and differentiation behaviors (Stabell and Fjeldstad, 1998).

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which is competitor interrelationship, stems from the fact that there are firms who are competing with each other in more than one industry (multi point competitors). These firms can interact with each other through both tangible and intangible interrelationships.

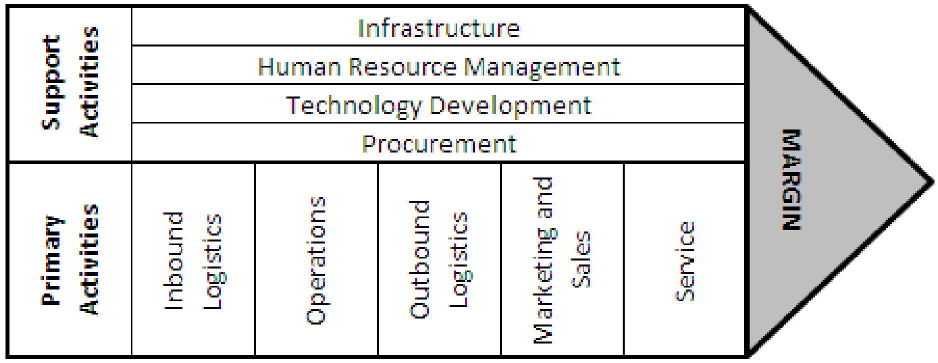

Figure 4: Porter's value chain framework (Source: Porter, 1985)

Figure 4 depicts the value chain framework. In this figure we see two types of activities: primary and support. Primary activities are those that are related to production, and they are directly concerned with the production or delivery of a product or service. According to Porter (1985), these activities are grouped under five main categories: inbound logistics, operations, outbound logistics, marketing and sales, and service. Inbound logistics include receiving the material from suppliers, warehousing and inventory control of input materials. Operations are the value creating activities, where raw materials are converted into final products. Outbound logistics involve shipment of manufactured products to distribution centers, wholesalers, retailers or customers. Next level of primary activities is marketing and sales. In this section, customer awareness is created among the target audience and buyers are persuaded to buy the product. Activities such as channel selection, advertising, pricing, promotion, sales force, quoting, and channel relations are performed here. The final part of the primary activities is the service part, where product value is tried to be maintained and enhanced via customer support, repair services, installation, after sales services, complaint handling, guarantees and product adjustments (Eraslan, 2008).

Support activities, which are the second set of activities in the framework, are providing the background for the effective and efficient production in the firm. These activities are namely: firm infrastructure, human resource management, technology development and procurement. Firm infrastructure include activities such as quality management, general management, planning, finance, accounting, legal and governmental affairs. Human resource management activities, on the other hand, are associated with recruiting, development and compensation of employees. Technology development is the third activity under support activities title and it consists of activities that are designed to improve the product and process such as research and development, process automation and other technology developments. Finally, procurement is the function of purchasing the raw materials and other inputs necessary for value creating activities. The aim for these activities is to perform them with the lowest cost, while obtaining the highest value (Eraslan, 2008).

According to Porter (1985), value activities are the building blocks of "competitive advantage". Firms would have a cost advantage if their cumulative cost of performing all value activities is lower than their competitors' costs. Moreover, how each value activity is performed compared to competitors can also determine the level of its contribution to customer needs and thus differentiation. Value is defined as "*what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price*" and "competitive advantage" grows out of value a firm is able to create for its customers (Porter, 1985). The key idea in the value chain analysis is that the more value is created to the customers, the more "competitive advantage" is gained.

Antecedents of Competitive Advantage

With the help of abovementioned discussions and two main perspectives (resource based view and industry view), various antecedents for "competitive advantage" have been introduced and tested in the literature so far. Figure 5 depicts the main antecedents found in the literature and in this section all of them will be briefly explained.

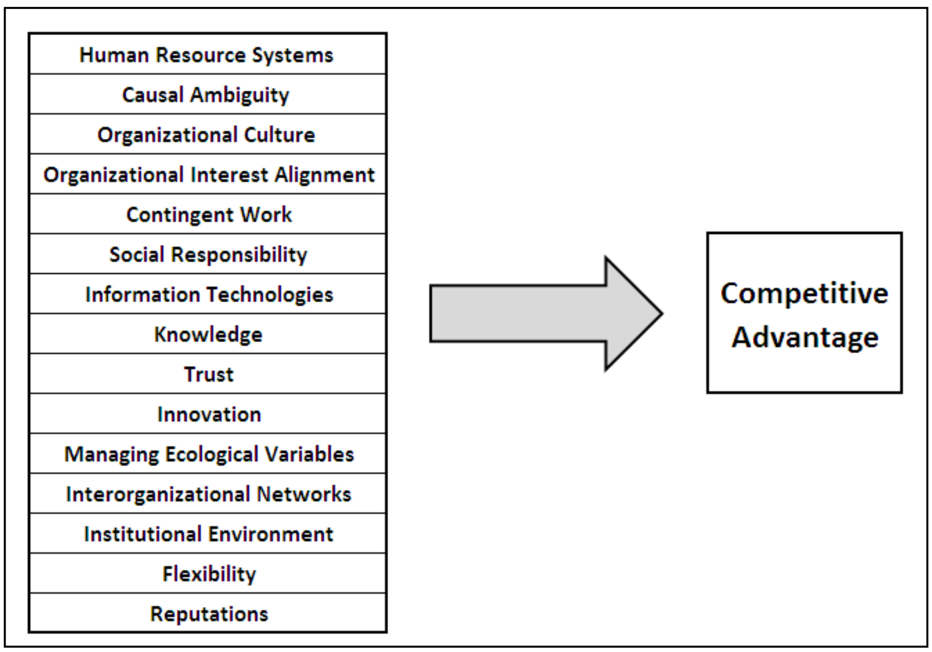

Figure 5: Antecedents of "competitive advantage" in the literature (compiled by the author)

Human resource systems are defined as "*a set of distinct but interrelated activities, functions, and processes that are directed at attracting, developing, and maintaining (or disposing of) a firm's human resources*" (Lado and Wilson, 1994: 701). According to the authors, "*RBV suggests that human resource systems can contribute to sustained competitive advantage through facilitating the development of competencies that are* *firm specific, produce complex social relationships, are embedded in a firm's history and culture, and generate tacit organizational knowledge*" (Lado and Wilson, 1994: 699). Proponents of RBV have argued that while tangible assets are typically imitable and thus unlikely to be a source of sustained "competitive advantage" (Barney, 1991), "*human assets are often hard to imitate due to scarcity, specialization, and tacit knowledge*" (Coff, 1997: 374). According to Wright et.al. (1995), firms can lower their costs and enhance their differentiation through the effective management of their human resources and can obtain "competitive advantage".

Causal ambiguity is defined as the ambiguity about the link between firm resources and sustained "competitive advantage" (Reed and DeFlippi, 1990). Causal ambiguity protects resources from "competitive imitation" (Lippman and Rumelt, 1982; Reed and DePhilippi 1990; Barney 1991). Throughout the literature, causal ambiguity is conceptualized as a cognitive and strategic construct that describes decision makers' understanding of the relationship between a competency and its organizational outcomes (King, 2007).

Organizational culture might be defined as "*a complex set of values, beliefs, assumptions, and symbols that define the way in which a firm conducts its business*" (Barney, 1986: 657). According to Apfelthaler, et.al. (2002), culture could be a significant asset in creating "competitive advantage". A firm that has a valuable, rare, and imperfectly imitable culture enjoys a sustained "competitive advantage" reflecting that culture (Barney, 1986). In addition to that, cultural diversity is also found to affect "competitive advantage". In Richard (2000), it is found that cultural diversity does in fact add value and, within the proper context, contributes to firm “competitive advantage”.

Regarding the organizational interest alignment, when such an alignment exists in an organization it is in the interests of people, such that everybody aims the same objective, in this case it is found that these alignments do produce supernormal profits, independent of the profits produced by traditional industry and strategy variables (Powell, 1992).

Contingent work is an integral part of the world of work, affecting firms' abilities to accumulate knowledge, create value, and establish “competitive advantage”. “*The contingent workforce consists of independent contractors; individuals brought in through employment agencies; on-call or day labor; and workers on site whose services are provided by contract firms, such as outsourced information technology workers*” (Matusik and Hill, 1998: 680). The use of contingent workforce might increase the firm’s stock of knowledge, decrease training and recruitment costs; and enable the firm to use its capacity more efficiently. That will cause a decrease in costs and an increase in the flexibility and thus increase the “competitive advantage” of the company. On the other hand, at times contingent work could also be a threat to a firm’s “competitive advantage”. Through contingent work, private knowledge leaks into the public domain. In this case, “competitive advantage” of a company may be in danger (Matusik and Hill, 1998).

Murray and Montanari (1986) claim that social responsibility is another source of “competitive advantage”. According to authors, a socially responsible firm is the one that accomplishes or is perceived to accomplish, the desired ends of society in terms of moral, economic, legal, ethical, and discretionary expectations. This type of a firm would be able to create and sustain “competitive advantage” cause the society would normally value these actions in a positive way.

Information technologies are found to support RBV arguments, such that firms who have distinct information technologies have been found to possess “competitive advantage” (Powell and Dent-Micallef, 1997). However, this relationship is found to be dependent upon some complementary human and business resources such as flexible culture, strategic planning – IT integration, and supplier relationships.

Knowledge is an important resource that firms possess and it is a primary source of sustainable differentiation and “competitive advantage” (Apfelthaler, et.al. 2002). There are two types of knowledge: tacit and explicit. According to Berman et.al (2002), tacit knowledge is not and cannot be, codified. Moreover, it cannot be taught by reading manuals or listening to lectures; thus, it must be learnt through experience. While tacit knowledge may be so well protected from imitation, and thus sustain “competitive advantage” easily, codified -explicit- knowledge sustains “competitive advantage” only to the degree firms are successful in protecting it.

Barney and Hansen (1994) defined trust as “*the mutual confidence that no party to an exchange will exploit another’s vulnerabilities*” and identified three types of trust: weak, semi strong and strong form of trust. It is proved that only strong form of trust is a real source of “competitive advantage” (Barney and Hansen, 1994). For this form of trust to be a source of “competitive advantage”, it should be relatively rare among a set of competitors, and the individual and organizational attributes leading to this form of trust should be immune from low cost imitation. Also for Peteraf (1993), in order trust to be source of “competitive advantage”, it should be available to only a few firms in their exchange relationships, not to most firms in most exchange relationships.

According to Kessler and Chacrabarti (1996), there is a growing recognition that innovation speed is important to a firm's creating and sustaining “competitive advantage” amidst rapidly changing business environments. According to McGrath et.al (1996), in order for an innovation project to create “competitive advantage”, it must be able to demonstrate successful and reliable achievement of its business objectives, which suggests that it has created new competences. Moreover, Porter (1990) bases his ideas of Competitive Advantage of Nations mainly on the innovation construct. According to him, sustainability of “competitive advantage” is derived through innovation. Schumpeter (1939), in his creative destruction concept, discusses the fact that creation is due to innovation.

Ecological variables regarding energy, natural resources, pollution, and waste offer both competitive opportunities and constraints. Corporations can gain “competitive advantage” by the use of these variables. Powell and Dent-Micallef (1997) suggest that by integrating environmental technologies into strategic management, firms can gain “competitive advantage”.

Inter organizational networks, when they are used as cost minimization mechanisms, can create “competitive advantage” for companies (Park, 1996). Similarly, institutional environment is an important tool while gaining “competitive advantage”. Institutional environment consists of informal (norms of behavior, customs, traditions that are embedded in religious principles) and formal institutions (courts, schools, universities, social agencies, military organizations) (Ghertman and Hadida, 2005). Informal institutions are usually beyond the reach of the polity and influence, such that they are investigated through social embeddedness (Granovetter, 1985). By manipulating, and making use of these institutions, firms can gain “competitive advantage”.

Flexibility relates to a firm’s capacity to adjust to change and/or exploit opportunities resulting from environmental changes and, according to Dreyer and Gronhaug (2004), can be considered a company-specific skill or a resource, thus create “competitive advantage”.

Reputations are another source of “competitive advantage”. Positive reputations of firms among customers and suppliers cited as a “competitive advantage” by Porter (1980). If only a few competing firms have such reputations, then they are deemed rare, and thus they create “competitive advantage” (Barney, 1991). According to Fombrun (1996), corporate reputation consists of four interrelated characteristics: credibility, reliability, responsibility and trustworthiness. Shrum and Wuthnow (1988) assert that reputational status is not just a function of market position, but is a function of past performance, structure and network position of the organization. Hall (1992) claims that reputation can be a major factor in gaining “competitive advantage” and protecting the firm’s position. He asserts that competitors would have difficulty matching the kind of fame and esteem created by reputation. In addition to those studies, Carmeli and Cohen (2001) proposed and tested a model that bridges organizational reputation and sustained “competitive advantage” (see Figure 6). In their model, they found a positive relation between organizational reputation and sustained “competitive advantage”, such that organizational reputation is found to be a valuable, rare and inimitable resource for firms and thus a source of successful financial performance.

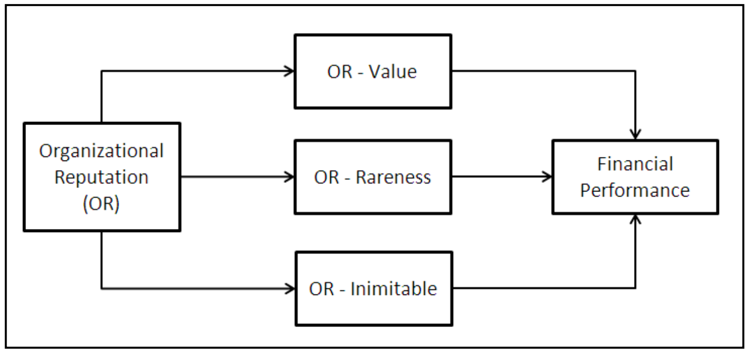

Figure 6: A conceptual model of organizational reputation, sustained competitive advantage and financial performance (Source: Carmeli and Cohen 2001: 134).

Competitive Advantage of Nations

In addition to firm level “competitive advantage” analyses, there is also a research area where international “competitive advantage” at the industry level takes place. According to Porter (1990), particular nations have particular “competitive advantages” in certain industries and diagnosing the sources of these advantages is crucial for a country. With the help of this research, it is aimed to understand why a nation succeeds in particular industries but not in others.

The original Competitive Advantage of Nations Framework (Diamond Framework) outlines four broad attributes of a nation that shape the environment in which local firms compete that promote or impede the creation of “competitive advantage”: “factor conditions”, “demand conditions”, “related and supporting industries”, “firm strategy, structure and rivalry”. There are also two additional factors that can affect the model: “chance” and “government”.

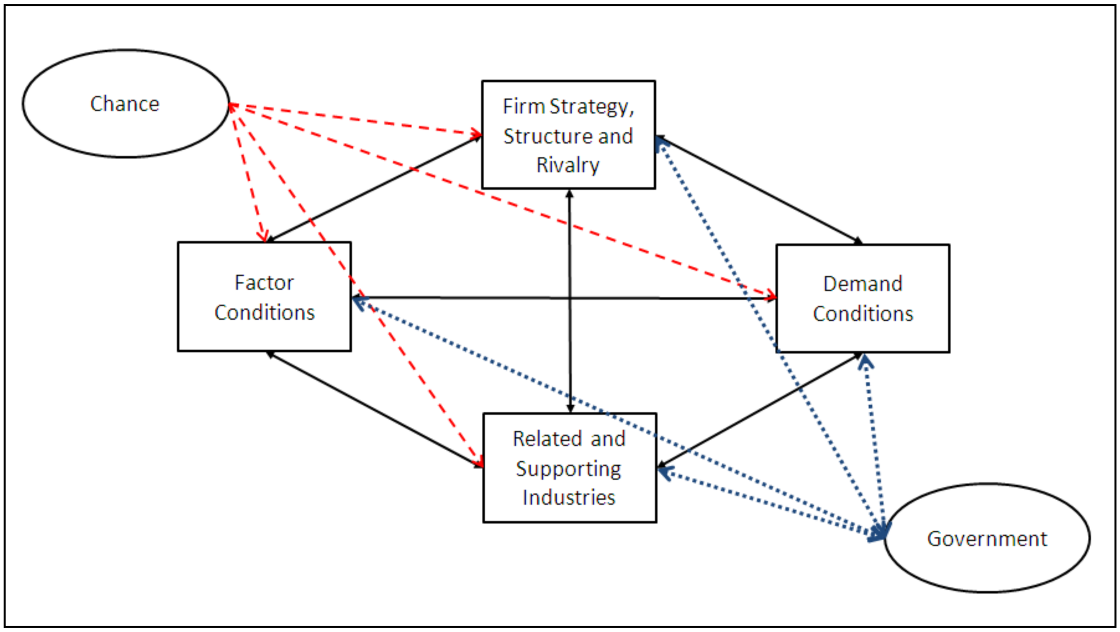

Figure 7: Diamond framework (Porter, 1990)

In the model, all factors act individually and as a mutually reinforcing system. For instance, favorable demand conditions will not lead to "competitive advantage" unless rivalry is sufficient to cause firms to respond. Moreover, "competitive advantage" based on one or two factors is possible but usually unsustainable in the long run because of competitive reaction. Thus, countries should try to attain advantages in all aspects of the Diamond and sustain them in the long run.

Factor Conditions

Factor conditions comprise natural resources, climate, location, labor, skilled employees, debt capital, technological infrastructure, and university research institutes. According to Porter (1990: 74-78), factor endowments of a country may be categorized into five groups. These are human resources, physical resources (nation's land, water, mineral, hydroelectric power sources, climatic conditions), knowledge resources, capital resources and infrastructure. Moreover, these factors are split into two: basic vs. advanced factors and generalized vs. specialized factors (Porter, 1990).

Table 4: Factor Conditions

Basic Factors	Natural resources, climate, location, unskilled and semiskilled labor, and debt capital
Advanced Factors	Modern digital data communications infrastructure, highly educated personnel, university research institutes in sophisticated disciplines
Generalized Factors	Highway system, a supply of debt capital, a pool of well motivated employees with college educations
Specialized Factors	Narrowly skilled personnel, infrastructure with specific properties, knowledge bases in particular fields

Source: Porter (1990: 178)

Factors most important to "competitive advantage" are advanced and specialized factors. According to Porter (1990), basic factors tend to be inherited or require modest investment, thus not creating a non-imitable resource for the nation. On the other hand, advanced factors require larger sustained investments and are more difficult to produce. Thus they add a distinctive value to the nation relative to other nations. For instance, natural resources and cheap labor are not effective factors while creating "competitive advantage” because they cannot last forever. Similarly, compared to generalized factors, specialized factors are more useful in attaining “competitive advantage” because they are less available globally or to outsiders.

Factor creation requires continual investments in factor-creating mechanisms like educational institutions and research institutes. In addition, private as well as public investments are needed for factor creation.

Demand Conditions

Demand conditions are related to the home demand. According to Porter (1990), due to its proximity, home demand is much more important for the “competitive advantage” compared to foreign demand. Moreover, quality, size, and pattern of growth also reinforce the “competitive advantage” of a nation.

Three broad attributes of the demand conditions are significant: Nature of buyer needs, size and pattern of growth of the home demand, and internationalization of domestic demand (Porter, 1990). In terms of the first broad category that is the nature of buyer needs, advantage is created mainly through the pressure to innovate. For instance, sophisticated and demanding buyers would play an important role in pushing the industry to innovate. In addition to that, segment structure of demand is also vital since industries gaining advantage in global segments would benefit more from home demand conditions compared to those gaining advantage in segments that are less significant to other countries. Lastly, anticipatory buyer needs, where needs of home based buyers anticipate those of other nations, play positive role in gaining advantage.

Size of the home demand can be significant in certain kinds of industries with high R&D costs or substantial economies of scale or high levels of uncertainty because the home market can be comforting in the making of investment decisions. Number of independent buyers in the nation and rate of growth of home demand can be as important because they can encourage innovation. Furthermore, early home demand can anticipate buyer needs in other markets helping firms to move sooner and get established in industry. Lastly, early saturation of the home demand forces firms to continue improving and upgrading processes and products.

Regarding the internationalization of domestic demand, Porter (1990) states that if domestic demand internationalizes then it can pull a nation's products and services abroad through mobile or multinational local buyers. Moreover, as domestic needs get transmitted into foreign buyers, home demand influences foreign needs and thus creates advantage for the nation.

Related and Supporting Industries.

For an industry "related and supporting industries" are also vital during "competitive advantage" analyses. If there are industries that are sharing the same technology, inputs, distribution channels, skills, customers, or that are providing complementary products, this particular industry has more "competitive advantage" (Öz, 1999).

"Competitive advantage" in supplier industries confers potential advantages on a nation's firms because they produce inputs that are widely used and are important to innovation or internationalization. Competition in related industries in a nation is no less significant. Related industries are those in which firms can co-ordinate or share activities in the value chain or those involving complementary products. These industries provide opportunities for information flow and technical interchange, and success in one industry can pull through demand in complementary industries.

Firm Strategy, Structure and Rivalry

"Firm strategy, structure and rivalry" is the last attribute of the Framework. The conditions in the nation governing how companies are created, organized, and managed, and the nature of domestic rivalry are all important, such that there are distinguishable national patterns of goals, typical strategies and ways of organizing firms and the fit between these patterns with the needs of the industry play crucial role in attaining "competitive advantage". For instance, in Italy, small/medium firms that are privately owned and run like extended families dominate the business environment and thus Italy became successful in industries that fit in these standards (such as furniture and footwear). In another European country, Germany, where hierarchical structures and practices abound and top managers have technical backgrounds, industries complying with these standards prospered (Öz, 1999).

Willingness to compete globally can be affected by management attitudes - willingness to travel, language skills, etc. Moreover, company goals (influenced by ownership structure, motivation of owners and holders of debt) and individual goals (reflected in reward systems and social values to work, also attitudes toward wealth) are asserted to be important factors for nation's "competitive advantage" in an industry.

Relationship between manager and employee, and influence of national prestige/priorities are also critical. Nations succeed where goals and motivations of firms, managers and employees are aligned with sources of “competitive advantage”.

Association between vigorous domestic rivalry and the creation and persistence of “competitive advantage” in an industry was one of the strongest empirical findings of Porter’s study. Nations tend to lead where there are a number of strong local rivals. This view contrasts with traditional views on economies of scale and “national champions”. According to Porter (1990) domestic rivalry creates visible pressures to innovate, pushing each other to lower costs, improved quality and service. Moreover, domestic rivalry pressures companies to sell abroad in order to grow, particularly if economies of scale are important. Pressure also forces firms to upgrade sources of “competitive advantage” because lower level sources are available to all firms in the industry in that nation. Geographic concentration amplifies these effects.

Later on, this factor is re-named by Porter as the “context for firm strategy and rivalry” (see Figure 8). The reason was mainly the criticisms on the factor being a “rest of all” determinant.

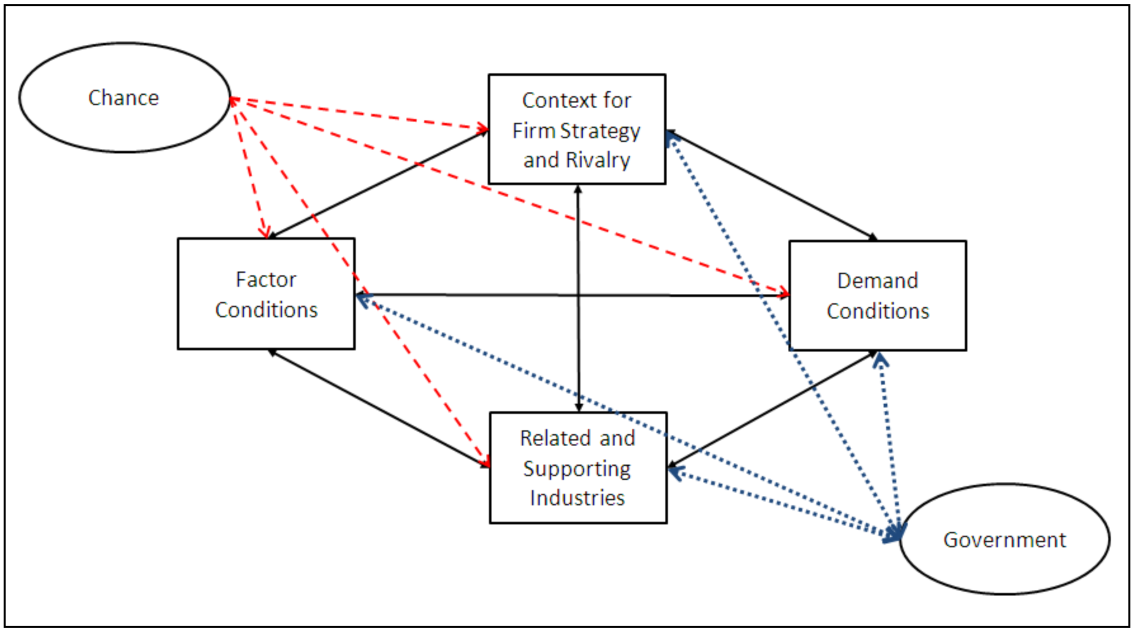

Figure 8: The diamond framework - revised version (Porter, 1998)

Government and Chance

"Government" and "chance" factors are indirectly effecting the functioning of the abovementioned four major determinants. Government has a role of reinforcing the determinants of national advantage rather than trying to create one itself (Öz, 1999).

Government is not treated as a determinant but rather as a factor affecting the determinant. Government is taken as a fashioner of the market by Porter and said to have the power to improve or detract from national advantage. According to Porter (1990:681) "*government is a pusher and challenger*". Government effects on the factor creation is listed to be via its effects on improving education and training[4], science and

[4] According to Porter (1990: 681), governments should pursue to create a sound educational policy, where educational standards are high, teaching is prestigious and a valued profession, the majority of

technology[5], infrastructure, capital, information and direct subsidies. Moreover, government should also intervene on factor and currency markets to promote the international competitiveness of industries in the nation. This is done through devaluation, playing with input prices, wages, and workforce growth. Regarding the next determinant, demand conditions, government might be influential through government procurements, regulation on products and processes, stimulating early or sophisticated demand, technical standards, foreign aid and political ties, improving the buyer industry structure and the level of buyer information. Related and supporting industries might be developed by the government by policies toward media, cluster formation, and regional policies. Lastly, the government could also improve the context for firm strategy and rivalry through a favorable trade policy, supporting foreign investment atmosphere in the nation, influencing individual and company goals, improving domestic rivalry (via regulation of competition, protection and domestic rivalry, and inter firm cooperation), forming new businesses and via internationalization of firms (Porter, 1990).

According to Porter, only companies themselves can gain "competitive advantage". They do that by perceiving industry change[6], through pressures for innovation[7] and also

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students receive education and training with some practical orientation, there are respected and high quality forms of higher education besides the university, there is a close connection between educational institutions and employers, firms invest heavily in ongoing in house training through industry associations or individually, and immigration policies allow the movement of personnel with specialized skills.

[5] Characteristics of an effective policy on science and technology necessitates a match between science and technology policy and the patterns of competitive advantage in the nation's industry, emphasis on research universities instead of government laboratories, principal emphasis on commercially relevant technologies, strong links between research institutions and industry, encouragement of research activity within firms, primary emphasis on speeding the rate of innovation rather than slowing diffusion, a limited role for cooperative research (Porter, 1990: 681).

[6] Porter gives the road map for that in his book. According to him in order to perceive change, firms should identify and serve buyers (and channels) with the most anticipatory needs, investigate all emerging

by influencing the government policy (Porter, 1990: 619). He sees nations as a platform that facilitates the chance on international success of firms. According to him implications for governments to facilitate “competitive advantage” are through focusing on specialized factor creation, avoiding intervening in factor and currency markets, enforcing strict product, safety and environmental standards, sharply limiting the cooperation among industry rivals, promoting goals that lead to sustainable investments, and rejecting managed trade (Porter, 1990).

Chance factor, on the other hand, is a catch-all for all forces that are outside the control of firms. Examples for this factor might be inventions, oil shocks, wars, external political developments and major shifts in foreign market demand. These developments create discontinuities that unfreeze or reshape industry structure and provide opportunities to gain advantages over others.

Criticisms on the Framework

The main framework, that is briefly explained above is useful in determining a country’s advantages. However, there are certain criticisms on the framework in the literature. Some scholars (e.g. Gray, 1991; Stopford and Strange, 1991) criticize the framework

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new buyers or channels, find the localities whose regulations foreshadow those elsewhere, discover the highlight trend in factor costs, maintain ongoing relationships with centers of research and the sources of the most talented people, study all competitors, especially the new and unconventional ones, bring some outsiders into the management team (Porter, 1990: 619).

[7] According to him, firms should sell to the most sophisticated and demanding buyers and channels, seek out the buyers with the most difficult needs, establish norms of exceeding the toughest regulatory hurdles or product standards, source from the most advanced and international home based suppliers, treat employees as permanent, establish outstanding competitiors as motivators (Porter, 1990: 619).

due to the lack of a formal analytic modeling. According to Rugman and Verbeke (1993) Porter's case studies lack a homogenous analytical tool to determine the importance and precise impact of each determinant on the industries' competitive position. For that reason, it is extremely difficult to operationalize the Diamond and put it into practice[8]. Regarding the applicability of the Diamond, Rugman and Verbeke (1993) state that case studies described in Porter (1990) do not allow managers to clearly analyze how particular determinants can lead to improved or detoriated "competitive advantage".

The methodology used by Porter is also a subject of criticism (Bellak and Weiss, 1993; Jacobs and de Jong, 1992; Narula, 1993). According to these authors, Porter's heavy dependence on world export shares creates a problematic situation regarding the methodology. The way Porter measures international competitiveness is via export shares and his sample set is mainly competitive industries. His choice of export shares as an indicator of international competitiveness is found to be lacking a coherent view (Bellak and Weiss, 1993; Cartwright, 1993; Eilon, 1992; Grant, 1991; Rugman and D'Cruz, 1993). Porter measures international success as an industry's ability to export and to engage in outbound foreign direct investment. Inward Foreign Direct Investment (FDI) is seen as a sign of weakness by Porter (Davies and Ellis, 2000). However, Rugman and D'Cruz (1993) applied the model to Canada and found that two-way nature of FDI is crucial in explaining the international competitiveness of countries.

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[8] Authors suggest that each determinant might be systematically analyzed with the help of the conventional SWOT analysis. Porter's model is empirically tested by Cartwright (1993). He analyzed several industries in New Zealand and found that these industries are performing well internationally although they do not have the requirements for success as identified by Porter's Framework (Rotterdam, et.al., 2007: 39).

Moreover, industries chosen by the author are mostly successful and competitive industries and this selection is said to create a bias in the study (Harris and Watson, 1993; Yetton et al., 1992). Porter is criticized for “picking” successful industries in his study. Rugman and D’Cruz (1993) indicated that the model has a better fit for large countries such as United States of America (USA), Japan, European Union (EU) entities and thus a differentiated Diamond is needed for different regions in the world.

Porter’s treatment of multinational corporations and FDI is another debate in the literature. Scholars (Bellak and Weiss, 1993; Dunning, 1993; Hodgetts, 1993; Rugman and D’Cruz, 1993; Rugman and Verbeke, 1993; Rugman, 1991) criticize Porter on these issues because Porter does not include multinational and transnational corporations and organizations in his study. Whether or not a nation is a relevant unit of analysis for such a study is a topic also discussed by these authors. According to them, Porter has a narrow understanding of these variables in his model. Although, Porter responded to these ideas by saying that nation is still the important and the suitable unit of analysis, there are scholars who assert that “competitive advantage” might even be localized in a nation (Dunning, 1993). Though, the problem with the Framework is the fact that Porter chose national level as the best geographic indicator for an industry’s “proximate environment” shaping its success over time. However, other geographic levels, such as local, regional, foreign or global might also be important for particular determinants of international success (Dunning, 1990).

Porter fails to address supranational organizations. This is strengthened by the findings in the Turkish case study of Öz (2002), where subsidies and protectionism were one of the main obstacles for a better fit of the model (Rotterdam et.al., 2007). Dunning

(1993) emphasizes the importance of globalization and integration in several parts of the world. Dunning (1992, 1993) also proposes to add “transnational business activity” as a third exogenous variable into the model. Porter’s response to these assertions is that geographic scope of competition and geographic locus of competition are two different things (Öz, 1999). In his view, competition can be global but the sources of this advantage are local (Porter and Armstrong, 1992).

The Diamond Framework itself is also criticized, where “firm strategy, structure and rivalry” is found to be a “rest of all” category (Grant, 1991). Regarding domestic rivalry and its effects on the international competitiveness, Porter (1990) asserts that the more competitive an industry is in its own country, the more successful it would be in the international arena. However, there are studies showing just the opposite. For instance, in her study about Turkish industries from the Diamond perspective, Öz (1999) found that some industries with a monopolistic or oligopolistic market structure succeed in the international arena. Moreover, there are other studies showing proof regarding this misperception of Porter (e.g. Dobson and Starkey, 1992; Smith, 1993).

The treatment of the government in the Framework is heavily criticized as well. According to Porter (1990), government is the fashioner of the Diamond rather than being a determinant on its own. Government has an influence on all four determinants and does not have a direct influence on international competitiveness. Nevertheless, Öz (1999) found that government controlled industries succeed in the Turkish case, showing that government is vital for international competitiveness, especially in developing countries. Öz (2002), in her study, supported Porter’s Diamond Framework in general but not perfectly. The main reason for the improper fit was caused by the role of government in Turkey. The role of government defined by Porter, was in no way sufficient to cover Turkey's direct government involvement. According to Öz (2002), this was caused by measures like subsidies and protection of industries. According to Stopford and Strange (1991) small and poor countries cannot afford to take place in industries with heavy capital requirements and thus governments are necessary. According to authors government should be added as a fifth element to the Framework. In his response to this criticism, Porter stated that the main role of the government is to challenge and press the industry to fight for international competition. According to him, governments set the "rules of the game" (Dunning, 1993). Too much help from the government would undermine industry success (Porter, 1990). Other criticisms on the indirect role government in the model are by Harris and Watson (1993), Van den Bosch and De Man, (1994).

National culture is another debate in the literature. For instance, Van den Bosch and Van Prooijen (1992) assert that impact of the national culture in the international competitiveness got little attention in the Porter's Framework. Authors admit that national culture has an effect on the "competitive advantage" via other determinants, but still needs more explicit treatment.

Some scholars share the idea that double and/or multiple linked diamonds might reflect the sources of advantage better than the single Diamond Framework (Hodgetts, 1993; Rugman and D'Cruz, 1993; Rugman and Verbeke, 1993 Rugman, 1991). According to these authors, some countries, such as Canada and USA, do not act alone in the international arena, such that the home diamond of Canada should also include USA diamond because it is the main international partner of the country. For those situations, it is better to include a second or a “multiply linked diamond” for the partner country.

The model is also criticized about its treatment of the macroeconomic policy (Daly, 1993; Gray, 1991). Moreover, O’Shaughnessy (1996) claimed that Porter neglects the role of history, politics and culture in the model. Similar to that, Rotterdam, et. al, (2007) claimed that history and culture should be added to the Framework. There are some other scholars (e.g., Bellak and Weiss, 1993; Dunning, 1992; Grant, 1991; Gray, 1991; Rugman and D’Cruz, 1993; Rugman, 1991; Thurow, 1990) who challenge the originality of the Framework (Öz, 2002).

Having summarized the major criticisms against the model, this section will be completed by stating several credits for the study. Smith (1993) claims that Porter’s firm oriented approach is an original contribution to the development theory. In addition to Smith, Gray (1991) argues that the work of Porter is a valuable and rich material; whereas Dunning (1992: 137) claims “*extensive field research of Porter advanced our knowledge of why corporations domiciled in some countries have been successful in penetrating foreign markets in some product areas but not in others*”. In addition to that Grant mentions that “*the main contribution of the Competitive Advantage of Nations is in extending the theories of international trade and international direct investment to explain more effectively observed patterns of trade and investment between developed countries*” (Grant, 1991: 539). Grant (1991) also states that shortcomings of the study are trivial when compared to its achievements (Öz, 1999).

Export Performance

The importance of exports for international trade is a widely investigated area in international competitiveness literature. Scholars in this field are from diverse fields, such as economics, management, and marketing. Early studies in the field researched the firm level behavior and tried to identify the factors behind the adoption of exports by firms and the ones contributing to export growth. Similarly, there were studies on the environmental effects on the relationship between firm strategies and export performance (i.e. Cavusgil and Zhou, 1994; Zou and Stan, 1998).

Variables used in the literature while analyzing the export performance are firm size, technological capabilities, human capital, exporting activities, and external factors (i.e. Alvarez, 2004; Baldauf, et.al. 2000; Cadogan et.al. 2002; Contractor and Mudambi, 2008; Dosoglu-Guner, 2001; Estrin et.al., 2008; Filatotchev et.al. 2001; Haathi et.al. 2005; Hasnat, 2002). Below is a list of some of the previous studies (as of 2000 and beyond) on export performance and the antecedents used to measure this construct:

Table 5: Past Research on Export Performance (Prepared by the Author based on Singh, 2009)

Author(s)	Dependent Variable	Antecedents of Export Performance
Alvarez, 2004	Export intensity	International business efforts Process innovation Export promotion programs
Baldauf,et.al. 2000	Export intensity Export sales Export effectiveness	Firm size Management's motives to internationalize Use of differentiation strategy
Cadogan, et.al., 2002	Export sales growth	Export market oriented activities
Contractor and Mudambi, 2008	Goods and services export	Human capital
Dusoglu and Guner, 2001	Export intention	Ownership type Organizational culture
Estrin, et.al., 2008	Export intensity	Host institutional environment Economic freedom
Filatotchev, et.al., 2008	Export intensity	Export-oriented product development Presence of foreign partner/investor Foreign investor’s ownership
Haahti, et.al., 2005	Export intensity	Knowledge intensity
Hasnat, 2002	Export / GDP ratio	Human capital
Kuivalainen, et.al., 2007	Export sales performance	True born global firms
Lages, et.al., 2008	Export intensity	Commitment to exporting
Lee & Habte-Giorgis	Export intensity	Product diversification R&D intensity Firm size
Ling-Yee and Ogunmokun, 2001	Perceptual measure	Management's perceived export advantages
Majocchi, et.al., 2005	Export intensity	Firm size Firm age or relative market experience
Peng and York, 2001	Net export sales margin Per capita export sales	Export intermediary knowledge Intermediary involvement with commodity Ability to take title to goods
Pla-Barber and Alegre, 2007	Export intensity	Innovation Firm size
Rodriguez and Rodriguez, 2005	Export intensity	Product innovations Patents and process innovations R&D spending intensity
Seyoum, 2006	Exports to US	Generalized system of preference
Sousa and Bradley, 2008	5 item survey based measure	Managers' international experience Foreign market characteristics
Styles, et.al., 2008	Exports to 162 Indian firms	Commitment to future exchanges
Verwaal and Donkers, 2002	Export intensity	Size of export relationships Firm size
Wilkonson and Brouthers, 2006	Perceptual measure	Export promotion activies

As can be seen from Table 5, there are various dependent variables used to measure export performance and there is not a consensus on the effects of any of these variables on the export performance in the literature. According to Singh (2009), the disagreement in the literature with respect to the effects of variables on export performance might be due to methodological problems. Singh (2009) argues that there is a need for replication of these models that are generated and tested in developed economies, in emerging markets. Cavusgil and Zhou (1994) and Baldauf et.al. (2000) claim that export performance is a multifaceted construct and should not be captured by a single indicator. Authors argue that there is no uniformly accepted conceptualization and operationalization of the export performance.

According to Zhou and Stan (1998: 342), classification of export performance into internal and external factors is theoretically justified since two categories correspond to different theoretical bases. Specifically, internal determinants are justified by the Resource Based Theory, whereas external factors are justified by the Industrial Organization Theory (or Industry Structure View). The Resource Based Theory claims that the principal determinants of a firm's export performance and strategy are the internal organization resources (Barney, 1991). In contrast, industry structure view argues that external factors are the ones determining the firm's strategy, and in turn the economic performance. In other words, external environment imposes pressures to the firm to adapt in order to survive and prosper (Collis, 1991).

Another classification of determinants of export performance is with respect to internal-external and controllable-uncontrollable distinctions. According to Zhou and Stan (1998), internal and controllable factors are export marketing strategy and management attitudes and perceptions, whereas internal and uncontrollable ones are management characteristics and firm characteristics and competencies. With respect to external factors, Zhou and Stan (1998) list uncontrollable ones such as industry characteristics, export market characteristics and domestic market characteristics.

A final classification for the factors of the construct is done by Sousa (2004). Sousa (2004) lists down the measures and classifies them as objective and subjective measures. According to the author, there are measures in the literature measuring export performance from an objective point of view and these are figures on sales, profit and market related items. Subjective measures, on the other hand, take into account sales, profits and market related items from a personal point of view. These measures are comprised of the perceptions of the players regarding their international performance. The list of the items in the literature is as follow:

Table 6: Measures of the Export Performance (Generated by the Author Based on Sousa, 2004)

	Objective measures	Subjective measures
Sales related	• Export intensity • Export intensity growth • Export sales growth • Export sales volume • Export sales efficiency	• Export intensity • Export intensity growth • Export intensity growth compared to competitors • Export sales volume • Export sales growth • Export sales volume compared to competitors • Export sales growth compared to competitors • Export sales return on investment • Export sales return on investment compared to competitors
Profit related	• Export profitability • Export profit margin • Export profit margin growth	• Export profitability • Export profit margin • Export profit margin growth • Export profitability compared to competitors
Market related	• Export market share • Export market share growth • Market diversification	• Export market share • Export market share growth • Export market share compared to competitors • Export market share growth compared to competitors • Market diversification • Rate of new market entry • Rate of new market entry compared to competitors • Gaining foothold in the market
General		• Overall export performance • Overall export performance compared to competitors • Export success • Meeting expectations • How competitors rate firm`s export performance • Strategic export performance

Miscellaneous		• Contribution of exporting to the growth of the firm • Contribution of exporting to the quality of firm`s management • Quality of distributor relationships • Quality of distributor relationships compared to competitors • Customer satisfaction • Customer satisfaction compared to competitors • Quality of customer relationships compared to competitors • Product/service quality compared to competitors • Reputation of the firm compared to competitors • Gaining new technology/expertise • Building awareness and image overseas • Achievement of objectives regarding response to competitive pressures

It is clear from this discussion that there is no consensus on factors to be used while measuring export performance. However, there is a tendency to concentrate on a few of those. For instance, Brouthers, et.al (2009) claims that most of the time, perceptual and self reported measures are used because secondary information on export activities of individual firms is not publicly available. Moreover, according to Zhou and Stan (1998: 353), when diversified large firms and medium sized firms are targeted, it is critical that one-product / one market export approach be used as the unit of analysis. Moreover, the size of the firms must be controlled in data collection, according to the authors, as success factors for large firms might differ compared to small and medium sized ones.

CHAPTER 3

RESEARCH METHODOLOGY AND DESIGN

The importance of the research design is due to the reason that it serves as a master plan of the techniques and procedures that are used to collect and analyze the data (Hair, et.al. 2003: 40) In line with that, this part of the thesis is reserved for the explanation of the methodology, i.e. the importance of the research, research objectives, the conceptual model, study variables, hypotheses, questionnaire design, data collection methods and the analysis of this data.

Importance of Research

Export is one of the locomotives of economic growth. To maintain high economic growth rate, export performances of companies are critical and should be improved. One of the steps towards this aim is to analyze export performance determinants carefully and try to find a complementary model, where national parameters, such as the Diamond Framework, are treated as the motivator and supporter of firms' export performances. This thesis is proposing such a model and results of the study would contribute to firms as well as the government. By looking at this study, firms will be able to see the effects of their competitive strategies on their export performances, in the context of different national conditions; whereas, government will be able to capture the effects of its policies on the export performances of companies in the country.

Research Objectives

Research question of this study is whether the generic competitive strategies have any influence on the export performance of firms, and whether this relationship is affected from a favorable or unfavorable national environment. In other words, Competitive Advantage of Nations Framework, which is repeatedly tested in the literature and is confirmed as a suitable model while analyzing the international competitiveness of industries, is used as a moderator variable in the model proposed in this dissertation. Diamond Framework and its internal determinants, constitute an "atmosphere" for an exporting firm, wherein it breathes and prepares itself for the international competition (Astarlıoğlu, 2012). The constructive or destructive influences of its home diamond are asserted to have an influence on firm strategies and their effects on the export performance. Regarding the environmental context that firms enter while dealing with international competition, Competitive Advantage of Nations Framework is a helpful model cause, despite of criticisms, it is proved in the literature for the last two decades as the most comprehensive and compact model for the international competitiveness of national industries.

As Porter (1980) asserted, firms should choose one of the generic strategies while competing in any type of industry, and in any level of the business. So, this rule is valid for international competition as well. If firms hesitate in choosing a proper generic strategy in the global arena, they will be "stuck in the middle" and are predestined to be unsuccessful. While searching for a favorable competitive strategy in the global arena, firms might consider looking at their proximate environment firstly. This is because of the fact that if there are favorable national conditions in their home bases, firms would benefit from this fact and favorable conditions would complement their constructive and successful strategies. However, if the environmental situation for a firm is not encouraging at home, this would be a stumbling block for the firm in the international arena. Thus, checking out for the national environment before deciding on the competitive strategy would help firms not fall into a trap.

Conceptual Model of the Study

As explained in the previous section, this study proposes a relationship between generic firm strategies and export performance of a company. The relationship between firm strategies and export performance has been analyzed in the literature; for example Baldauf et.al., (2000) analyzed a similar relationship between business strategies and export performance, including the environment and firm characteristics as other independent variables. The contribution of this study would be treating the Diamond Framework as the moderator variable between firm strategies and their export performances.

In this regard, the conceptual model is created as follows:

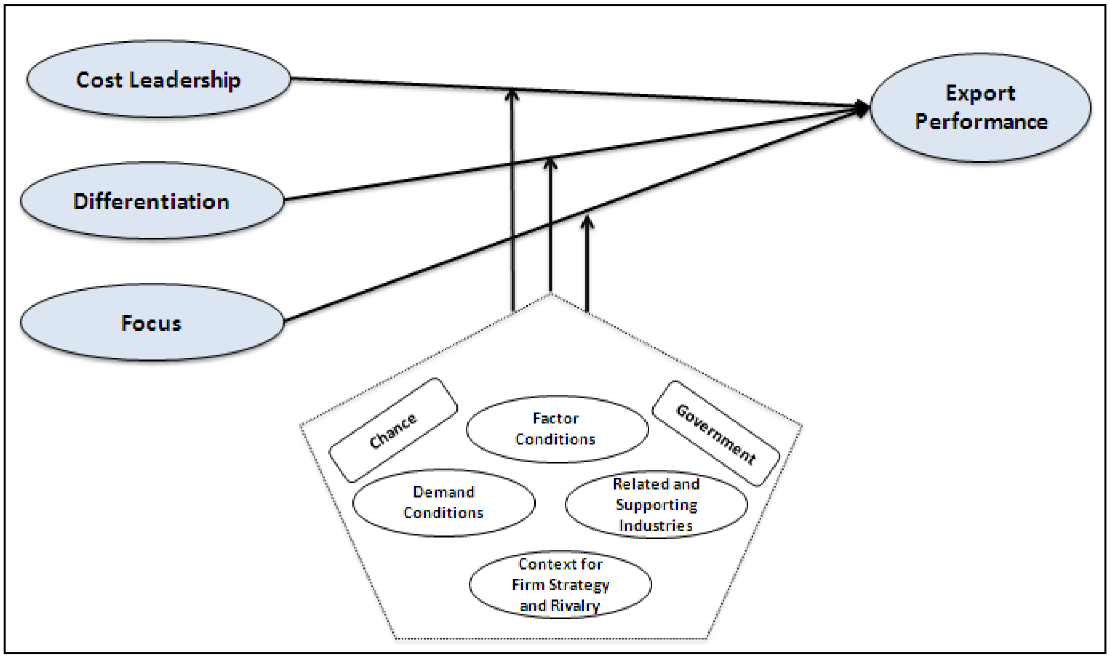

Figure 9: Proposed model

Figure 9 depicts the proposed model, where Diamond Framework factors are treated as moderator variables in the relationship between firm strategies and export performances. There are four direct and two indirect factors in the diamond; however, “chance” factor is eliminated from the moderator list because it is, by definition, comprised of uncontrolled and spontaneous events. The model, where there are three independent variables (X1, X2 and X3), five moderator variables (M1, M2, M3, M4 and M5) and one dependent variable (Y1), is as follows:

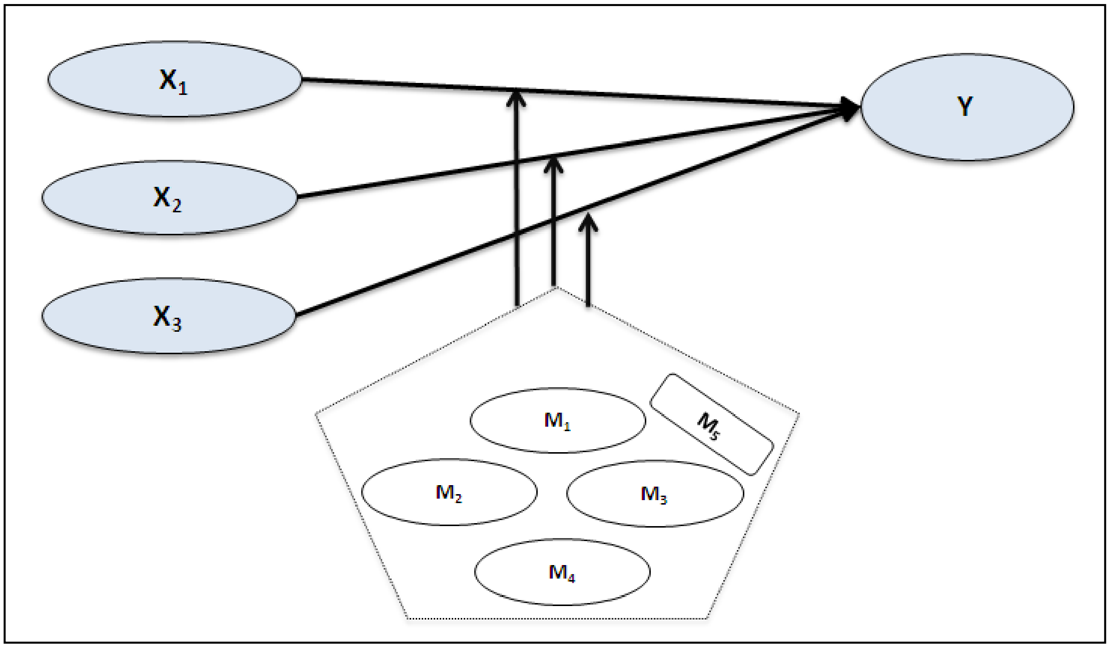

Figure 10: The model to be analyzed

According to Baron and Kenny (1986), a moderator is a qualitative (e.g., sex, race, class) or quantitative (e.g., level of reward) variable that affects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable. In other words, moderation implies that the causal relation between two variables changes as a function of the moderator variable. In the proposed model, this role is given to the determinants of the Diamond Framework and the effects of firm strategies on companies' export performance are proposed to be strengthened by favorable national factors.

The reason for choosing export performance as the dependent variable is because this construct is one of the most widely used ones measuring international competitiveness of firms. Although there are other constructs to measure international competitiveness of companies, such as foreign direct investment (Erden, 1995), export performance is suitable for the purposes of this study because the aim of the conceptual model is not to propose a comprehensive model for international competitiveness of companies but rather to propose a relationship between generic firm strategies and the Diamond Framework.

Research Hypotheses

There are three sets of hypotheses in this model. The first set is about the relationship between cost leadership strategy and its effects on the export performance through the moderating effect of the Diamond Framework. Firms pursuing cost leadership strategy should reduce their costs through efficient production and experience, tight cost and overhead control, cost minimization in areas like R&D, service, sales force, advertising and so on (Porter, 1980: 35). Factors in the Diamond Framework might have influences on these activities and if this influence is positive, this would contribute to firms' export performances. For instance, when the workforce in the country is skillful and thus can perform efficient and effective production, this would lead to a higher export performance via decreasing operating costs. Moreover, if the demand conditions in the country allow firms to perform mass production, this would help them enjoy economies of scale. From this starting point, first set of hypotheses state a moderating effect between cost leadership strategy and the Diamond Framework. Hypotheses in this set mainly claim that the more favorable Diamond Framework factors for the company are, the better would be the effect of the cost leadership strategy on firm's export performance. The list of hypotheses in this set is as follows:

H1a: The positive effect of the cost leadership strategy on export performance increases with favorable factor conditions

H1b: The positive effect of the cost leadership strategy on export performance increases with favorable demand conditions

H1c: The positive effect of the cost leadership strategy on export performance increases with favorable related and supporting industries

H1d: The positive effect of the cost leadership strategy on export performance increases with a favorable context for firm strategy and rivalry

H1e: The positive effect of the cost leadership strategy on export performance increases with favorable government interventions

The second set is related to the effect of Diamond Framework on the relationship between differentiation strategy and export performance. Differentiation strategy, as discussed earlier is distinguishing a firm from other, through design, brand image, technology, features, customer service and dealer network (Porter, 1985: 37). Drivers of uniqueness for companies are listed as policy choices, linkages, timing, location, interrelationships, learning/spillovers, integration, scale and institutional factors (Porter, 1985:124-127). Through the help of uniqueness, firms can lessen the price sensitivity of customers and can gain loyalty. This brand loyalty will then provide insulation against competitive rivalry and also entry barrier for potential competitors. Diamond Framework would positively moderate the relationship between differentiation strategy and export performance if it contributes to these drivers of uniqueness. According to the hypotheses in this set, the more favorable Diamond Framework factors for the company are, the higher would be the effect of the differentiation strategy on firm's export performance. The list is as follows:

H2a: The positive effect of the differentiation strategy on export performance increases with favorable factor conditions

H2b: The positive effect of the differentiation strategy on export performance increases with favorable demand conditions

H2c: The positive effect of the differentiation strategy on export performance increases with favorable related and supporting industries

H2d: The positive effect of the differentiation strategy on export performance increases with a favorable context for firm strategy and rivalry

H2e: The positive effect of the differentiation strategy on export performance increases with favorable government interventions

The last set of hypotheses is about the moderating effect of the Diamond Framework on the relationship between focus strategy and export performance. Focus strategy, is concerned with serving a narrow strategic segment in an industry, which could either be a particular buyer group, segment of the product line or geographic market. It is asserted that if firms take place in a positive national context (i.e. positive moderating effect via the Diamond Framework), they would more easily reach their export targets while focusing a narrow strategic segment. From this argumentation, the last set of hypotheses are built and listed below:

H3a: The positive effect of the focus strategy on export performance increases with a favorable factor conditions

H3b: The positive effect of the focus strategy on export performance increases with a favorable demand conditions

H3c: The positive effect of the focus strategy on export performance increases with favorable related and supporting industries

H3d: The positive effect of the focus strategy on export performance increases with a favorable context for firm strategy and rivalry

H3e: The positive effect of the focus strategy on export performance increases with a favorable government interventions

Operationalization of Variables

In terms of operationalization of the variables in the model, literature was quite helpful especially in terms of competitive strategies. There are various studies analyzing these strategies in the literature and Table 7 is prepared with the help of this literature. In this table items in the literature and the studies where they appear are listed down.

Table 7: Items for “Firm Strategies” in the Literature

	Items for each Strategy	Study in the Literature using this Item
Cost Leadership	Minimization of purchasing costs	Panayides, 2003.
	Minimization of production cost	Wright et al., 1991; Bush and Sinclair, 1992; Panayides, 2003.
	Minimization of marketing cost	Panayides, 2003
	Strict cost control for every business activity	Miller and Friesen, 1986; Powers and Hahn, 2004.
	Minimization of unused capacity	Miller and Friesen, 1986; Wright et al., 1991
	Minimization of costs of waste, repair, etc.	Allen et al., 2006.
	Frequent preparation of detailed control reports	White, 1986.
Differentiation	Employing talented professionals and experts	Dess and Davis, 1984; Robinson and Pearce, 1988; Bush and Sinclair, 1992; Ariyawardana, 2003; Powers and Hahn, 2004.
	Basing incentives on meeting quality improvement goals	Panayides, 2003
	Continuous improvement of personnel	Powers and Hahn, 2004
	Maximization of product and service quality	Miller and Friesen, 1986; Bush and Sinclair, 1992; Yamin et al., 1999; Panayides, 2003; Powers and Hahn, 2004; Koo et al., 2004.
	Establishment of a trustworthy brand image in the eyes of the customers	Miller and Friesen, 1986; Robinson and Pearce, 1988; Bush and Sinclair, 1992; Yamin et al, 1999; Barth, 2003; Panayides, 2003; Wan, 2004; Allen et al., 2006; Hansen et al., 2006.
	Allowing the personnel to test and tolerating them to fail	White, 1986.
	Evaluating the cost of failures not as a loss but as an opportunity to learn	Panayides, 2003.
	Dominating the distribution channels	Dess and Davis, 1984; Robinson and Pearce, 1988; Bush and Sinclair, 1992.
	Allocating a large share in the budget for the marketing activities	Dess and Davis, 1984; Wright et al., 1991; Powers and Hahn, 2004.
	Engaging in a tough combat of quality with the competitors	Miller and Friesen, 1986; Hansen et al., 2006.

Focus	Focusing on segments of the market for marketing strategies	Robinson and Pearce, 1988; Yamin et al., 1999; Panayides, 2003; Powers and Hahn, 2004; Hansen et al., 2006.
	Serving limited number of customers belonging to specific segments rather than competing with rivals in the full market	Miller and Friesen, 1986; Bush and Sinclair, 1992; Yamin et al., 1999.
	Targeting the niche market rather than large market.	Aulakh et al., 2000; Dess and Davis, 1984; Bush and Sinclair, 1992; Yamin et al., 1999; Panayides, 2003; Powers and Hahn, 2004; Koo et al., 2004; Wan, 2004; Allen et al., 2006.
	Undertaking extensive market research in a specific niche market	Panayides, 2003.
	Having a clear market position	Panayides, 2003.

Source: Eraslan (2008)

Regarding the items used for the Diamond Framework, studies of Michael Porter has been used. In the Global Competitiveness Report prepared for the World Economic Forum each year, Porter (2002) used the following set of questions while assessing the competitiveness indices for each country. Following tables are presenting the items used in this study.

Table 8: Items for “Factor Conditions”

Physical Infrastructure	Administrative Infrastructure
Overall infrastructure quality	Reliability of police services
Railroad infrastructure development	Judicial independence
Port infrastructure quality	Efficiency of legal framework
Air transport infrastructure quality	Administrative burden for startups
Quality of electricity supply	Extent of bureaucratic red tape
Telephone/fax infrastructure quality	
Human Resources	Technology Infrastructure
Quality of management schools	Availability of scientists and engineers
Quality of public schools	Quality of scientific research institutions
Quality of the educational system	University/industry research collaboration
Quality of math and science education	Intellectual property protection
Capital markets	
Financial market sophistication	
Venture capital availability	
Ease of access to loans	
Local equity market access	

Source: Porter (2002)

Table 9: Items for “Demand Conditions”

1	Buyer sophistication
2	Sophistication of local buyers' on products and processes
3	Government procurement of advanced technology products
4	Presence of demanding regulatory standards
5	Laws relating to ICT (Information Communications and Technology)
6	Stringency of environmental regulations

Source: Porter (2002)

Table 10: Items for “Related and Supporting Industries”

1	Local supplier quality
2	State of cluster development
3	Local availability of process machinery
4	Local availability of specialized research and training services
5	Extent of collaboration among clusters
6	Local supplier quantity
7	Local availability of components and parts

Source: Porter (2002)

Table 11: Items for “Context for Firm Strategy and Rivalry”

Incentives	
1	Extent of distortive government subsidies
2	Favoritism in decisions of government officials
3	Cooperation in labor-employer relations
4	Efficacy of corporate boards
5	Intellectual property protection
6	Protection of minority shareholders’ interests
7	Regulation of securities exchanges
8	Effectiveness of bankruptcy law
Competition	
1	Hidden trade barriers
2	Intensity of local competition
3	Extent of locally based competitors
4	Effectiveness of antitrust policy
5	Decentralization of corporate activity
6	Business costs of corruption
7	Cost of importing foreign equipment
8	Centralization of economic policymaking
9	Prevalence of mergers and acquisitions
10	Foreign ownership restrictions

Source: Porter (2002)

There is a total of 54 items in these tables. However, there are no items for the government construct in this set. To overcome this deficiency, items for the government construct in the study are tried to be captured with the help of a qualitative study.

Finally, with respect to the export performance construct, items are selected from the literature on the basis of their frequency. If we remember Table 6 (on page 49 - 50), there are objective and subjective measures while searching for the export performance. Moreover, inside of each section, measures are divided into sales related, profit related, market related and general factors. According to Brouthers, et.al (2009) most of the time, perceptual and self reported measures are used in the analysis of export performance as secondary information on export activities of individual firms is not publicly available. For that reason subjective measures are chosen from the list on Table 6. This would also make it easy for the respondent to answer the questionnaire as objective information on firm performance might be deemed to be sensitive information and not shared easily.

Shoham (1998) listed down the frequencies of the objective and subjective items in the literature on export performance (see Table 12). By taking this list and the frequencies into consideration, “satisfaction with export intensity”, “satisfaction with export profitability” and “satisfaction with the export market share growth” are picked from the list to take their places in the questionnaire.

Table 12: Item List for the “Export Performance”

Sales related	Frequency of use
Export intensity	14
Export sales volume	9
Export sales growth compared to competitors	5
Export intensity growth	4
Export sales growth	4
Export sales volume compared to competitors	3
Export intensity growth compared to competitors	1
Export sales return on investment	1
Export sales return on investment compared to competitors	1
Profit related	
Export profitability	18
Export profit margin	6
Export profit margin growth	4
Export profitability compared to competitors	4
Market related	
Export market share growth	11
Export market share	7
Export market share compared to competitors	4
Rate of new market entry	4
Market diversification	3
Rate of new market entry compared to competitors	2
Export market share growth compared to competitors	1
Gaining foothold in the market	1

Source: Shoham (1998)

Qualitative Study

According to Bryman (1988), qualitative research methods enable researchers to get closer to the phenomenon under investigation and create richer and deeper data. There are various methods of qualitative research like experience survey, insight stimulating examples, critical incidents, focus groups, and case studies (Churchill, 1979).

In this study, focus group study and in-depth interview are used mainly to provide “methodological triangulation” and generate, if possible, additional items for constructs. This was valid especially for the fifth moderator, which is the “government” factor in the Diamond Framework. Since there wasn’t sufficient number of items in the literature regarding this variable, there was a need for additional research.

The focus group study was done with a group of Boğaziçi University graduate level students. Students were chosen from economics, management or international trade departments due to the relevance of the topic to their majors. The group met to discuss the effects of the national context in the export performance of firms. During the session, important diagnoses were made with respect to the effect of the Diamond Framework on the causes of firm strategies to export performances of the companies. The meeting took place at the Boğaziçi University South Campus, EMBA building and took approximately one hour. During the session, discussions were tape recorded and content analyzed later on.

The second part of the qualitative research was in-depth interviews with managers of exporting firms. For this purpose, open-ended questions were prepared and couple of meetings were organized with exporting firm managers and owners. Interviews lasted approximately 40-50 minutes and were tape recorded.

There is no predefined number in the literature about the number of interviews to be done for such an analysis. The rule of thumb for these cases is to continue as long as the researcher is satisfied and stops hearing anything new from the respondents. From this starting point, interviews were continued until the researcher is satisfied with the output, such that there were no new ideas raised by the interviewees. Discussions were tape recorded and content analyses were performed with this record. Content analyses of the focus strategy and interviews are depicted on Table 13.

Table 13: Content Analysis of the Qualitative Research

Item	Frequency
Government incentives	22
Currency regime	20
Political stability	18
Personal relations with government authorities	10
Strong reputation in the eyes of authorities	8
Education system	8
Relations with neighboring countries	7
Economic agreements with foreign countries	7
European Union candidacy	5

Regarding the “government” variable, the qualitative study resulted with the abovementioned list. Most frequent of the items in this list are favorable government incentives (with a frequency of 22), favorable currency regime (with a frequency of 20) and political stability in the country (with a frequency of 18). These three items are added to the list of items to be used in the questionnaire.

Expert Opinion Judgment

At the end of the literature review and the qualitative study, the list of items to be used was a long one, including 82 items, and needed purification. The total list is depicted on Table 14.

Table 14: Items in the Study before Purification

	Item Number	Variables	Items
X_1	1	Cost Leadership	Minimization of purchasing costs
	2		Minimization of production cost
	3		Minimization of marketing cost
	4		Minimization of unused capacity
	5		Minimization of costs of waste, repair, etc.
	6		Frequent preparation of detailed control reports
	7		Strict cost control for every business activity
X_2	8	Differentiation	Employing talented professionals and experts
	9		Basing incentives on meeting quality improvement goals
	10		Continuous improvement of personnel
	11		Maximization of product and service quality
	12		Establishment of a trustworthy brand image in the eyes of the customers
	13		Allowing the personnel to test and tolerating them to fail
	14		Evaluating the cost of failures not as a loss but as an opportunity to learn
	15		Dominating the distribution channels
	16		Allocating a large share in the budget for the marketing activities
	17		Engaging in a tough combat of quality with the competitors
X_3	18	Focus	Focusing on segments of the market for marketing strategies
	19		Serving limited number of customers belonging to specific segments rather than competing with rivals in the full market
	20		Targeting the niche market rather than large market.
	21		Undertaking extensive market research in a specific niche market
	22		Having a clear market position

	Item Number	Variables	Items
M_1	23	Factor Conditions	Overall infrastructure quality
	24		Railroad infrastructure development
	25		Port infrastructure quality
	26		Air transport infrastructure quality
	27		Quality of electricity supply
	28		Telephone/fax infrastructure quality
	29		Reliability of police services
	30		Judicial independence
	31		Efficiency of legal framework
	32		Administrative burden for startups
	33		Extent of bureaucratic red tape
	34		Quality of management schools
	35		Quality of public schools
	36		Quality of the educational system
	37		Quality of math and science education
	38		Availability of scientists and engineers
	39		Quality of scientific research institutions
	40		University/industry research collaboration
	41		Intellectual Property Protection
	42		Financial market sophistication
	43		Venture capital availability
	44		Ease of access to loans
	45		Local equity market access
M_2	46	Demand Conditions	Buyer sophistication
	47		Sophistication of local buyers' on products and processes
	48		Government procurement of advanced technology products
	49		Presence of demanding regulatory standards
	50		Laws relating to ICT (Information Communications and Technology)
	51		Stringency of environmental regulations

	Item Number	Variables	Items
M_3	52	Related and Supporting Industries	Local supplier quality
	53		State of cluster development
	54		Local availability of process machinery
	55		Local availability of specialized research and training services
	56		Extent of collaboration among clusters
	57		Local supplier quantity
	58		Local availability of components and parts
M_4	59	Context for Firm Strategy and Rivalry	Extent of distortive government subsidies
	60		Favoritism in decisions of government officials
	61		Cooperation in labor-employer relations
	62		Efficacy of corporate boards
	63		Intellectual property protection
	64		Protection of minority shareholders' interests
	65		Regulation of securities exchanges
	66		Effectiveness of bankruptcy law
	67		Hidden trade barriers
	68		Intensity of local competition
	69		Extent of locally based competitors
	70		Effectiveness of antitrust policy
	71		Decentralization of corporate activity
	72		Business costs of corruption
	73		Cost of importing foreign equipment
	74		Centralization of economic policymaking
	75		Prevalence of mergers and acquisitions
	76		Foreign ownership restrictions
M_5	77	Government	Political Stability
	78		Government Incentives
	79		Effects of Government on the Currency Regime
Y_1	80	Export Performance	Satisfaction with the export market share growth
	81		Satisfaction with export intensity
	82		Satisfaction with export profitability

Expert opinion technique was used to clean some of the items and for this purpose, two experts, one from the academia and the other from the industry were asked to purify the items that are repeating and not clear. After all, by looking at the agreement between these referees the final item list was prepared. Number of items for each construct is depicted on Table 15. As seen on this table, number of items dropped to 31 at the end of the analysis.

Table 15: No of Items before and after Expert Opinion Judgment

Construct		No of items before Expert Opinion Judgment	No of items after Expert Opinion Judgment
X1	Cost Leadership	7	3
X2	Differentiation	10	4
X3	Focus	5	3
M1	Factor Conditions	23	5
M2	Demand Conditions	6	3
M3	Related and Supporting Industries	7	3
M4	Context for Firm Strategy and Rivalry	18	4
M5	Government	3	3
Y1	Export Performance	3	3
Total		82	31

The purified list and items in this list is shown on Table 16.

Table 16: Items in the Study after Purification

	Item Number	Variables	Items
X1	1	Cost Leadership	Frequent preparation of detailed control reports
	2		Strict cost control for every business activity
	3		Minimization of production cost
X2	4	Differentiation	Engaging in a tough combat of quality with the competitors
	5		Employing talented professionals and experts
	6		Maximization of product and service quality
	7		Allocating a large share in the budget for the marketing activities

X3	8	Focus	Targeting the niche market rather than large market
	9		Serving limited number of customers belonging to specific segments rather than competing with rivals in the full market
	10		Having a clear market position
M1	11	Factor Conditions	Overall infrastructure quality
	12		Efficiency of legal framework
	13		Quality of the educational system
	14		Ease of access to loans
	15		Extent of bureaucratic red tape
M2	16	Demand Conditions	Sophistication of local buyers' on products and processes
	17		Presence of demanding regulatory standards
	18		Stringency of environmental regulations
M3	19	Related and Supporting Industries	Local supplier quality
	20		Extent of collaboration among clusters
	21		Local availability of components and parts
M4	22	Context for Firm Strategy and Rivalry	Cooperation in labor-employer relations
	23		Hidden trade barriers
	24		Intensity of local competition
	25		Effectiveness of antitrust policy
M5	26	Government	Political Stability
	27		Government Incentives
	28		Effects of Government on the Currency Regime
Y1	29	Export Performance	Satisfaction with the export market share growth
	30		Satisfaction with export intensity
	31		Satisfaction with export profitability

After preparing the item list, next step was to translate the items into Turkish as the data would be collected in Turkey, from Turkish exporting firms. For this step, translation and back translation techniques (Chapman and Carter, 1979) are used to prepare the Turkish version of the questionnaire.

Data Collection Method

Questionnaire was employed as the data collection method of the thesis. According to Sekaran (1992: 200), questionnaire is an efficient way of collecting data, where there is a consensus over the requirements and the variables of interest. Moreover, Heiman (1998: 111) claims that the first step to take when preparing a questionnaire should be to search the literature for the existing questions. O' Brein (1995) contribute to this thought by asserting that existing procedures would help the researcher to obtain validity and comparability when these procedures are employed. The purpose of questionnaire is to gather data on a certain topic and this technique is a highly efficient one with respect to compiling huge amount of data in a short time frame.

The questionnaire in this study was conducted face to face (n=56/154) and also through internet (n=98/154) via its online version. However, in line with the literature (i.e. Newell, 1993) it is first tried on friends and colleagues to check for clearness and typos, etc. This pre-step provided a third eye over the questions and helped the researcher to check whether the instructions, guidelines and questions are clear or not.

In terms of the scaling, the Likert scale was used. This scale is one of the most widely used one. Respondents (export managers for each firm) are asked to judge their perceived expectations and personal thoughts on a five point scale..

The questionnaire was prepared both in hard copy and online versions. Hard copy versions were two A4 pages long and 1 page cover was included in front of both versions. The cover page was obtained from the Head of the Department of Management and was used as a facilitator when approaching respondents. For the online version, a free web-based survey program was used (namely www.surveymonkey.com). This program enables the researcher to send a link to potential respondents and ask them to reach the questionnaire by just one click. Online poll was a very efficient and convenient way of providing data in a short time frame.

Unit of analysis in the research was the firm. There was no constraint with respect to the industry and thus respondent firms were picked from a wide range of industries.

The sample consisted of Turkish firms that are exporting to foreign countries. Turkish Exporters' Assembly (Türkiye İhracatçılar Birliği – TIM) was contacted as a starting point to obtain the details of the exporting firms. Later on, associations under TIM were reached via their internet sites and email addresses (these are Aegean Exporters' Associations, Antalya Exporters' Association, Black Sea Exporters' Association, Central Anatolian Exporters' Association, Denizli Exporters' Association, Eastern Anatolian Exporters' Association, Eastern Black Sea Exporters' Association, Istanbul Exporters' Association, Istanbul Minerals and Metals Exporters' Association, Istanbul Textile and Apparel Exporters' Associations, Mediterranean Exporters' Association, Southeast Anatolia Exporters' Association, and finally Uludağ Exporters' Association). Most of these associations are reached via telephone or email and are asked to forward the link of the online questionnaire to their members. As a second data resource, personal contacts were used in reaching exporting companies to contribute to the study. Finally, some of the surveys were filled face to face by researcher's visits to exporting firms on site.

Total number of surveys without any missing value was 154 at the end of a two month period.

Data Analysis Method

Multivariate statistical techniques were used to analyze the collected data. Initially sample characteristics were analyzed and coefficient (Cronbach's) alpha was used in assessing the internal consistency of each construct. Data were analyzed by using SPSS 20.

In order to capture the relationship between dependent and independent variables, hierarchical multiple regression analysis was employed. Hierarchical multiple regression analysis allows a researcher to enter the independent variables in an order and this order is determined on the basis of the literature or logical reasons. By looking at the change in the goodness of fit value, researcher might decide whether the additional variable is of use or not (Gelmen and Hill, 2007). This technique is especially useful for our study as we are searching for the moderator effects of the Diamond Framework on the effects of competitive strategies over export performance.

CHAPTER 4

FINDINGS

In this chapter, the analysis of instruments used in measuring the constructs in the model and the model itself will be presented. The first section of the chapter presents the sample characteristics and the data properties, while ensuing sections include the findings with respect to the suitability of data for multivariate analysis, measurement scale reliabilities, descriptive statistics of independent and dependent variables, correlations among variables and factor analyses. In the final section, results of the multiple regression analyses will be given.

Sample Characteristics

In this part, characteristics of the sample will be described in detail. To begin with, Table 17 demonstrates the firm sizes of the surveyed firms. According to this table, 24% of surveyed firms were employing less than 50 employees. On the other hand, 21.4% of the firms had employees between 50 - 100; whereas 20.7% of the total sample were employing between 100-150 workers. From this information, it is seen that almost 65% of the total sample was less than or equal to 150 workers.

Table 17: Firm Size

Firm Size		
No of workers	No of firms	%
1-49	37	24.03%
50-99	33	21.43%
100-149	32	20.78%
150-199	21	13.64%
200-249	26	16.88%
250-299	1	0.65%
300 +	4	2.60%
	154	100.00%
Mean no of employees	134	

Table 18 presents the export performances of the companies in the sample set. According to this table, 11% of the sample had less than 5 years of export experience, whereas most of the sample (19.48%) has experience in the export business for 15 to 20 years. However, we can say that the distribution with respect to the export performances of firms in the sample set was evenly distributed.

Table 18: Export Experience

Export Experience		
No of years of export experience	No of firms	%
0-4	17	11.04%
5-9	24	15.58%
10-14	27	17.53%
15-19	30	19.48%
20-24	24	15.58%
25-30	21	13.64%
30 +	11	7.14%
	154	100.00%
Mean no of years	16	

Next table is regarding the advertising expenditure of the firms on exporting their products or services. According to Brouthers et.al. (2009), advertising expenditure on exports is an important determinant while analyzing the export performances of firms. According to this table, although the maximum amount of advertising expenditure is 30%, most of the firms spend below 20% of their budget on advertising. Specifically, 38.9% of the firms spend 0-9% of their budget on export advertising, whereas 54.5% of the firms spend 10-19% of their budget on advertising.

Table 19: Advertising Expenditure

Advertising Expenditure on Exports		
Percentage of advertising expenditure in the budget	No of firms	%
0-9	60	38.96%
10-19	84	54.55%
20-29	10	6.49%
30+	0	0.00%
	154	100.00%
Mean % of expenditure	11%	

Table 20 presents the target countries of the sample firms. First ten countries are listed on this table with respect to their export shares. Most of the firms in the sample set are the ones targeting European countries, such that, Germany, Holland, France, Poland and England are usually at the top of the list for all three categories. Next to those countries, USA plays an important role for exporting firms. Finally, Middle East countries, such as Iraq, Iran, Syria, together with Saudi Arabia are also important targets based on their percentages.

Table 20: Export Destinations

	Country	No of firms exporting to that country	%
1st Highest Export	Germany	19	12.34%
	England	9	5.84%
	USA	6	3.90%
	Holland	6	3.90%
	China	4	2.60%
	Iran	4	2.60%
	Ireland	4	2.60%
	Saudi Arabia	4	2.60%
	UAE	3	1.95%
	France	3	1.95%
2nd Highest Export	England	12	7.89%
	Germany	10	6.58%
	France	6	3.95%
	Poland	6	3.95%
	Iran	5	3.29%
	Israel	5	3.29%
	USA	4	2.63%
	Algeria	4	2.63%
	South Africa	4	2.63%
	Saudi Arabia	4	2.63%
3rd Highest Export	Germany	35	26.52%
	China	13	9.85%
	USA	12	9.09%
	England	12	9.09%
	Russia	10	7.58%
	Sweden	6	4.55%
	Holland	6	4.55%
	Iraq	4	3.03%
	Syria	4	3.03%
	South Africa	4	3.03%

The final table in this section is regarding the distribution of surveyed firms according to industry. Food production is dominating the list with a ratio of 32.47%, whereas textile and apparel industry is in the second position with a ratio of 16.23%. Other important industries in the sample list are machine industry (with a ratio of 6.49%), furniture industry (with a ratio of 5.84%) and cement industry (with a ratio of 5.19%).

Table 21: Distribution According to Industry

Industry	No	%
Food Production	50	32.47%
Textile and Apparel	25	16.23%
Machine & Machine Parts	10	6.49%
Furniture	9	5.84%
Cement	8	5.19%
Home Appliances	7	4.55%
Iron & Steel	7	4.55%
Industrial Commodities	6	3.90%
Carpet	5	3.25%
Marble	5	3.25%
Leader Products	4	2.60%
Electronics	4	2.60%
Chemicals	3	1.95%
Automotive Manufacturing	3	1.95%
Mine	2	1.30%
Jewelry	2	1.30%
Tobacco	2	1.30%
Glass Manufacturing	1	0.65%
Consultancy	1	0.65%
	154	100.00%

Data Properties

The collected data is evaluated with respect to the requirements of multivariate analysis and also scale reliabilities are checked. The first test is for the normality requirement. The data used in this study is metric, and is using a five point Likert Scale. For an accurate evaluation, skewness and kurtosis values for each variable together with the standard deviations are prepared and depicted on Table 22.

Table 22: Test of Normality (Skewness & Kurtosis)

	N	Skewness			Kurtosis		
	Statistic	Statistic	Std. Error	z value	Statistic	Std. Error	z value
X1	154	0.135	0.195	0.69	-1.156	0.389	-2.97
X2	154	-0.362	0.195	-1.86	-1.196	0.389	-3.07
X3	154	-0.03	0.195	-0.15	-0.575	0.389	-1.48
M1	154	-0.141	0.195	-0.72	-0.961	0.389	-2.47
M2	154	0.018	0.195	0.09	-0.902	0.389	-2.32
M3	154	-0.206	0.195	-1.06	-0.701	0.389	-1.80
M4	154	0.015	0.195	0.08	-0.967	0.389	-2.49
M5	154	0.058	0.195	0.30	-0.585	0.389	-1.50
Y1	154	-0.099	0.195	-0.51	-1.038	0.389	-2.67
Valid N (listwise)	154						

Skewness values of a data set shows whether or not the data is positively or negatively skewed with respect to the normal distribution. When this value is 0, it means there is absolutely no skewness and the data is right above the normal graph. When the skewness value is above or below ±2.58, it shows that the data is very skewed. In terms of skewness values, z statistics and all variables seem fine with this test (at z=2.58 level).

Kurtosis, on the other hand, shows clustering of scores. A Kurtosis value of 0 depicts clustering around the average, whereas positive values of Kurtosis show clustering around other numbers, and negative values show no clustering exists in the data set (Eraslan, 2008). According to the data set we have, t statistics associated with Kurtosis values do not appear to be a problem as they are ranging in the acceptable range of ±2.58 (corresponding to a 0.01 error level), except variables cost leadership (X1), differentiation (X2) and export performance (Y1).

Descriptive Statistics

Descriptive statistics are used to describe the basic features of the data in a study. In this step, minimum and maximum values, averages together with standard deviation values are computed. Table 23 shows the descriptive statistics for the individual variables in the model.

Table 23: Descriptive Statistics for Individual Scale Items

		Item	N	Minimum	Maximum	Mean	Std. Deviation
X1	Cost Leadership Strategy	CostLeadStrat_1	154	1	5	2.81	1.368
		CostLeadStrat_2	154	1	5	2.98	1.360
		CostLeadStrat_3	154	1	5	3.00	1.278
X2	Differentiation Strategy	DiffStrat_1	154	1	5	3.30	1.290
		DiffStrat_2	154	1	5	3.37	1.168
		DiffStrat_3	154	1	5	3.38	1.266
		DiffStrat_4	154	1	5	3.21	1.356
X3	Focus Strategy	FocStrat_1	154	1	5	2.94	1.051
		FocStrat_2	154	1	5	3.07	1.093
		FocStrat_3	154	1	5	3.07	1.135
M1	Factor Conditions	FactCond_1	154	1	5	3.20	1.083
		FactCond_2	154	1	5	3.47	1.011
		FactCond_3	154	1	5	3.32	.963
		FactCond_4	154	2	5	3.28	.954
		FactCond_5	154	1	5	3.35	1.026
M2	Demand Conditions	DemCond_1	154	2	5	3.41	1.045
		DemCond_2	154	1	5	3.37	1.020
		DemCond_3	154	1	5	3.36	1.001

M3	Related and Supporting Industries	RelSupInd_1	154	1	5	3.34	1.040
		RelSupInd_2	154	1	5	3.41	.981
		RelSupInd_3	154	1	5	3.49	1.031
M4	Context for Firm Strategy and Rivalry	FirmStrRiv_1	154	2	5	3.22	.846
		FirmStrRiv_2	154	2	5	3.39	.999
		FirmStrRiv_3	154	1	5	3.38	1.042
		FirmStrRiv_4	154	1	5	3.20	1.038
M5	Government	Gov_1	154	1	5	2.92	1.055
		Gov_2	154	1	5	3.01	1.048
		Gov_3	154	1	5	2.99	1.152
Y1	Export Performance	ExpPerf_1	154	1	5	2.78	1.116
		ExpPerf_2	154	1	5	2.75	1.050
		ExpPerf_3	154	1	5	2.83	1.095
		Valid N (listwise)	154				

Table 24 shows the descriptive statistics for the independent and dependent variables under corresponding groups. As can be captured from the list, all values are measured by using multi-item five point Likert scales.

Table 24: Descriptive Statistics of Variables

		N	Minimum	Maximum	Mean	Std. Deviation
X1	Cost Leadership	154	1.00	5.00	2.93	1.08
X2	Differentiation	154	1.50	5.00	3.32	1.06
X3	Focus	154	1.00	5.00	3.03	0.85
M1	Factor Conditions	154	1.60	4.80	3.32	0.72
M2	Demand Conditions	154	1.67	5.00	3.38	0.79
M3	Related and Supporting Industries	154	1.33	5.00	3.41	0.79
M4	Context for Firm Strategy and Rivalry	154	1.75	4.75	3.30	0.71
M5	Government	154	1.00	5.00	2.97	0.88
Y1	Export Performance	154	1.00	4.67	2.79	0.91
Valid N (listwise)		154				

Finally, possible respondent bias with respect to different versions of the questionnaire was tested with the help a t-test. Following table (Table 25) represents the means of variables for different survey types.

Table 25: T-Test Results for Different Survey Types

		Survey Type	N	Mean	Std. Dev.	Sig.
X1	Cost Leadership	Online	98	2.86	1.14	.281
		Hard Copy	56	3.05	.95	
X2	Differentiation	Online	98	3.38	1.10	.390
		Hard Copy	56	3.22	.97	
X3	Focus	Online	98	2.90	.68	.011
		Hard Copy	56	3.25	1.05	
M1	Factor Conditions	Online	98	3.26	.68	.323
		Hard Copy	56	3.43	.75	
M2	Demand Conditions	Online	98	3.32	.70	.303
		Hard Copy	56	3.48	.88	
M3	Related and Supporting Industries	Online	98	3.37	.68	.357
		Hard Copy	56	3.49	.94	
M4	Context for Firn Strategy and Rivalry	Online	98	3.27	.68	.452
		Hard Copy	56	3.36	.73	
M5	Government	Online	98	2.90	1.01	.341
		Hard Copy	56	3.09	.55	
Y1	Export Performance	Online	98	2.75	1.14	.332
		Hard Copy	56	2.87	.95	

According to this table, except the "focus" variable, there is no statistically significant difference between variable means with respect to survey types. Thus, we conclude by saying that different survey types did not create a major respondent bias.

Explanatory Factor Analyses (EFA)

According to Hair et.al. (1998), function of factor analysis is reducing a set of variables into a smaller number of variables. This technique groups variables with high correlations within one group.

Suitability of the set of items for the factor analysis is tested by means of Bartlett's test of sphericity and Kaiser-Meyer-Olkin measure of sampling adequacy (KMO). Threshold value for the Bartlett's test of sphericity is 0.05 (p-values should be lower than 0.05) and for the KMO is 0.50 (KMO value should be more than 0.50).

Table 26 depicts the values of KMO and Bartlett's test of sphericity for all three sets of variables. According to Table 26, KMO values are above the threshold and Bartlett's test of sphericity values are all significant, satisfying the requirements for the suitability of the data for the EFA.

Table 26: KMO and Bartlett's Test of Sphericity Results

	KMO Measure of Sampling Adequacy	Bartlett's Test of Sphericity
Competitive Strategies	0.899	.000
Diamond Framework	0.910	.000
Export Performance	0.705	.000

EFA for Competitive Strategies

After a varimax rotation, three components are formed for the competitive strategies items. These three factors explained 50.16 %, 10.51 % and 7.64 % of the variance, which resulted in a total variance of 68 %. Table 27 depicts the results of the first factor analysis.

Table 27: EFA Results for "Competitive Strategies"

	Component		
	1	2	3
DiffStrat_1	.842	-.235	.166
DiffStrat_3	.789	-.209	.182
DiffStrat_4	.652	-.480	.167
FocStrat_3	.651	-.023	.487
CostLeadStrat_3	-.088	.856	-.101
CostLeadStrat_2	-.233	.772	-.201
DiffStrat_2	.470	-.539	.350
CostLeadStrat_1	-.500	.534	-.175
FocStrat_1	.112	-.251	.859
FocStrat_2	.399	-.154	.597
Variance Explained by each Factor	50.16%	10.51%	7.64%
Total Variance Explained			68%

According to Table 27, items DiffStrat_1, DiffStrat_3, DiffStrat_4, and FocStrat_3 load on the same factor, and this factor is named "differentiation" as 3 out of 4 items in this set are from differentiation questions. Next, CostLeadStrat_1, CostLeadStrat_2, CostLeadStrat_3 and DiffStrat_2 load on another factor, and this factor is named "cost leadership". The reason for this naming was similar to the previous argument such that 3 out of 4 items in this set are coming from cost leadership construct. Finally, FocStrat_1 and FocStrat_2 load on the same factor and this construct is named “focus”. Loading for each item is depicted on Table 27.

EFA for Diamond Framework

Next factor analyses are performed for the Diamond Framework items. There are 18 items in total and these items are exposed to the same procedure. Similar to the previous section, varimax extraction is performed these items and eigenvalues that are more than one are listed on the following table (Table 28). According to the findings here, there are four factors that have eigenvalues of more than 1. This is an important finding in terms of the literature because the original Framework has four direct and two indirect factors and this situation is criticized by authors (i.e. Van den Bosch and de Man, 1994; Stopford and Strange, 1991) who claim “government” should be added as a fifth determinant into the Framework.

Table 28: EFA Results for the "Diamond Framework"

	Component			
	1	2	3	4
FactCond_2	.677	.184	.271	.190
FactCond_5	.623	.271	.174	.107
FactCond_1	.615	.280	.300	.094
FactCond_4	.571	.158	.241	.249
Gov_2	.565	.300	-.046	.070
RelSupInd_2	.551	-.026	.523	.084
DemCond_3	.509	.415	.177	.120
FirmStrRiv_2	.195	.695	.192	.238
Gov_3	.321	.689	.142	.049
FirmStrRiv_3	.318	.554	.245	.190
FirmStrRiv_1	.304	.497	.331	.318
FirmStrRiv_4	.073	.441	.342	.440
RelSupInd_3	.122	.181	.739	.110
FactCond_3	.196	.182	.657	.163
RelSupInd_1	.249	.295	.625	.107
DemCond_2	.086	.193	.099	.801
Gov_1	.116	.221	.140	.761
DemCond_1	.469	-.027	.104	.664
Variance Explained by each Factor	38.42%	7.30%	5.39%	5.02%
Total Variance Explained				56.12%

When we checked the values on Table 28, we see the distribution of items under each factor in more detail. According to this table, FactCond_2, FactCond_5, FactCond_1, FactCond_4, Gov_2, RelSupInd_2 and DemCond_3 are showing high correlations among each other and thus are grouped under the same factor. This factor, due to the dominancy of "factor conditions" items in it, is named "factor conditions". In the next group of items, we see items FirmStrRiv_2, Gov_3, FirmStrRiv_3, FirmStrRiv_1, and FirmStrRiv_4. In this group, 4 out of 5 items are from "context for firm strategy and rivalry" (M4). Thus this group is conveniently named "context for firm strategy and rivalry". Third set in this analysis is composed of items RelSupInd_3, FactCond_3 and RelSupInd_1. This group is named "related and supporting industries" (M3). Finally, items DemCond_2, Gov_1, DemCond_1 are grouped under the same roof and this group, due to the dominancy of "demand conditions" (M2) items inside of it, is named after this construct.

These four factors explained 38.42 %, 7.30 %, 5.39 % and 5.02 % of the variance consecutively. The total variance explained by these factors was 56.12 % in total.

EFA for Export Performance

The last factor analysis is performed for the "export performance" items. There are three items in this set and Table 29 presents the results of the factor analysis. There is only one factor that has an eigenvalue more than 1, which is explaining 70.77 % of the total variance.

Table 29: EFA Results for the "Export Performance"

	Component
	1
ExpPerf_1	.839
ExpPerf_2	.826
ExpPerf_3	.859
Total Variance Explained	70.77%

There is no item deleted at the end of these analyses, and the final list of items after the EFA is depicted on the following table (see Table 30). Multivariate regression analyses are performed based on these factors.

Table 30: List of Items at the end of Factor Analyses

Cost Leadership	X1	DiffStrat_1, DiffStrat_3, DiffStrat_4, FocStrat_3
Differentiation	X2	CostLeadStrat_1, CostLeadStrat_2, CostLeadStrat_3, DiffStrat_2
Focus	X3	FocStrat_1, FocStrat_2
Factor Conditions	M1	FactCond_2, FactCond_5, FactCond_1, FactCond_4, Gov_2, RelSupInd_2, DemCond_3
Demand Conditions	M2	DemCond_2, Gov_1, DemCond_1
Related and Supporting Industries	M3	RelSupInd_3, FactCond_3, RelSupInd_1
Context for Firm Strategy and Rivalry	M4	FirmStrRiv_2, Gov_3, FirmStrRiv_3, FirmStrRiv_1, FirmStrRiv_4
Export Performance	Y1	ExpPerf_1, ExpPerf_2, ExpPerf_3

Reliability Analysis

The internal reliability of a scale refers to its consistency and raises the question of whether each scale is measuring the same idea and thus whether the items forming the scale are internally consistent or not (Bryman and Cramer, 1997). Reliabilities for the scales are evaluated via Cronbach's Coefficient Alpha scores. The reason for the employment of Cronbach's Alpha is the fact that this measure is the most widely used test for reliability in the literature (Gatewood and Field, 1987; Nouris, 1992; Bryman and Cramer, 1997). With respect to the cutoff points, Bryman and Cramer (1997), requires .80, whereas Nunnally (1978) states that reliabilities as low as .70 are normally acceptable in basic research.

The following table depicts the Cronbach's Alpha values before and after the EFA. There is no deleted item in the list but some items changed places and moved to different variables. Moreover, the fifth moderator in the model, "government" (M5), has lost all of its items to other variables and is eliminated from the list. These alterations changed the Cronbach's Alpha values.

Table 31: Reliability Coefficient of the Study Variables

Variable		Number of Items before the Factor Analysis	Cronbach's Alpha before the Factor Analysis	Number of Items after the Factor Analysis	Cronbach's Alpha after the Factor Analysis
X1	Cost Leadership	3	0.741	4	0.791
X2	Differentiation	4	0.849	4	0.823
X3	Focus	3	0.695	2	0.710
M1	Factor Conditions	5	0.756	7	0.822
M2	Demand Conditions	3	0.673	5	0.694
M3	Related and Supporting Industries	3	0.699	3	0.711
M4	Context for Firm Strategy and Rivalry	4	0.695	3	0.745
M5	Government	3	0.733	---	---
Y1	Export Performance	3	0.793	3	0.793

Based on the coefficient values represented on the Table 31, which are ranged between 0.694 to 0.823, we can conclude by saying that there is a good level of internal consistency within our multi-item scales.

Correlations among Variables

Table 32 shows the variable inter-correlations. Most common measure for this measurement is the Pearson product moment correlation coefficient. This coefficient is obtained by dividing the covariance of the two variables by the product of their standard deviations. While interpreting these coefficients, it is important to take into consideration the context and purposes of the study, such that having a low or high r value is subjective upon the context and purposes of the study.

According to Table 32, 14 out of 28 pairs of variables have significant correlation coefficients. The highest coefficient in the table is 0.694 and this is between “factor conditions” (M1) and “context for firm strategy and rivalry” (M4). We would expect a correlation between Diamond Framework variables as they are all trying to capture the suitableness of the country for the business environment. Similar to the statistically significant correlation between “factor conditions” (M1) and “context for firm strategy and rivalry” (M4), there are statistically significant correlations between other Diamond variables as well.

Table 32: Correlations among Constructs

		X1	X2	X3	M1	M2	M3	M4
		Cost Leadership	Differentiation	Focus	Factor Conditions	Demand Conditions	Related and Supporting Industries	Context for Firms Strategy and Rivalry
X1	Cost Leadership							
X2	Differentiation	-.672**						
X3	Focus	-.511**	.685**					
M1	Factor Conditions	-.001	-.086	-.147				
M2	Demand Conditions	-.004	-.152	-.155	.621**			
M3	Related and Supporting Industries	.016	-.153	-.211**	.649**	.578**		
M4	Context for Firm Strategy and Rivalry	.009	-.114	-.147	.694**	.677**	.562**	
Y1	Export Performance	-.073	.088	.052	.627**	.585**	.534**	.576**

**. Correlation is significant at the 0.01 level (2-tailed).

Another important information from Table 32 is the negative correlation found between Cost Leadership (X1) and Differentiation (X2) which is also statistically significant. This makes sense as well, cause cost leadership and differentiation strategies are usually mutually exclusive strategies, meaning that, a firm employing one of them would disregard the other one.

One final diagnosis from this table is the case of correlations between focus strategy and other competitive strategies. According to Table 32, there is a statistically significant negative correlation between “focus” (X3) and “cost leadership” (X1) strategies (r=-0.511), whereas there is a statistically significant positive correlation between “focus” (X3) and “differentiation” (X2) strategies (r=0.685). This finding shows that differentiation focus strategy is more frequent for the surveyed firms in this study compared to cost leadership focus strategy.

Regression Analysis and Hypotheses Testing

Regression analysis is a technique to model and analyze a numerical data consisting of a dependent variable and one or more independent variables (Hair, et.al., 2010; Gujurati, 1995). The objective of this research is to analyze the relationship between firms' export performances and their competitive strategies, such that we try to explain the amount of variance in the dependent variable (export performance) due to the changes in the independent variable(s) (competitive strategies). Another objective of the study, which is the one makes it unique and a contributor to the literature, is its inquiry of the moderating effect of the Diamond Framework on the relationship between competitive strategies and export performance.

According to Baron and Kenny (1986), a moderator is a qualitative (e.g., sex, race, class) or quantitative (e.g., level of reward) variable that affects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable. In other words, moderation implies that the relation between dependent and independent variables changes as a function of the moderator variable.

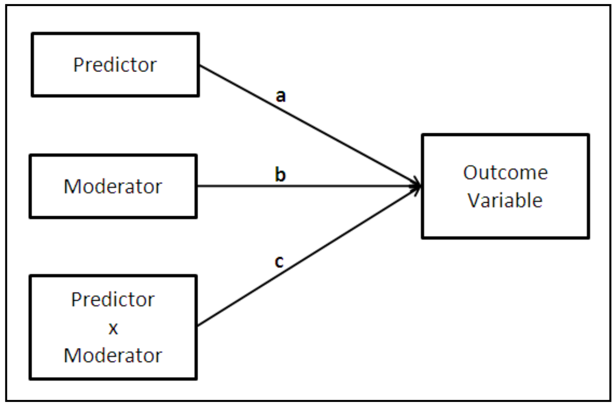

Figure 11: Moderator model (Baron and Kenny, 1986)

In Figure 11, the moderator effect is supported if the interaction (path c) is statistically significant. While analyzing the moderation, statistical analysis must measure and test the differential effect of the independent variable on the dependent variable as a function of the moderator. According to Duncan (1975) it is almost always preferable to measure the effect of the independent variable on the dependent variable not by correlation coefficients but by unstandardized (not betas) regression coefficients.

The analysis of moderation in statistical terms is as follows:

$Y = a+b_1X$

$Y = a+b_1X+b_2Z$

$Y = a+b_1X+b_2Z+b_3XZ$

where, Y = dependent variable, X = independent variable and Z = moderator variable. On this list, b_1 shows the effect of the original independent variable on the dependent variable, while b_2 shows the effect of moderator variable on the dependent variable. On the other hand, b_3 shows X&Z interaction and should be significant for moderation. Moreover, R_2^2 should be different than R_3^2.

Hierarchical regression models are used in the literature to test for moderator effects (i.e. Gelmen and Hill, 2007). In those studies measurement occurs in different levels and hierarchical regression models allow us to examine the effects of certain variables in these levels. For instance, Alpay, et.al. (2012) investigated the role of marketing effectiveness in the relationship between innovativeness dimensions and firm performance. In this study, authors investigated several firm characteristics as the moderator variable to search for the interaction.

In this dissertation, hierarchical regression technique is employed as we are wondering the effects of Diamond Framework variables, effects of competitive strategies, and the effect of their interactions on the export performance of firms in a hierarchical order. In statistical terms, the regression equation in the analysis is as follows:

$$Y = a + (b_1M_1 + b_2M_2 + b_3M_3 + b_4M_4) + (b_5X_1 + b_6X_2 + b_7X_3) + (b_8X_1M_1 + b_9X_1M_2 + b_{10}X_1M_3 + b_{11}X_1M_4) + (b_{12}X_2M_1 + b_{13}X_2M_2 + b_{14}X_2M_3 + b_{15}X_2M_4) + (b_{16}X_3M_1 + b_{17}X_3M_2 + b_{18}X_3M_3 + b_{19}X_3M_4)$$

where Y = export performance, a = constant term and b = beta coefficients of each variable. In hierarchical regression analysis, variables are entered into the equation with respect to their order in the conceptual model. For this purpose, the first set of variables entered into the equation is the moderator variables (M1: factor conditions, M2: demand conditions, M3: related and supporting industries and M4: context for firm strategy & rivalry). In the second model, in addition to moderator variables, independent variables (X1: cost leadership, X2: differentiation and X3: focus strategies) are entered into the equation. In the final model, on top of these two blocks of variables, interaction variables between moderators and dependent variables are entered into the model (X1M1: FactCond x CostLeadStrat; X1M2: DemCond x CostLeadStrat; X1M3: RelSupInd x CostLeadStrat; X1M4: FirmStrRiv x CostLeadStrat; X2M1: FactCond x DiffStrat; X2M2: DemCond x DiffStrat; X2M3: RelSupInd x DiffStrat; X2M4: FirmStrRiv x DiffStrat; X3M1: FactCond x FocStrat; X3M2: DemCond x FocStrat; X3M3: RelSupInd x FocStrat; X3M4: FirmStrRiv x FocStrat). Table 33 shows the summary of these three steps.

At the end of the analyses, following results are obtained and are represented on Table 33:

Table 33: Findings of the Hierarchical Regression Analysis

	Model 1			Model 2			Model 3		
	Regression Coefficient	Standard Error	Standard Coefficient	Regression Coefficient	Standard Error	Standard Coefficient	Regression Coefficient	Standard Error	Standard Coefficient
Moderator Variables									
Factor Conditions	0.278	0.126	0.218*	0.276	0.126	0.216*	1.702	0.819	1.334*
Demand Conditions	0.137	0.106	0.119	0.183	0.109	0.159	-0.52	0.934	-0.452
Related and Supporting Industries	0.166	0.091	0.243*	0.204	0.092	0.176*	0.123	0.615	0.106
Context for Firm Strategy and Rivalry	0.19	0.113	0.148	0.205	0.112	0.159	1.602	1.066	1.246
Competitive Strategies									
Cost Leadership				0.117	0.068	0.138	0.926	0.361	1.098*
Differentiation				0.108	0.085	0.124	0.082	0.449	0.095
Focus				0.106	0.087	0.099	1.747	0.432	1.625**
Interaction Effects									
FactCond x CostLeadStrat							-0.175	0.145	-0.811*
FactCond x DiffStrat							-0.275	0.15	-1.284*
FactCond x FocStrat							0.132	0.162	0.233
DemCond x CostLeadStrat							0.173	0.159	0.845
DemCond x DiffStrat							0.185	0.17	0.849
DemCond x FocStrat							-0.129	0.163	-0.498
RelSupInd x CostLeadStrat							0.123	0.094	0.604**
RelSupInd x DiffStrat							0.066	0.125	0.316**
RelSupInd x FocStrat							-0.161	0.131	-0.638
FirmStrRiv x CostLeadStrat							-0.328	0.171	-1.518*
FirmStrRiv x DiffStrat							0.092	0.172	0.417*
FirmStrRiv x FocStrat							-0.25	0.16	-0.912*
Adjusted R square		0.484			0.494			0.567	
R square		0.501			0.521			0.63	
Δ in R square		0.501			0.02			0.209	
F for Δ in R square		29.699**			2.003			2.753**	
F for ANOVA		29.699**			19.69**			10.124**	

The table provides three sequential regression runs. Model 1 regresses “export performance” against the moderators only, and the following models include “firm strategies”, and interaction effects sequentially in an hierarchical sense.
* $p < 0.05$; ** $p < 0.01$

Table 33 shows the R square change value when we entered different blocks of variables into the equation. The first model has an R square value of 0.501, which is also statistically significant. This information means that variables in the first model (moderator variables) are explaining almost 50.1 % of the variance in the dependent variable. The second model, where we entered the “competitive strategies” into the equation does not seem to effect the dependent variable as the R square change is so little and also insignificant. In the final model, we entered the “interaction effects” into the model to search for the moderation effect. This attempt seems to be effective as the R square change is around 11 % and statistically significant. Table 33 also presents the analysis of variance for all three models. Models in the study have statistically significant F values of 29.699, 19.690 and 10.124 respectively.

Analyses of individual coefficients in the table are important while discussing each moderation effect. Significant ones (with respect to $p < 0.05$) are depicted with asterisks on the table. According to that, in the first model “factor conditions” (M1) and “related and supporting industries” (M3) are the significant ones, with coefficients of 0.218 and 0.243 respectively; meaning that as we increase M1 variable by one unit, “export performance” (Y1) increases by 0.218 units, and as we increase “related and supporting industries” (M3) variable by one unit, “export performance” (Y1) increases by 0.243 units. So, both of those variables are found to be positively affecting our dependent variable.

In the second model, where “cost leadership” (X1), “differentiation” (X2) and “focus” (X3) are entered into the model, “factor conditions” (M1) and “related and supporting industries” (M3) are found to be significant with coefficients of 0.216 and

0.176 respectively. However, in this second model none of the competitive strategies are found to be significant.

If we recall Baron and Kenny (1986), in order to prove the interaction effect, in the final model, where interaction terms are inserted, betas of interactions (moderation) and the R square change between second and third model should be statistically significant. If we check Table 33, we see that the R square change in-between Model 2 and Model 3 is significant with a 20.9 % change. So one of the conditions set by Baron and Kenny (1986) has been satisfied. Second condition is stating that betas of moderations should be statistically significant and this condition is also satisfied since when we check for that on Table 33, we see seven significant interactions out of twelve.

Table 34: Significant Interaction Terms

		Beta	Sig.
X1M1	Cost Leadership – Factor Conditions	-.811	.031
X1M3	Cost Leadership – Related & Supporting Industries	.604	.004
X1M4	Cost Leadership – Context for Firm Strategy & Rivalry	-1.518	.047
X2M1	Differentiation – Factor Conditions	-1.284	.018
X2M3	Differentiation - Related & Supporting Industries	.316	.009
X2M4	Differentiation - Context for Firm Strategy & Rivalry	.417	.014
X3M4	Focus - Context for Firm Strategy & Rivalry	-.912	.021

Table 34 lists these interactions and the related beta values. “Cost leadership” variable (X1), and its effect on the export performance is found to be increasing as it comes together with favorable “related & supporting industries” (M3), and decreasing when it comes together with favorable “factor conditions” (M1) and favorable “context for firm strategy & rivalry” (M4). Moreover, the interaction of “cost leadership” strategy (X1) and “demand conditions” (M2) is statistically insignificant. From that, we can reach the conclusion that H1c is supported, whereas H1a, H1b and H1d are not supported.

The effect of the “differentiation” (X2) on the export performance, on the other hand, is found to be increasing as it comes together with favorable ”related & supporting industries” (M3) and favorable “context for firm strategy & rivalry” (M4). However, the interaction term for the “differentiation” (X2) and “factor conditions” (M1) is a negative one with statistical significant values. Lastly, the moderation effect of the “demand conditions” (M2) in the relationship between “differentiation” (X2) and “export performance” (Y1) is statistically insignificant. Thus, we can conclude by saying that hypotheses H2c and H2d are supported, whereas H2a and H2b are not supported.

Last independent variable, the effect of the “focus strategy” (X3) on the dependent variable is found to be decreasing when it comes together with favorable “context for firm strategy & rivalry” (M4). From here, we can say that H3d is not supported. In addition to that, interaction effects of “factor condition” (M1), “demand conditions” (M2) and “related and supporting industries” (M3) with the “focus” strategy (X3) are insignificant, verifying the rejection of H3a, H3b and H3c.

Supported interactions are presented on the following table:

Table 35: Supported Interactions

		M1	M2	M3	M4
		Factor Conditions	Demand Conditions	Related & Supporting Industries	Context for Firm Strategy & Rivalry
X1	Cost Leadership	(-) H1a		H1c	(-) H1d
X2	Differentiation	(-) H2a		H2c	H2d
X3	Focus				(-) H3d

CHAPTER 5

DISCUSSION

In this chapter, findings of this thesis, which include both qualitative and quantitative dimensions, will be discussed from four points of view. The first one of these views is regarding the supported interaction effects in between firm strategies and export performance constructs. The second one is about the “government” factor in the Diamond Framework, and is based on the results of the factor analyses conducted in the quantitative part of the research. The third and fourth perspectives of the discussion are related to the findings of the hierarchical regression analyses on the “demand conditions” factor in the Diamond Framework and on the “focus” strategy, respectively.

Discussion of Supported Interactions

Table 36 depicts the supported interaction effects between firm strategies and four moderator variables in the model. According to this table, “factor conditions” and “related and supporting industries” factors in the Diamond Framework have statistically significant interaction effects between “cost leadership” and “differentiation” strategies and export performance of companies. In addition to that, “context for firm strategy and rivalry” factor in the Diamond Framework is found to be moderating the relationship between all firm strategies and the export performance construct.

Table 36: Supported Interactions in the Model

		M1	M2	M3	M4
		Factor Conditions	Demand Conditions	Related & Supporting Industries	Context for Firm Strategy & Rivalry
X1	Cost Leadership	(-)		(+)	(-)
X2	Differentiation	(-)		(+)	(+)
X3	Focus				(-)

According to Porter (2002), “context for firm strategy and rivalry” factor in the Diamond Framework is composed of factors such as cooperation in labor-employer relations, efficacy of corporate boards, intellectual property protection, regulation of securities exchanges, effectiveness of bankruptcy law, hidden trade barriers, intensity of local competition and effectiveness of antitrust policy. According to Porter (1998), there are noticeable distinct national patterns of goals, typical strategies and ways of organizing firms, and there should be a fit between an industry’s sources of “competitive advantage” and these goals, strategies and organizations. Porter (1998) also states that clusters are critical in the formation of competition and this is via three broad ways: by increasing productivity, by driving the direction and pace of innovation, and finally by stimulating the formation of new businesses.

At the end of the quantitative analyses in this thesis, the interaction effect of the “context for firm strategy and rivalry” factor between “cost leadership” and “export performance” and between the “focus” and export performance” constructs are found to be negative. This finding is in line with the arguments against Porter, where there are counter arguments regarding the effects of the internal rivalry for the industry success. According to the Porter (1990), domestic rivalry creates visible pressures to innovate, pushes each firm to lower costs, to improve quality and thus make a difference in the sector. However, there are some scholars (Grant, 1991) asserting that the higher the level of internal rivalry situation in a country, the worse it is for this industry in terms of global competition, whereas Porter (1990) argues the opposite way and claims that the higher the internal rivalry in a country, the higher the international success of firms in that industry. Findings of this thesis support the criticisms because at the end of the quantitative analyses, a negative and statistically significant moderating effect is found for the "context for firm strategy and rivalry" factor. By looking at these findings, we can argue that although there are unfavorable conditions with respect to "context for firm strategy and rivalry" factors in a country, firms enjoy higher levels of export success. On the other hand, the moderation effect for this determinant is found to positive for the relationship between "differentiation" strategy and "export performance". Therefore, this finding is in line with Porter's arguments.

Secondly, the "factor conditions" construct in the Diamond Framework is found to be negatively moderating relationship between "cost leadership strategy" and "export performance", as well as the relationship between "differentiation strategy" and "export performance". Porter (1990) defines two basic distinctions for factors of production: basic vs. advanced factors and generalized vs. specialized factors and believes that not basic and generalized factors but advanced and specialized factors are important in creating "competitive advantage" in the global arena. According to Porter (2002) factor conditions of a country that have effects on national "competitive advantage" are infrastructure quality (including air, railroad, port), quality of electricity and telephone services, reliability of police services, judicial independence, efficiency of legal framework, quality of the education system (including the quality of management schools), quality of scientific research institutions and the collaboration between university and industry research units. At the end of the quantitative analyses in this thesis, these conditions are found to be affecting the relationship between firm strategies (only “cost leadership” and “differentiation” strategies[9]) and export performance in a significant but negative way. This finding is in line with Porter’s (1990; 1998) “selective factor disadvantages thesis”, according to which the presence of a few negative factor disadvantages could pave the way for international success, given that all other determinants in the Diamond Framework are favorable. The reason for that is associated with the players’ passionate search for creating better conditions with respect to other Diamond Framework determinants in the absence of favorable “factor conditions”. Firms that lack favorable “factor conditions”, as in the case of the Dutch cut-flower market, might try harder to benefit from the other determinants in the Diamond Framework and compensate their deficiency in “factor conditions” through that way. In other words, this deficiency gives an impetus to upgrade for these firms and hence might ironically contribute towards their success in international competition.

Thirdly, the “related and supporting industries” factor in the Diamond Framework is also found to be positively and significantly affecting the relationship between competitive firm strategies and export performance. However, this moderation effect is statistically significant for only the firms following “cost leadership” and “differentiation” strategies. Porter (2002), listed down the sub items of this construct as

[9] In other words, moderation relationship is not statistically significant for the relationship between firms following focus strategy. Singular characteristics of the focus strategy are discussed under a separate title in this section.

local supplier quality, state of cluster development, extent of collaboration among clusters, local availability of machinery, components, parts and specialized research and training services and local supplier quality. According to Crocombe, et.al. (1991: 30), related industries, sharing common technologies, inputs, distribution channels, skills, customers or activities, or providing products that are complementary are beneficial for the firms in the same industry. This effect is due to technological spillovers, interchange and joint research projects (Öz, 1999). These findings in the literature are supported by the findings in this thesis.

Discussion of Findings Regarding the “Government” Factor

One important finding of this study is regarding the “government” construct. According to the Diamond Framework, this construct has an indirect effect on the national competitiveness level of a country. In other words, government is affecting the other four direct determinants in the Framework and these determinants sequentially establish the national competitiveness level of the country.

Table 37: Findings on the "Government" Factor

		M1	M2	M3	M4	M5
		Factor Conditions	Demand Conditions	Related & Supporting Industries	Context for Firm Strategy & Rivalry	Government
X1	Cost Leadership	(-)		(+)	(-)	
X2	Differentiation	(-)		(+)	(+)	
X3	Focus				(-)	

Findings of this study support this claim because during the factor analyses, all items under the "government" construct are loaded under different constructs and five determinants in the initial model are changed to four determinants after these analyses (see Table 37). From that point, we can conclude that the findings of this thesis rejects the claims of certain authors who propose adding the "government" factor as a fifth determinant to the Diamond Framework (some authors in the literature with that claim: Van den Bosch and de Man, 1994; Stopford and Strange, 1991) . In other words, findings of the factor analyses gives support to Porter (1990), who rejects these claims and states that the role of government is challenging and pressing the industry to prosper, instead of playing a direct role in it.

Although items for the "government" construct are distributed among other determinants, this does not show that the government is an unimportant player. During the interviews in the qualitative research of this study, most of the managers stated the importance of the government on their strategies. Especially the managers following cost leadership strategy underlined the importance of the currency regime in the country, as favorable currency regime is vital for them due to their narrow profit margins. This finding is supportive of criticisms of some authors who claim that Porter underestimates the macroeconomic policy played by the government. One of these authors is Gray (1991), and he asserts that influence of exchange rates on profits are not confronted by Porter's study. Although Porter rejects this criticism by saying that value of currency and interest rates play roles in the export performance only in the short run, but do not play causal and sufficient role in this performance, findings of the qualitative study of this thesis, prove especially the importance of the currency regime in the country.

Discussion of Findings Regarding the "Demand Conditions" Factor

According to the findings of the study, which are depicted on Table 38, moderation effect of the "demand condition" factor between all three firm strategies and export performance is found to be statistically insignificant. This finding is also meaningful and needs attention.

Table 38: Findings on the "Demand Conditions" Factor

		M1	M2	M3	M4
		Factor Conditions	Demand Conditions	Related & Supporting Industries	Context for Firm Strategy & Rivalry
X1	Cost Leadership	(-)		(+)	(-)
X2	Differentiation	(-)		(+)	(+)
X3	Focus				(-)

Porter (1990) believes that home demand has a considerable influence on “competitive advantage” and lists three broad attributes of it in his study: “the composition”, “the size and pattern of growth”, and “the internationalization” of home demand. If favorable circumstances with respect to these attributes exist in a country, home country demand conditions are said to be positively affecting the “competitive advantage” of a nation. However, Öz (1999: 17) states that the relationship between the size of home demand and international competitiveness is one of the issues that is open to discussion as there are two perfectly justifiable arguments regarding this relationship. According to the first argument, if home demand is large, firms may feel more secure in terms of economies of scale and might be inclined towards internationalization easily. According to the second view, however, if the home market is large enough, firms would not bother trying to export and focus on the local market instead. Similarly, in case of low levels of home demand, they might be more active in terms of internationalization as there is no chance for them in the local market. So there are contrary arguments against the Diamond Framework of Porter, where a strong home demand, in terms of size, composition and internationalization, is said to complement the export performances of companies. Findings of this thesis are supporting this opposing argument because favorable home demand conditions are found to be ineffective in terms of the international success of firms. In other words, findings of this study are in contrast with the Diamond Framework where favorable home demand is depicted as a prerequisite for international success.

In addition to that discussion, there is another discussion in the literature on the importance given to entrepreneurship by the Diamond Framework. According to

Dunning (1992) and Stopford and Strange (1991), the Diamond Framework lacks a detailed consideration of entrepreneurship effect while dealing with the export performances of firms. According to these authors, any country, with a high level entrepreneurship resource might prosper in the international arena in the absence of favorable Diamond conditions. Turkey is one of the countries which possess managers with high levels of entrepreneurship abilities. Findings of this thesis, rejecting the moderating effect of the “demand conditions” factor in the relationship between firm strategies and export performance, could bring us to the conclusion that Turkish entrepreneurs disregard unfavorable home demand conditions while going abroad and are ready to take risks in the international arena without such support.

The final discussion in the literature, which is related to findings regarding the “demand conditions” factor is on the geographical unit of analysis in the Diamond Framework. Porter (1990) thinks that the proper unit of analysis for the Diamond Framework is “an industry within a country” and thus he creates the “demand conditions” in the country level. However, there are criticisms on that argument in the literature, i.e. Dunning, 1993; Hodgetts, 1993; Rugman and D’Cruz, 1993; Rugman, 1991. These authors all claim that the unit of analysis in the Framework is problematic due to the importance of globalization and integration in several parts of the world. They say that the unit might be two or more countries, an economic zone, or even a cluster inside of a country. This literature brings us to the conclusion that home demand conditions should not necessarily be measured from the country point of view but sometimes might be measured by different unit of analyses. This argument might be of importance to the findings of this thesis, because in this thesis home demand conditions are found to have no moderating effect in the relationship between firm strategies and export performance.

Discussions of the Findings Regarding the “Focus” Strategy

At the end of the regression analyses, three out of four interactions between the “focus strategy” and the “export performance” constructs are found to be insignificant. In particular, the moderation effects of “factor conditions”, “demand conditions”, and “related and supporting industries” in between the “focus strategy” construct and the “export performance” construct are rejected at the end of the regression analysis (see Table 39). This finding is worth consideration as well.

Table 39: Findings on the “Focus Strategy”

		M1	M2	M3	M4
		Factor Conditions	Demand Conditions	Related & Supporting Industries	Context for Firm Strategy & Rivalry
X1	Cost Leadership	(-)		(+)	(-)
X2	Differentiation	(-)		(+)	(+)
X3	Focus				(-)

Although, “focus strategy” is accepted as a third competitive strategy in the literature, there are some studies in the literature that are putting the “focus strategy” on a different level. For instance, according to Obasi et.al. (2006: 52), Porter’s generic firm strategies are in a continuum with low cost at one end and differentiation at the other. In other words, there is not a third dimension in this continuum, which might be deemed as the end of "focus" strategy.

Findings of this study show that moderation effects of the Diamond factors are different for the "focus strategy" compared to other two competitive strategies. In particular, moderation effects of the Diamond Framework into the relationship between the "focus strategy" and export performance is found to be statistically insignificant for three out of four Diamond factors. This moderation effect is only supported for the "context for firm strategy and rivalry" factor. By looking at that, we can argue about a difference between focus strategy and other two competitive strategies, especially in terms of the relationship between them and the proximate environment. One interpretation of this finding is that followers of the "focus strategy" might not be affected much by the national environment.

CHAPTER 6

CONCLUSIONS AND IMPLICATIONS

Generic competitive strategies should be taken into consideration by companies if they want to perform better in an industry and these strategies are valid both in national and international contexts. Firms should pick one of cost leadership, differentiation and focus strategies, and follow the demands of this strategy. The Competitive Advantage of Nations Framework, on the other hand, is used to measure the competitiveness level of countries in certain industries. This framework, although criticized due to its deficiencies, is still amongst the most accepted and used frameworks in the literature (Öz, 2002).

In this thesis, the Diamond Framework is used in a conceptual model as a moderator to the relationship between competitive firm strategies and export performance. This situation is, in and of itself, one of the main contributions of this study to the literature. Although there are some studies in the literature analyzing the relationship between firm strategies and export performance (i.e. Baldauf, et.al, 2000), there is no study treating the Diamond Framework as a moderator in between this relationship. Moreover, although there are some authors using the Diamond Framework in quantitative studies, such as Cartwrigth (1993), the Diamond Framework is mostly used in qualitative studies in the literature. By proposing a quantitative role to the Framework, this study is contributing to the literature from this perspective as well.

At the end of qualitative and quantitative analyses, four main findings are obtained in this thesis. One of these findings is regarding the role of the government in the

Framework. At the end of this study the indirect effect of government on the relation between competitive strategies and firm export performances is supported. In addition to the findings regarding the “government” construct, findings regarding supported interactions, together with findings regarding the “demand conditions” factor and the “focus strategy” are discussed in detail in the text.

Moreover, contribution of this study to the literature from the “export performance” analyses perspective is worth mentioning as well. Specifically, the studied model in this thesis contributes to the literature where distinction between different sources of “competitive advantage” is asserted as a differentiating factor in the export performance. For instance, Kahveci (2012) investigates the importance of grouping export performance studies into related business strategies and uses RBV and industry structure view as the main distinction. The model in this thesis supports the importance of such distinction while analyzing the export performance.

Managerial implications of this thesis are worth mentioning as well. In particular, findings of this study would help managers understand the effects of the national environment on their export performances in a more concrete way. By looking at the results of this study, we might assert that managers taking part in the export business, whichever competitive strategy they are following, should try to contribute to the favorable context for firm strategy and rivalry environment in their country, as this variable is found to be statistically significant in the relationship between all three competitive strategies and export performances of companies. Second managerial implication is for the managers who are following cost leadership or differentiation strategies in their export adventures. According to the findings of this study, managers following any of these two strategies should also pay attention to the “factor conditions” and the “related and supporting industries” in their home diamond. These factors are found to be contributing to their export performances, so they should try to influence the macroeconomic environment to alter these conditions to their advantage (i.e. through lobbying).

Policy implications of this thesis might be as important as the managerial implications, since the government is responsible for improving the home diamond conditions through effective regulations. From this perspective, the government should benefit from the findings of this study by paying more attention to “related and supporting industry environment”, and “context for firm strategy and rivalry” conditions, as these conditions are found to be significantly moderating the relationship between firm strategies and their export performances.

Indeed, in order for Turkey to reach the 2023 target of 500 billion dollars of export volume, the government and industry players should work in collaboration. Hopefully, findings of this thesis might help complementing this collaboration.

As a final note, we should underline that future research regarding the government effects on industries would be a valuable source to see this relationship in more detail. Moreover, replications of the analyses provided in this study in other contexts (i.e. different geographical areas) are needed to validate the usefulness of the proposed model. Last but not the least, instead of using expert opinion judgment for purification, the analyses in this research might be repeated by using 82 questionnaire items in a pilot questionnaire and might be purified with the help of a factor analyses. Of course, this would necessitate an accommodating respondent set because in the manager / owner level it is not always easy to persuade people to complete such a long questionnaire.

APPENDICES

Appendix A. Questionnaire (in Turkish)

T.C. BOĞAZİÇİ ÜNİVERSİTESİ
İKTİSADİ ve İDARİ BİLİMLER FAKÜLTESİ
İşletme Bölümü

İlgili Kurum'a,

Bölümümüz Yönetim ve Organizasyon Anabilim Dalı doktora öğrencilerinden Melih Astarlıoğlu, firmaların ihracat performanslarını etkileyen faktörlerle ilgili bir çalışma sürdürmekte olup, tezinin anket çalışması için veri toplamaktadır.

Anket kapsamında toplanan bilgiler tamamen akademik amaçlarla kullanılacak olup, tüm bilgilerin gizliliği tarafımızca garanti altındadır. Çalışma sonunda arzu ederseniz, çalışmanın sonuçlarıyla ilgili yönetici özeti tarafınıza gönderilecektir.

Toplamda 10 dakikanızı alacak bu ankete katılımınızı rica eder, iyi çalışmalar dileriz.

Desteğiniz için şimdiden teşekkür ederiz.

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1. En fazla ihracatını yaptığınız ürün ya da hizmet nedir?

____

2. Yukarıda bahsetmiş olduğunuz ürün/hizmetin ihracatı esnasında aşağıdaki stratejileri ne ölçüde kullanırsınız?

(1: Hiç bir zaman; 5: Her zaman)

	1	2	3	4	5
Süreç kontrol raporları hazırlamak					
Tüm iş alanlarında maliyet kontrolü uygulamak					
Üretim maliyetlerini aşağı çekmeye çalışmak					
Rakiplerle kalite üzerinden rekabet etmek					
Yetenekli profesyonel ve uzmanlar istihdam etmek					
Ürün ve hizmet kalitesini sürekli artırmaya çalışmak					
Pazarlama aktiviteleri için geniş bir bütçe ayırmak					
Rakiplerle tüm piyasada rekabet etmek yerine, sınırlı sayıda müşteri üzerinden belli segmentlerde rekabet etmek					
Geniş müşteri çevresi için değil, belli bir bölüm için pazarlama faaliyetlerinde bulunmak					
Net bir piyasa pozisyonuna sahip olmak					
Diğer					

3. Bir önceki sorudaki stratejilerden en fazla kullandığınız 5 tanesini kullanım yoğunluğunuza göre 1`den 5`e kadar sıralar mısınız?

(1: En çok kullanılan; 5: En az kullanılan)

	Süreç kontrol raporları hazırlamak
	Tüm iş alanlarında maliyet kontrolü uygulamak
	Üretim maliyetlerini aşağı çekmeye çalışmak
	Rakiplerle kalite üzerinden rekabet etmek
	Yetenekli profesyonel ve uzmanlar istihdam etmek
	Ürün ve hizmet kalitesini sürekli artırmaya çalışmak
	Pazarlama aktiviteleri için geniş bir bütçe ayırmak
	Rakiplerle tüm piyasada rekabet etmek yerine, sınırlı sayıda müşteri üzerinden belli segmentlerde rekabet etmek
	Geniş müşteri çevresi için değil, belli bir bölüm için pazarlama faaliyetlerinde bulunmak
	Net bir piyasa pozisyonuna sahip olmak
	Diğer ....

4. İhracat yaptığınız ürün/hizmet ile ilgili, içinde bulunduğunuz ülke koşullarını nasıl değerlendiriyorsunuz?

(1: Hiç destekleyici değil; 5: Çok destekleyici)

	1	2	3	4	5
Ülkenin genel altyapı kalitesi					
Ülkenin hukuki altyapı kalitesi					
Eğitim sisteminin kalitesi					
Finansal kaynak bulma kolaylığı					
İşletmelerin aşması gereken bürokratik işlemler					
Alıcıların ürün yada hizmetlerle ilgili bilgi seviyesi					
Düzenleyici kurum standartları					
Çevreyle ilgili düzenlemeler					
Kaliteli yerel tedarikçilerin varlığı					
Benzer iş yapan firmalarla sağlanan uyum					
Ara madde ve parçaların yerel piyasada bulunabilirliği					
İşçi – işveren uyumu					
Ticaret yapmanın önünde yeralan ve öngörülmeyen engeller					
Yerel piyasadaki rekabet seviyesi					
Rekabet Kurumu'nun ülkedeki etkinliği					
Ülkedeki siyasi istikrar					
Devlet teşvikleri					
Kur politikası					
Diğer					

5. Beklentilerinizle karşılaştırdığınızda ihracat performansınızı şu kriterler bakımından nasıl değerlendiriyorsunuz?

	Beklentilerimin Çok Altında		Beklentilerim Ölçüsünde		Beklentilerimin Çok Üzerinde
	1	2	3	4	5
İhracat satışlarının toplam satışlar içindeki oranı bakımından					
İhracattaki karlılık oranınız bakımından					
İhracat pazar payı artış oranınız bakımından					

6. Diğer

Firmanızdaki çalışan insan sayısı nedir?	
Kaç senedir ihracat yapmaktasınız?	
Toplam yıllık bütçeniz içerisinde ihracata ayrılan reklam bütçenizin yüzdesi nedir?	
En fazla ihracat yaptığınız 3 ülke hangisidir?	

Yönetici Özeti almak istiyorsanız e-mail adresiniz?

____

KATILIMINIZ İÇİN TEŞEKKÜR EDERİZ...

Appendix B: Questionnaire (in English)

1. What is your highest exported product or service?

____

2. For the abovementioned product/service, at what levels do you use the following strategies?

(1: Most seldom used; 5: Most frequently used)

	1	2	3	4	5
Frequent preparation of detailed control reports					
Strict cost control for every business activity					
Minimization of production cost					
Engaging in a tough combat of quality with the competitors					
Employing talented professionals and experts					
Continuous improvement of product and service quality					
Allocating a large share in the budget for the marketing activities					
Serving limited number of customers belonging to specific segments rather than competing with rivals in the full market					
Focusing on segments of the market for marketing strategies					
Having a clear market position					
Other					

3. Please rank the strategies you mentioned in the previous question with respect to the frequency of usage?

(1: Most frequently used; 5: Most seldom used)

	Frequent preparation of detailed control reports
	Strict cost control for every business activity
	Minimization of production cost
	Engaging in a tough combat of quality with the competitors
	Employing talented professionals and experts
	Continuous improvement of product and service quality
	Allocating a large share in the budget for the marketing activities
	Serving limited number of customers belonging to specific segments rather than competing with rivals in the full market
	Focusing on segments of the market for marketing strategies
	Having a clear market position
	Other ....

4. How do you perceive the following national conditions for the product/service you export?

(1: Not supportive at all; 5: Very supportive)

	1	2	3	4	5
Overall infrastructure quality					
Quality level of legal environment					
Quality of the educational system					
Ease of access to loans					
Administrative burden for startups					
Sophistication of local buyers' on products and processes					
Presence of demanding regulatory standards					
Stringency of environmental regulations					
Local supplier quality					
Extent of collaboration among clusters					
Local availability of components and parts					
Cooperation in labor-employer relations					
Hidden trade barriers					
Intensity of local competition					
Effectiveness of antitrust policy					
Political stability					
Government incentives					
Currency regime					
Other					

5. For the following criterions, how do you evaluate your export performance compared to your expectations?

	Below My Expectations		Equal to My Expectations		Above My Expectations
	1	2	3	4	5
Export intensity (ratio of export income over the whole income)					
Export profitability					
Export market share increase					

6. Other

Number of employees in your firm?	
For how many years are you in the export business?	
What is the ratio of the export advertising budget over the total annual budget?	
Top three export destinations?	

E-mail address if you would like to have an *Executive Summary*?

____

THANKS FOR YOUR CONTRIBUTION...

Appendix C: Effects of Firms Size, Export Experience and Advertising Budget

Effects of the firm size, export experience and advertising expenditure ratio in the whole budget are also inserted into the regression analyses as control variables but none of them were found to be significant. Thus, their effects on the relationship between competitive strategies and export performance could not be tested.

However, this effect is tested graphically here to see if they make any difference on the effect of independent variables on the dependent variable. In line with the literature (Aiken and West, 1991; Dux, et.al., 2008) these variables are grouped into three parts (1=Low, 2=Moderate, 3=High) and the linear relationship between independent and dependent variables are depicted separately for these groups.

Since none of these linear relationship had proper goodness of fit values (in other words R^2 values), these graphs did not appear in the main text, but here. The goal here is to make a reference to this type of representations while performing moderation analyses. Below are the graphs with respect to different levels of firm size, export experiences and advertising budgets.

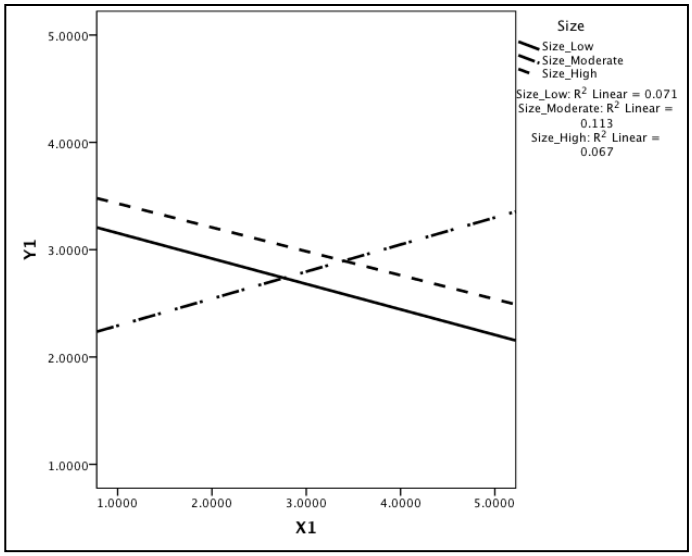

Figure 12: Relationship between X1 and Y1 for different firm sizes

The first figure, Figure 12 is showing the relationship between X1 and Y1 and this relationship is a positive one for moderate firm sizes, and a negative one for low and high sized firms.

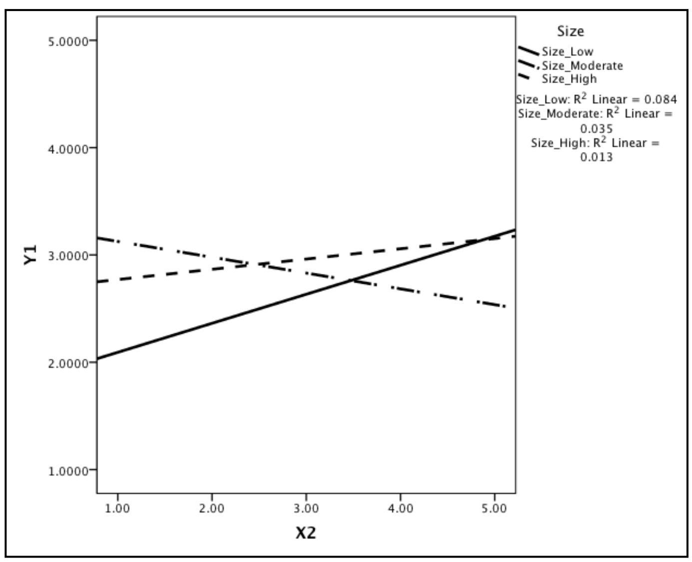

Figure 13: Relationship between X2 and Y1 for different firm sizes

Figure 13 is showing the relationship between X2 and Y1 and this relationship is a positive one for low and high sized firms, and a negative one for moderate sized firms.

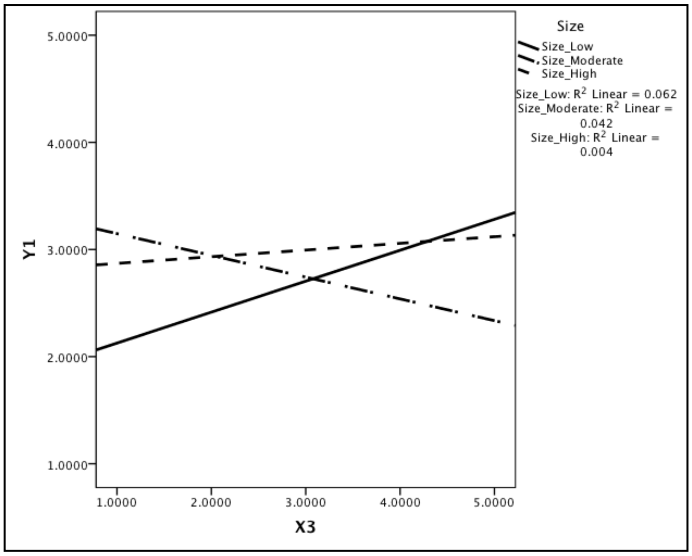

Figure 14: Relationship between X3 and Y1 for different firm sizes

Figure 14 is showing the relationship between X3 and Y1 and this relationship is a positive one for low and high sized firms, and a negative one for moderate sized firms.

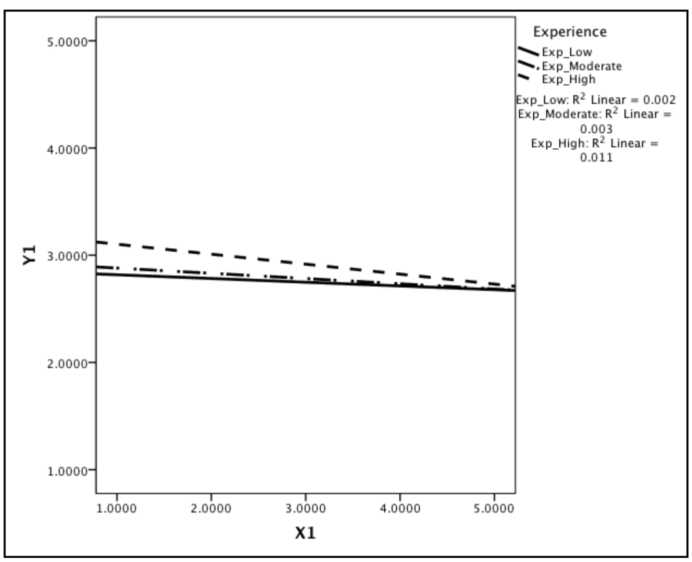

Figure 15: Relationship between X1 and Y1 for different export experience levels

Figure 15 is showing the relationship between X1 and Y1 and this relationship is a negative one for the firms at all experience levels.

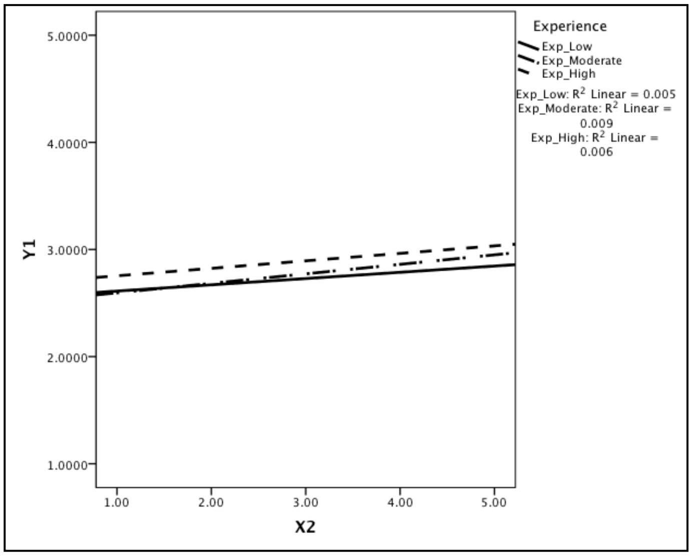

Figure 16: Relationship between X2 and Y1 for different export experience levels

Figure 16 is showing the relationship between X2 and Y1 and this relationship is a positive one for the firms at all experience levels.

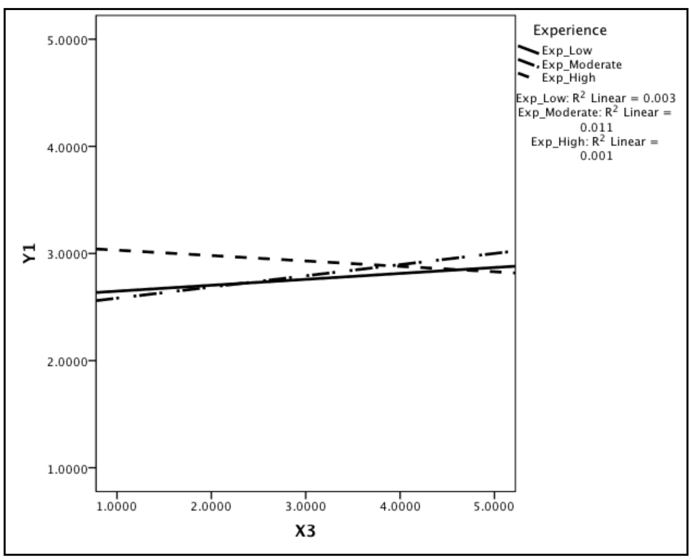

Figure 17: Relationship between X3 and Y1 for different export experience levels

Figure 17 is showing the relationship between X3 and Y1 and this relationship is a positive one for the firms with low and moderate levels export experience, and a negative one for the firms with high export experiences.

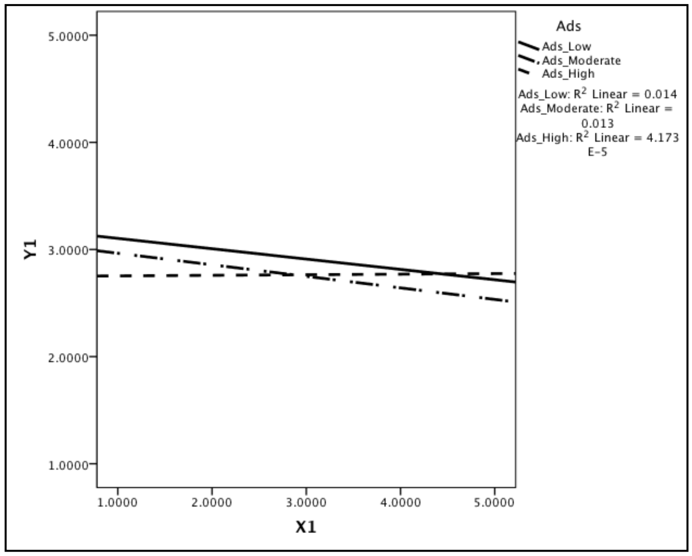

Figure 18: Relationship between X1 and Y1 for different advertising spending on exports

Figure 18 is showing the relationship between X1 and Y1 and this relationship is a positive one for the firms with high advertising spending and negative one for the firms with moderate and low levels of advertising spending.

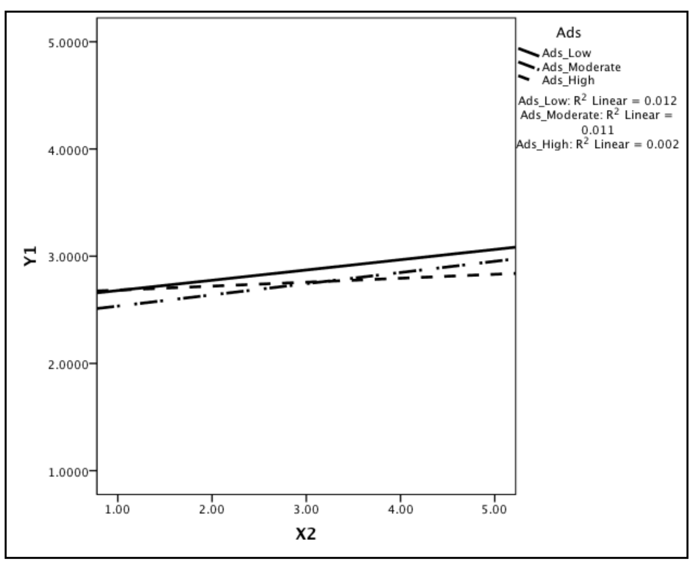

Figure 19: Relationship between X2 and Y1 for different advertising spending on exports

Figure 19 is showing the relationship between X2 and Y1 and this relationship is a positive one for the firms at all levels of advertising spending.

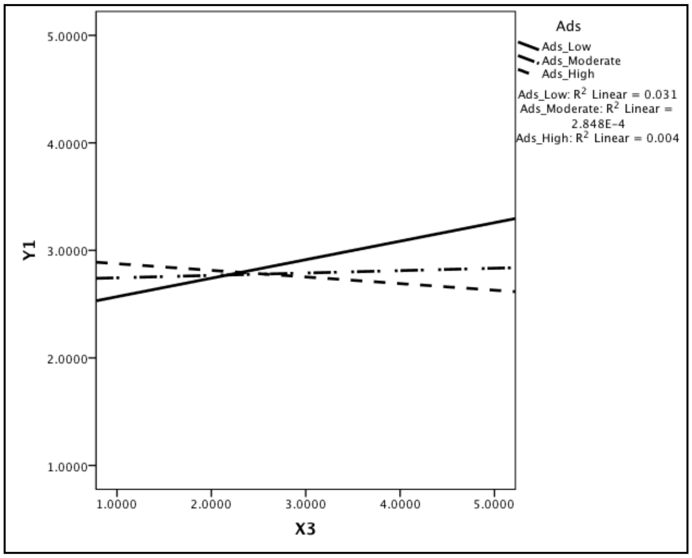

Figure 20: Relationship between X3 and Y1 for different advertising spending on exports

Figure 20 is showing the relationship between X3 and Y1 and this relationship is a positive one for the firms with low advertising spending and negative one for the firms with moderate and high levels of advertising spending.

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