The Contribution of Tangible and Intangible Resources, and Capabilities to A Firm's Profitability and Market Performance: Empirical Evidence from Turkey

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I certify that all material in this thesis which is not my own work has been identified and that no material has previously been submitted and approved for the award of a degree by this or any other University.

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ABSTRACT

This study aims to investigate the relative contribution of tangible and intangible resources, and capabilities on firm performance based on the measures of market share, sales turnover and profitability and explore the complex interaction and foundation of different resource sets and capabilities in the process of performance creation within the context of resource-based theory. In order to address these objectives, a mixed-methods research approach incorporating both qualitative and quantitative components was utilised. Hence, a sequential explanatory design is employed, commencing with qualitative methods including in-depth interviews along with the literature review to define and organise resources and capabilities in a coherent system that will form the basis of survey instrument, leading to quantitative methods which empirically test a series of hypotheses regarding the contribution of resources and capabilities on firm performance. Whilst qualitative data analysis indicated organisational culture, reputational assets, human capital, business processes and networking capabilities as the most important determinants of firm performance, the survey that was conducted on a total of 243 questionnaires obtained from 951 firms revealed that intangible resources and capabilities contributed more greatly to firm performance compared to tangible resources. However, in contrast to the proposition of resource-based theory that views capabilities as the most important skills that underpin the development and deployment of both tangible and intangible resources, capabilities offered rather limited additional explanatory power to the prediction of firm performance only with respect to profitability against the combined effects of tangible and intangible resources. All findings were explained especially within the context of Turkish business environment that shows typical emerging market characteristics. Moreover, some noteworthy results were elaborated based on the developed and emerging market differences. Overall, the study raises some questions with respect to resource contributions on firm performance and offers a fruitful avenue for further research.

Keywords: Resource-based view of the firm, tangible and intangible resources, capabilities, firm performance, mixed-methods research, hierarchical regression, emerging markets, Turkey

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CHAPTER I

INTRODUCTION

1.1. Background to the research

Major developments in economic systems and international politics along with globalisation that generates open markets with no government protection, and the widespread use of technology and telecommunication have created a new economy in which the competition has become fiercer and inexorable. In such a business environment, the focus of every firm has been to overcome intense competition and outperform the competitors by creating competitive advantage. In other words, firms have striven to find an explanatory answer to the questions: "*what makes one firm more successful than others?* and *"how and why these factors influence the value creation and firm competitiveness?*".

Within the context of firm success, the field of strategic management has gained the attention of researchers and practitioners who seek to have a better understanding about the factors that determine performance differences among firms, especially in the past few decades. Indeed, understanding and explaining the performance differences among organisations have always been a central goal of strategic management research (Barney, 1991; Rumelt *et al.*, 1991; Helfat & Peteraf, 2003; Ambrosini & Bowman, 2009; Leiblein, 2011; Kor & Mesko, 2013).

1.1.1. Theoretical streams explaining performance variation

The strategic management literature indicates two main theoretical streams to explain the performance differences among firms: industrial organisation (I/O) economics and resource-based view (henceforth known as the RBV). Whilst the industrial organisation economics view theorises that performance variation of firms should be attributed to the structural characteristics of the industries in which they operate, another stream RBV explains the performance differences among firms in relation to internal or firm-specific factors (Hoopes *et al.*, 2003; Barney *et al.*, 2011). Hence, while not altogether excluding industry structure, the RBV considers the internal, idiosyncratic resources as the most important factors to

explain the performance variation among firms competing within the same industry (Wernerfelt, 1984; Barney, 1991; Peteraf & Barney, 2003).

Although there are still some controversial issues and inconclusive findings related to whether industry structure factors or firm-specific factors should be considered as the main determinants of performance variability, a number of theorists (*e.g.*, Hansen & Wernerfelt, 1989; Rumelt, 1991; McGahan & Porter, 1997; Hawawini *et al.,* 2003; Chen & Lin, 2006; Boyd *et al.*, 2010; Barney *et al.*, 2011) in the strategic management literature suggest that the influence of firm factors on performance variability is more important than industry effects. Based on this view, over the last quarter century, a large body of strategic management research which includes theoretical and empirical studies has worked on the understanding of how firms' resources and capabilities lead to performance variations among firms.

The RBV asserts that the ownership or the control of valuable resources which are also termed "strategic assets" (Barney, 1991; Amit & Schoemaker, 1993) along with the capabilities that integrate, build or reconfigure the resource base (Teece *et al.*, 1997) determine which organisations will earn superior profits and achieve sustained competitive advantage in the markets.

The new economy

In the industrial economic era, tangible, physical resources such as land, buildings, machines, equipment and raw materials were concerned as the key assets of firm success (Hoskisson *et al.*, 1999; Makadok, 1999). Hence, the optimisation of such physical resources has taken place at the centre of neo-classical economic theory that has partly been influenced by Adam Smith [1776 (1963)] who considered the physical capital as the most important source of wealth creation.

However, a number researchers (*e.g.*, Hitt *et al.*, 2001a; Ambrosini & Bowman, 2009; Surroca *et al.*, 2010; Kor & Mesko, 2013) hold a different view of wealth creation today and argue that certain changes in the business environment, such as the growing importance of services, knowledge, creativity and innovation, the developments in information technology, digitalisation, globalisation, and the surge

of intellectual property have created a new kind of economy which superseded the industrial economy.

Since the nature of production has changed in this new economy, "traditional factors of production which are observable and susceptible to imitation (*i.e.,* physical resources) no longer form the basis of competitive advantage and firms must compete on the basis of other resources" (Galbreath, 2004, p. 6). Many researchers (*e.g.*, Michalisin *et al.*, 1997; Carmeli & Tishler, 2004; Chisholm & Nielsen, 2009; Surroca *et al.*, 2010) have suggested that tangible assets (*i.e.*, land, buildings, machines, equipment, labour, and raw materials) have become a liability or mere commodities with a limited contribution to competitive advantage in the current economic climate.

These views have considered intangible resources such as knowledge, creativity, organisational culture, reputation, innovation, brand, design *etc.* as the major contributors of competitive advantage and argued that value creation ability has shifted from tangible to intangible resources (Galbreath, 2004). Indeed, because of competitive pressure, many businesses have shifted their product and service concepts to more creative and innovative ways so as to achieve competitive advantage in the markets. As an example, Apple has changed its business from selling hardware to selling design and emotions with its aesthetically pleasing products such as the candy-coloured iMac, the diminutive iPod Nano and the legendary iPhone and iPad. These innovative products enabled Apple to double the price of its shares over the last five years. Although hi-tech industries are mostly discussed in the context of new economy, unique intangible resource trends are evident in all industries.

Firms as bundles of intangible and tangible resources

The RBV considers intangible resources as the most likely sources of firm success because they are not easily acquired and replicated in factor markets (Michalisin *et al.*, 1997; Barney *et al.*, 2011). However, firms are bundles of intangible and tangible resources. For this reason, it is very unlikely for a firm to compete on the basis of a single intangible resource, important as it may be (Sirmon *et al.*, 2011; Kor & Mesko, 2013). But most of the studies that examine the effects of intangible

resources on firm performance employ either a single major intangible factor or a few intangible factors to account for performance variation (*i.e.*, Miller & Shamsie, 1996; Powell & Dent-Micallef, 1997; Welbourne & Wright, 1997; Roberts & Dowling, 2002; Hatch & Dyer, 2004; Boyd *et al.*, 2010; Surroca *et al.*, 2010).

According to Huselid (1995), "one-dimensional studies are likely to underestimate the biases associated with examining an individual resource as such studies do not simultaneously account for the effects of other factors" (p. 642). Similarly, Galbreath and Galvin (2006, p. 151) suggest that "studying an individual intangible resource (*e.g.*, reputation, brand) apart from other factors might offer misleading results". Moreover, resources are not productive on their own and it is the capabilities that assemble, integrate, and manage the bundles of resources (Teece, 2007; Maritan & Peteraf, 2011). Hence, any research that aims to test the effects of resources on firm performance should include capabilities as well as tangible and intangible resources in the analysis.

In the new economy, it is hypothesised that whilst intangible resources are the most important contributors to firm success, tangible resources offer no or very limited contribution. To be able to test this hypothesis empirically, tangible and intangible resources should be used together in the same analysis. Nevertheless, only a few RBV studies (*e.g.*, Fahy, 2002; Galbreath & Galvin, 2006, 2008) have examined the relative effects of tangible and intangible resources on firm success in the same study and several researchers (*e.g.*, Makhija, 2003; Newbert, 2007, 2008; Galbreath & Galvin, 2008) suggest that the justification of these studies is compelling.

Although the main prescription of the RBV points to firm-level factors as the most important determinants of firm performance, it does not omit the industry effects completely (Rumelt, 1991; McGahan & Porter, 1997; Hawawini *et al.*, 2003; Short *et al.*, 2009). However, most of the previous RBV research (*e.g.*, Welbourne & Wright, 1997; Roberts & Dowling, 2002; Hatch & Dyer, 2004) which aimed to explain performance differences among firms focused on a number of resources and excluded the effects of industry structure variables. Firms do not compete in isolation but operate in industries where external, structural factors can considerably influence performance (Bain, 1959; Porter, 1980). Exclusion of

industry structure variables increases the percentage of unexplained variance in firm performance.

According to Porter (1980), having analysed an industry in terms of its structural attractiveness, firms must choose a strategy in order to create a unique, defendable position in their industry. Then, the firm should acquire or otherwise obtain the necessary resources (tangible and intangible) to implement its stated strategy. This interaction between resources and industry structure variables should be considered in RBV studies to account simultaneously for the effects of every factor in explaining performance differences (Huselid, 1995; Hambrick, 2004; Morgan *et al.*, 2009). For this reason, this study also includes industry structure factors based on Porter's (1980) five forces framework to seize potential external effects on performance variation. The benefit of this approach is explained in the next section.

In this context, the question of relative effects of tangible and intangible resources along with the capabilities on firm success has always remained an important issue to be answered. Thus, the ultimate research question of this study is: *what are the relative effects of tangible and intangible resources, and capabilities in explaining firm performance?*

1.2. Research objectives

In essence, the resource-based theory explores the origins of competitive advantage and superior performance (Amit & Schoemaker, 1993; Michalisin *et al.*, 1997; Barney *et al.*, 2011; Wan *et al.*, 2011), and "intangible resources are of its focal concern in examining the factors that account for performance variation" (Galbreath & Galvin, 2006, p. 151). However, little research (*e.g.*, Hall, 1992, 1993; Carmeli, 2001; Galbreath & Galvin, 2006, 2008; Yang *et al.*, 2009) within the resource-based literature tests the relative contribution of tangible and intangible resources, and capabilities to firm performance and most of these studies tend to offer no hypotheses, employ a single or a very few major intangible resource which can bias results, and do not conduct any tests of statistical significance (Newbert, 2007, 2008; Molloy *et al.*, 2011).

Apart from this, resource definitions used in the RBV literature are problematic and need further examination (Kraaijenbrink *et al.*, 2010; Molloy *et al.*, 2011; Boyd *et al.*, 2013). Similarly, Leiblein (2011) suggests that the discrepancies in the definitions of key resources are the potential barriers in refining the understanding of the linkages between resources, organisation, and performance.

Moreover, although resource influence on firm performance was supported empirically by previous resource-based studies, several researchers (*e.g.*, Ray *et al.*, 2004; Helfat *et al.*, 2007; Sirmon *et al.*, 2008, 2011; Barney *et al.*, 2011; Ahearne *et al.*, 2014) suggest that this influence not only is due to possessing resources but instead involves process issues and managerial actions "regarding structuring the firm's portfolio of resources, bundling those resources into capabilities, and leveraging the capabilities to realise firm performance" (Sirmon *et al.*, 2011, p. 1406). According to Ray *et al.* (2004), resources can only be sources of firm performance if they are exploited through business and managerial processes. Barney *et al.* (2011) state that prior resource-based work has primarily focused on the controlled resource-performance relationship but the role of processes and managers in creating value and performance has been overlooked. Therefore, recognising the limited testing of the RBV and the issues mentioned in the preceding section, this thesis has the following objectives:

(1) To identify the key resources and capabilities which demonstrate contribution to firm success,

(2) To explore how and why these resources and capabilities lead to firm performance (the role of processes and managers),

(3) To test empirically which resources and/or capabilities (if intangible resources and capabilities contribute more than tangible resources) are the most important determinants of firm performance.

1.3. Rationale and potential contributions to knowledge

This thesis addresses several gaps in the RBV literature and aims to make potential contributions to the resource-based theory in six main areas:

(1) offering a conceptual framework that classifies resources and capabilities in a coherent system;

(2) providing a more stringent test of the RBV by examining tangible and intangible resources and capabilities along with the structural factors of industry together in the same study unlike a large number of previous RBV research which excluded industry structure factors and used a single or only a few intangible resources to analyse performance variations;

(3) employing a mixed-method approach that has rarely been utilised in the field in order to address the methodological limitations of the past RBV research;

(4) testing empirically the main prescription of the RBV through using a multi-industry sample;

(5) exploring new data in settings (*i.e.*, emerging markets – Turkey in this thesis) outside the US and the other developed countries in which most of the RBV research has been conducted, to help the attempts of unveiling the indeterminate portion of the resource-based theory;

(6) providing practical implications for managers better to understand the origins of firm performance (particularly the intangible resources that carry the potential of becoming strategic assets) and helping them make their investments appropriately regarding their resource base. These potential contributions are discussed below:

> *(1) The conceptual framework classifying resources and capabilities in a coherent system*

This study aims to solidify a framework in which resources can be adequately defined and conceptualised. Many resource-based studies to date have relied on "coarse-grained" variables and "proxy" intangible resources in order to measure the effects of resources on financial performance (Hill *et al.*, 2012). According to Kraaijenbrink *et al.* (2010), broad resource definitions and all-inclusive resource categories do not only affect the accuracy of RBV research but they also limit the execution of comparative studies. Boyd *et al.* (2013) argue that the lack of firm conceptualisation in the RBV can be the result of vague resource definitions. Additionally, Hill *et al.* (2012, p. 187) suggest that "questions regarding the use of

different terminology and non-convergent measures that represent a single construct" still persist in the strategy discipline. Within this context, this thesis attempts to develop a robust conceptual framework which explores resource-based determinants of firm success. Hence, the research potentially contributes to the RBV by generating a resource list and offering a conceptual framework which may be a guide to researchers as to how to classify more effectively those resources that can form a basis for empirical testing of the resource-based studies.

(2) A more stringent test of the RBV than past research

In the RBV literature, limited research tests the contribution of intangible resources to firm success after simultaneously accounting for the effects of other resources (namely, tangible resources) available to the firm (Galbreath & Galvin, 2006, 2008; Molina-Azorin, 2012). Since firms trust both tangible and intangible resources to execute market strategies, obviously, the empirical examination of both sets of resources together provides a more robust test of the validation of the RBV's main prescription. Otherwise, the exclusion of other potentially important resources and the use of only a single resource or a few resources to measure the resource – firm performance relationship, may lead to overestimating results and undermine the complexities of competitive advantage (Galbreath, 2004).

Moreover, the RBV does not repudiate the influence of industry structure factors on firm performance completely (Wernerfelt, 1984; McGahan & Porter, 1997; Peteraf & Barney, 2003). Industry structure factors and unique firm-level resources complement each other and the impacts of resources and capabilities on a firm's performance cannot be understood independently of competitive environment within which the firm operates (Peteraf, 1993; Barney & Mackey, 2005; Morgan *et al.*, 2009). Concerning the primary importance of intangible resources for the RBV, it would be expected that "after accounting for any variations in performance explained by tangible resources and industry structure factors, intangibles should have sufficient explanatory power to improve the prediction of the performance variables" (Galbreath & Galvin, 2006, p. 151).

However, empirical testing of the relative contributions of both tangible and intangible resources considering industry effects is limited in the RBV literature (Galbreath & Galvin, 2006, 2008). Hence, testing the significance of the intangible resources against the effects of other resources and even industry structure factors with a different empirical approach cannot only offer a more stringent test of intangibles' contribution to firm performance than previous studies but it may also contribute to the verification of the RBV's main prescription.

(3) The research design incorporating both qualitative and quantitative methods

This thesis addresses a major methodological limitation of RBV research by using the subjective approach of the case study methodology and the objective approach of statistical testing together that have been largely neglected in RBV research (Barney *et al.*, 2001; Molloy *et al.*, 2011; Hill *et al.*, 2012; Molina-Azorin, 2012). Although large-scale empirical studies can be used to explore the direct resource-performance relationship, these quantitative methods bypass the complex and embedded nature of intangibles and provide only a limited understanding of why some resources are identified as strategic but others are not, what their roles are, and how these resources are converted into positions of competitive advantage (Rouse & Daellenbach, 1999; Newbert, 2007, 2008; Molloy *et al.*, 2011). However, "true competitive advantages do not reside in a few resources and/or capabilities but rather involve a complex network of evolving resource and/or capability interactions" (Levitas & Ndofor, 2006, p. 136) and it is vitally important for managers to be informed about best practice. Therefore, understanding of complex nature of resources that are embedded in organisations designates the need for more fieldwork based qualitative studies.

Moreover, Molina-Azorin (2009) emphasises the importance of qualitative research in developing a conceptual resource list which is consistent with the objectives of this study and understanding the managerial and organisational processes through which the resources become valuable. Nevertheless, while investigating the complex interaction of resources leading to firm performance through qualitative studies, the necessity of quantitative methodology for the law-

like generalisation and validation of RBV should not be ignored (Levitas & Chi, 2002; Newbert, 2007, 2008).

There are two main issues in this study: (1) to describe the firm-level resource portfolio along with an explanation of how these resources become valuable and create performance (2) to test resource-firm success relationship empirically. Obviously, a mixed-method approach does not only provide a rich understanding of context via its qualitative components, but it also enables the researcher to test the effects of firm-level resources on performance empirically with the use of quantitative methods. So as a methodological contribution, this thesis employs a research methodology that incorporates both qualitative and quantitative approaches that could identify key resource sets of firms, explore how these resources are converted into positions of advantage by managers, and test their effects on firm performance empirically.

(4) The multi-industry sample rather than single industry samples

This thesis also seeks to contribute to the theoretical development of the RBV by using a multi-industry sample rather than just focusing on a single industry sample in testing the effects of resources on firm performance. The use of single industry samples or even single firms in the RBV research (*e.g.*, Aaker, 1989; Hall, 1993; Miller & Shamsie, 1996; Hatch & Dyer, 2004; Mas-Ruiz & Ruiz-Moreno, 2011) is evident.

Although studying resources within a single industry context that allows researcher to have a tighter control on the study can be beneficial for RBV research to assess industry-specific nature of resources, results of the study cannot be generalised. Moreover, "the core of resource-based theory does not discriminate between which types of resources such as financial, organisational, reputational *etc.*, are more important than others given the context of industries" (Galbreath, 2004, p. 13). It is believed that the generalisability of the results can be enhanced by examining the resources which have been identified by the qualitative methods along with the literature review, in a variety of firms operating in different industries. Therefore, this thesis may contribute to existing knowledge by exploring

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the validity of the core RBV premises in a general multi-industry context as opposed to single industry sample.

(5) New and current data from an emerging market, "Turkey"

Apart from relatively few exceptions (*i.e.*, Carmeli, 2001; Makhija, 2003; Khandekar & Sharma, 2005; Cheah *et al.*, 2007; Kaufmann & Roesch, 2012), the vast majority of the empirical RBV research concentrates on developed countries such as the US, Western Europe and Australia because of the availability of huge databases such as those of the Foreign Trade Commission (FTC), CRSP, Euromonitor and COMPUSTAT, and very little is known about results outside of this domain (Cavusgil *et al.*, 2013). Emerging markets have not been largely ignored because of the sampling and data collection problems along with the lack of homogeneity in economic characteristics which made more difficult for academics and practitioners to conduct research, but most have preferred to work on more "serious" countries (Raymond *et al.*, 2001; Tatoglu & Demirbag, 2008). Hence, there is little evidence in the academic literature about how much a resource-based view of the firm matters in emerging markets.

However, IMF statistics indicate that "emerging markets' share of business has risen steadily from just about 17% in the 1960s to an average of 31% during the period of rapid global trade and financial integration that started in the mid-1980s and it reached to 42% in 2011" (IMF World Economic Outlook, 2012). Kose and Prasad (2010, p. 8) suggest that "emerging markets can no longer be ignored since their economies will hold ever greater shares of global assets and wealth in the following years".

Kamal (2011, p. 21) states that "specific research into emerging markets is necessary since the unique characteristics of emerging economies may prove many of the findings in developed economy settings invalid in an emerging economy setting". Therefore, it is worthwhile investigating firms in emerging markets and exploring new data in settings outside the Western World as this may yield significant new insights about the issue. As of 1995, Turkey changed its low-cost competitive strategy to a more market-oriented differentiation strategy and this strategic shift obliged the Turkish firms to make substantial investments to

intangible resources such as human capital, information technologies, intellectual properties, unique brands, innovation and the new product development capabilities *etc.* especially after the year 2000 (Yeldan, 2008; Koksal & Ozgul, 2010). Hence, this situation enabled Turkey to have a competitive edge in a wide area that covers the Middle East, the Caucasus, North Africa and the Balkans. Nevertheless, how much of this performance can be explained by the intangible resource ownership and investments is still unknown.

In this context, this study employs Turkish business databases to assess the relative importance of tangible and intangible resources and capabilities on performance differences among firms in Turkey by also acknowledging the increasingly important role of Turkey as the 16th largest economy in the world trade in 2011 (IMF World Economic Outlook, 2012).

(6) Managerial implications and practical contributions

Finally, apart from providing academic and scientific knowledge for theory building, management research should also offer practical contributions to executives and managers who have to make adequate decisions for firm survival and growth in the competitive business arena. In a practical sense, the results of this research may enhance the understanding of managers about the origins of firm profitability and market performance. Obviously, decisions about where investments should be placed have important implications for management practice.

For example, if intangible resources (*i.e.*, brands, reputation, know-how *etc.*) are the most important determinants of performance, then the firms need to focus and invest on their unique resources, if the situation is in favour of tangible resources (*i.e.*, cash, building, physical equipment *etc.*), then attention should be paid to tangibles. As such, this thesis seeks to help managers with respect to resource investment decisions by revealing the key determinants of firm success and their relative importance on performance.

1.4. Research design and methodology

In order to address the objectives described above, this thesis utilises mixed-methods incorporating both qualitative and quantitative approaches. A sequential explanatory design is employed, commencing with qualitative methods including in-

depth interviews, observations and documentation along with the literature review to define and organise resources and capabilities in a coherent system that will form the basis of survey instrument, leading to quantitative methods which empirically test a series of hypotheses regarding the contribution of resources and capabilities on firm performance. The sequence of the research is as follows;

Eleven top managers of four companies operating in manufacturing, trading, audit and consulting, and banking industries were interviewed. With in-depth interviews, the intention was to define key resources and capabilities which determine the firm success and to organise them in a coherent system. The other aim of this qualitative approach was to explore how and why these resources and capabilities lead to firm performance and to provide rich content about the role of processes through which the resources become valuable. In other words, to acquire deep and rich insights about the processes by which managers convert their key resources to positions of advantage. Having analysed the data with qualitative analysis procedures (*i.e.*, data coding, within-case analysis, cross-case analysis, and causal network modelling), the findings were specifically compared with the existing literature with the belief that resource and capability definitions may differ in the Turkish business context and the qualitative component of the research was completed. According to the findings of the qualitative component, the survey instrument of the quantitative research that aims to examine the defined resource and capabilities' relative contribution on firm performance was derived. Clearly, investigation of the contribution of the resource and capabilities was largely quantitative, focusing on justifying performance links. Hence, a number of hypotheses that aimed to measure resource-performance relationship were established. In order to test these hypotheses, the survey was conducted on a sample of the largest 1000 Turkish firms from several industries announced by the Istanbul Chamber of Industry (ISO), annually.

The survey included several items to measure the relative impact of resources and capabilities on firm performance and a number of control variables such as firm age, firm size, and industry structure. Firm performance was measured by profitability, sales turnover and market share (perception based) and hierarchical regression was employed as the appropriate statistics tools. Conceptual model of

the two-phased study is presented in figure 1-1. Detailed descriptions of methodologies are presented in Chapter IV, Chapter V, and Chapter VII.
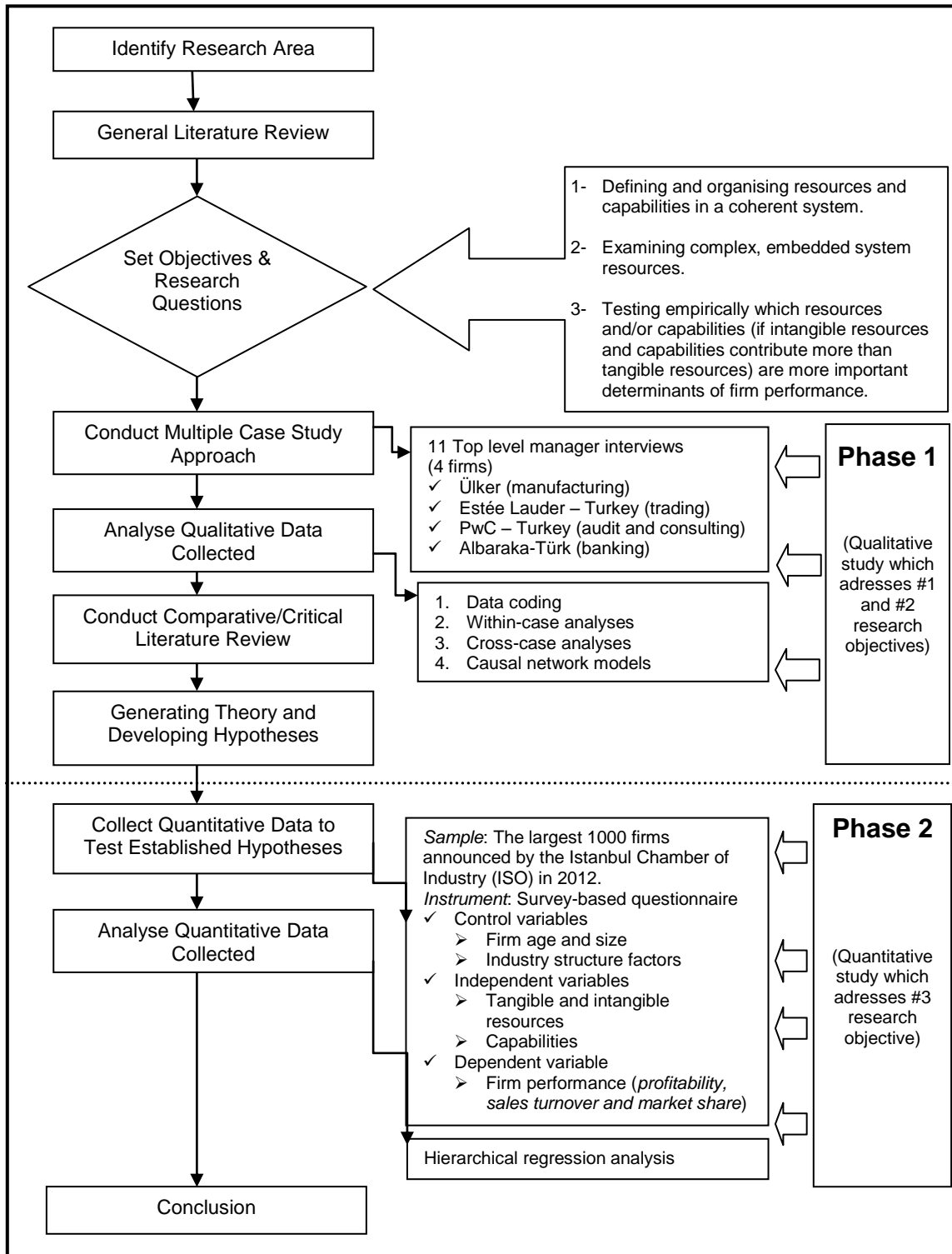
Figure 1-1. Conceptual model of the study

1.5. Thesis structure

This section outlines the context of the research, including background, objectives, and contributions to knowledge. Chapter II provides an overview of Turkey, the country under study. The structure of Turkish economy and the Turkish business environment is presented in Chapter II. The economic development of Turkey especially in light of the integration of the EU Customs Union agreement is explained. The effects of the EU Customs Union agreement along with the specific emerging market characteristics of the country on the resource investment and selection decisions of the Turkish firms are also analysed in Chapter II. Chapter III provides an extensive literature review, leading to the development of a conceptual model of RBV that identifies different resource sets, explores complex systems of resources and examines the relative contribution of tangible and intangible assets on firm performance.

Research methodology, including the presentation of main research paradigms and different research methodologies, the examination of methodology choices in previous strategic management research, the selection of the appropriate methodology along with the rationale behind this choice, and research design of this study are presented in Chapter IV. Chapter IV also includes the qualitative data collection methods employed in the study. Chapter V presents the implementation, analysis and results of qualitative study that offer a framework in which resources can be adequately defined and organised in a coherent system and provides rich understanding about *how* and *why* these resources and capabilities lead to firm performance. Hypotheses development based on qualitative findings of the research along with the existing literature review, and justification of these hypotheses, leading to the implementation of quantitative study take place in Chapter VI.

The implementation and results of quantitative study, including validity and reliability of research instruments and tests of hypothesised relationships using hierarchical regression are presented in Chapter VII. Finally, Chapter VIII elucidates findings, discusses practical implications, describes limitations of the study, and provides suggestions for future research.

CHAPTER II

TURKEY: A MAJOR EMERGING MARKET

2.1. Introduction

Emerging markets such as China, India, Argentina, Brazil, Mexico, Turkey, Indonesia, Malaysia, Poland, South Africa, Egypt, Philippines, Taiwan and Russia, became important players in the world economy because of their unprecedented growth, dramatic structural changes and remarkable market transformation during the last twenty years (Garten, 1996; Bonaglia *et al.*, 2007; Tatoglu & Demirbag, 2008; Cavusgil *et al.*, 2013). Depending on the conspicuous economic developments and growth, these emerging markets have become the strategic destinations for the direct investments of multi-national corporations (Cui & Lui, 2005; Yang *et al.*, 2009; Cavusgil *et al.*, 2013). Although considerable amount of academic work attempting to reveal the sources of the "miracle" success in these countries was carried out, most of the researchers (*e.g.*, Krugman, 1994; Khanna & Rivkin, 2001; Fatás & Mihov, 2009; Rodrik, 2011) focused on the classical economic perspectives (*i.e.*, neo-liberalism, industrial organisation, structural-institutionalism, economic geography and regional integration) to explain the underlying factors of this success.

As a recent alternative approach to these traditional economic perspectives, the resource-based theory which relies on the firm-level resource generation and use to explain economic performance of the firms became popular in strategic management area (Wernerfelt, 1984; Peteraf & Barney, 2003; Barney *et al.*, 2011). However, despite many RBV studies in the literature, several researchers (*e.g.*, Hoskisson *et al.*, 2000; Carmeli, 2001; Khandekar & Sharma, 2005; Kamal, 2011) suggest that the understanding of how resources are generated and what kinds of resources are most important in firm performance that leads to the economic development was not generally considered in emerging market context. Khanna and Rivkin (2001) comment that strategic management research should focus on emerging economies since the relative importance of the resources on firm performance may differ radically in emerging markets due to the different economic, political and social structures in developing countries. Similarly,

Katsikeas *et al.* (1998) state that findings of the studies conducted in developed countries may not accurately reflect the performance realities in emerging economies since priorities of firms in resource possession differ. As a supporting result for Katsikeas *et al.* (1998), Raymond *et al.* (2001) found in a comparative study that while developing a positive reputation of a firm was the primary concern for Korean firms, cutting costs through technological development or economies of scale was more important for the US firms to be able to increase export performance.

Among aforementioned emerging markets, Turkey has been designated as a big emerging market which features some important characteristics in terms of its geographical location, cultural and linguistic proximities to Central Asian, European and Middle Eastern markets (Garten, 1996; Demirbag & Tatoglu, 2008). Moreover, it is the only developing country that agreed to be a part of the EU's custom union without becoming a full member of the EU. According to the World Bank Report (2011), "the country is among the world's leading producers of agricultural products, textiles, motor vehicles, ships and other transportation equipment, construction materials, consumer electronics and home appliances". Garten (1996, p. 9) states that "Turkey will play a pivotal role in the future, for it is both the link and the buffer between Europe and the Middle East and the southern tier of the former Soviet Union". This chapter provides a background to the Turkish business environment and conditions in light of the EU Customs Union integration and emerging market characteristics as well as including some information about her geography, population and economy.

2.2. Country profile: Turkey

2.2.1. Geography

Turkey is located in the northern hemisphere between Eastern Europe and the Middle East and it lies in two separate continents. It has an area of 783,562 square kilometres and it borders the Black Sea, the Mediterranean, the Aegean and the Marmara Sea with a total coastline of 8333 kilometres as shown in figure 2- 1 (Ministry of the Interior, 2012).

Figure 2-1. Map of Turkey

The Black Sea region which receives the most annual rainfall, it is the richest in the production of lumber and the cultivation of crops such as tea and hazelnut. The Marmara and the Aegean regions which are in the west consist of rolling plateau country well suited to agriculture. These regions are considered as the heartland of Turkey and are densely populated including the cities of Istanbul, Izmir and Bursa as the major manufacturing centres of the country. The Mediterranean region which is in the south has extensive fertile plains where agricultural crops such as fruits and vegetables are cultivated. Cotton production in the region is about two-thirds of the total production in Turkey. The region is also the centre of tourism which attracted nearly 12 million tourists in 2011 (TurkStat – Turkish Statistical Institute, 2012).

The central Anatolia which is located at the centre of the country consists of fertile valleys and plateaux. The region includes a number of industrial cities such as Konya and Kayseri along with the capital city, Ankara. Wheat is the principal crop, but the cultivation of barley, corn, various fruits, grapes, opium poppies, sugar beets, roses, and tobacco is also widespread in the region. Finally, the east and southeast Anatolia are the country's most backward and poorest regions due to mountainous topography, dry soil, severe climate and political and ethnic turmoils. Although wheat and barley are the main crops of the region, greater agricultural diversity has been supported by the major irrigation projects in the 1980s.

However, the region is richest in deposits of minerals such as iron, copper, chromium, zinc, and magnesite.

2.2.2. Demographics

The country has a population of 74.7 million in 2011, with approximately 14 million living in the major city, Istanbul and 4.3 million living in the capital city, Ankara. The other large cities are Izmir (4 million), Bursa (2.6 million), and Adana (2 million). 18 cities have populations that exceed 1 million inhabitants. Nearly three-quarters of the population live in towns and cities and the annual growth of the population rate is 1.35%. The country has an average life expectancy of 73.2 years and a literacy rate of 90% of. In terms of the ethnic make-up of the population, Turks who are estimated at 80–82% have the majority. The other non-Turkic ethnicity includes Kurds, Laz, Arabs, Bosniaks, Abkhazians and Circassians (TurkStat, 2012).

2.2.3. Economy

The Turkish economy is considered to be an upper middle income economy by The World Bank. According to the IMF world economic outlook database (2012), her GDP is 1.073 billion USD and per capita GDP is approximately 10520 USD in 2011, close to those of Venezuela and Mexico. Turkey's share in total GDP of the world is 1.34%.

Turkey enjoyed a growth rate of 9.1% in 2010 and 8.5% in 2011 which made the country the second highest growing economy in the world after China. The worst economic performances of the country were seen in 2001 and 2008 with growth rates of – 5.7% and – 4.8% respectively due to the local banking crisis and global finance crisis. The unemployment rate in Turkey is reported at 10.2% in 2012 (IMF World Economic Outlook, 2012).

Turkey's inflation rate, measured by the consumer price index, declined from an average of 70.4% in the period of 1993-2002 to 6.4% at the end of 2011, the lowest figure in over four decades as a result of tight fiscal policies, prudent monetary policies, and production increases (Association of Treasury Controllers, 2012).

Table 2-1. Turkey key economic indicators

(TurkStat–Turkish Statistical Institute, 2012 and IMF World Economic Outlook, 2012)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population (millions)	66.873	67.723	68.566	69.395	70.215	71.095	72.050	73.003	74.702
GDP (billions of Turkish Lira – constant prices; percent change)	76.338 (5.2)	83.486 (9.3)	90.500 (8.4)	96.738 (6.8)	101.255 (4.6)	101.922 (0.6)	97.003 (- 4.8)	105.739 (9.1)	114.684 (8.5)
GNP per capita (USD)	4559	5764	7022	7586	9240	10438	8559	10067	10520
Trade volume (billions of USD; percent change)	118 (34.1)	160 (35.5)	190 (18.7)	228 (20.0)	278 (21.9)	335 (20.5)	244 (- 27.1)	298 (22.1)	357 (19.7)
Export (billions of USD; percent change)	52 (27.5)	69 (32.6)	78 (13.0)	94 (20.5)	115 (22.3)	141 (22.6)	110 (- 21.9)	121 (10.0)	140 (15.7)
Import (billions of USD; percent change)	66 (40.4)	91 (37.8)	112 (23.0)	134 (20.5)	163 (21.6)	194 (19.0)	134 (- 30.9)	177 (32.0)	217 (22.5)
Trade balance (billions of USD; exports-imports)	- 14	- 22	- 34	- 40	- 48	- 53	- 24	- 56	- 77
Exchange rate (national currency per USD)	1.493	1.422	1.341	1.431	1.302	1.293	1.547	1.500	1.674
Inflation rate (percent)	25.3	8.6	8.2	9.6	8.8	10.4	6.2	8.6	6.4
Unemployment rate (percent)	10.5	10.3	10.6	10.2	10.2	10.9	14.1	11.8	9.9

The inflation rate increased to nearly 10% in 2012 mainly because of high energy (oil, natural gas and electricity) prices. General economic indicators of the country are shown in table 2-1.

Exports which reached 140 billion USD in 2011 have been a major contributor to the economic development of Turkey. The value of exports is approximately 18–20% of the country's GDP. However, since most of the export goods are manufactured from imported raw materials, supplies and semi-finished goods, an increase in export figures has resulted in a higher increase in import figures. The value of imports was 217 billion USD and the foreign trade deficit of the country was 77 billion USD in 2011 (TurkStat, 2012).

Therefore, this vicious circle created a considerable chronic external deficit in balance of payments that was considered as the most important structural economic problem of the country. A custom union agreement with the EU that was signed in 1996 and has been functioning since then worsened this situation because it created an unequal balance in trade between Turkey and the EU in favour of the EU. However, the agreement had also positive repercussions and consequences on the Turkish economy in the long run. The following section will provide detailed information about the economic development, business conditions and emerging market characteristics of Turkey.

2.3. Economic development and market characteristics

The Turkish economy has relied on its services sector and the export performance of its firms like other emerging economies. Exports especially do not only play an important role in reducing foreign trade deficit via exchange earnings but also act as a source of growth and overall economic development for Turkey. Turkey shows typical emerging market characteristics such as higher political risk, a relatively more dominant role of government in the economy and higher rate of volatility in financial markets and weaker institutional infrastructure compared to the developed countries such as US and European Union (EU) countries (Tatoglu & Demirbag, 2008; Cavusgil *et al.*, 2013). Moreover, for a long period the economy remained largely state-dominated and most industries enjoyed monopoly or oligopoly profits due to this closed economy until the early 1980s

(Yamak, 2006). Although Turkey has had a rapidly growing private sector in recent years, the state still plays a major role in some pivotal industries (*i.e.*, banking, transport, and communications). The economic development of the country and current business conditions are discussed below.

2.3.1. A brief historical overview of Turkey's economic development

Development of the Turkish economy and business can be comprehended better with a brief historical overview of its economic and political background. The economic development and export history of Turkey can be divided into four periods: early years of the new republic (1923–1950), liberalisation efforts of the country (1950–1980), export-led growth reforms under Özal (1982–1996), and economic integration with the EU via customs union agreement (1996–present).

Early years of the new republic (1923–1950)

The Turkish Republic was founded in 1923 after the collapse of Ottoman Empire. At the founding of the republic, the economy was predominantly based on agriculture and economic growth was less than expected because of the lack of sufficient private capital. For this reason, a state-led industrialisation growth model that was commonly known as *etatism*" was adopted in the first decades of the new republic (Onder, 1990, p. 73). After 1930, the state became an entrepreneur itself in the absence of an industrial bourgeoisie and took the major responsibility for industrialisation through the establishment of state owned enterprises in the key sectors of the economy such as banking, mining, energy, communications, cement, transport, textile and agriculture. In these years, there was almost no private sector in the country. Under these conditions, the major opposition party (DP – Democrat Party) came to power in 1950 and Turkish political economy has started to take a new direction from a statist, strictly controlled economy to a more liberal free-market economy.

Liberalisation efforts of the country (1950 – 1980)

The new government gave priority to the private sector and made substantial efforts in opening up the economy to the world market, liberalising the state policies towards foreign capital and supporting the agricultural sector and agricultural industries. However, foreign investment remained extremely limited

despite the laws that were introduced in 1951 to encourage foreign investment in Turkey.

During the 1960s, the domestic market was highly protected and due to this protectionist economic policy, some national firms and their foreign partners which would never have been able to compete on an open world market exploited the domestic opportunities and made handsome profits on the home front (Zürcher, 1998). The basis of the most of the Turkish business groups (*e.g.*, Koç Holding, Sabancı Holding, Ülker) that take place in the largest global companies lists of business and finance journals and magazines of recent years were formed in 1960s and 1970s. Until the 1970s, protectionist economic policies were adopted. In these years, Turkey was very dependent on imports for almost all consumer durables, industrial goods and oil as a source of energy (Zürcher, 1998).

With the effect of petrol crisis and the recession in the Western markets, the growth rate fell to an average of just under 1.2% which was the lowest level since 1960 and the inflation rate reached to 90% in 1979. As a result of the social and economic turmoil which manifested itself in a high rate of inflation, increasing levels of unemployment, intensified external balance of payment difficulties, and clashes in streets, the Turkish army took power in September, 1980.

Export-led growth reforms under Özal (1980 – 1996)

Turkey's modernisation journey and her struggle to create an effectively functioning private sector started with the new government elected in 1983, following the aftermath of the 1980 military coup. New economic reforms, which aimed at mitigating the role of government on the economy, decreasing the high custom rates and increasing exports became central, and export subsidies together with exchange rates were deemed as the most critical objects of policy in order to support a new economic model that relied heavily on exported manufactures (Ramazanoglu, 1985; Tatoglu & Demirbag, 2008). These efforts were mainly designed to improve the free market structure mechanism, and to increase the competitiveness of Turkish firms in global markets. With the effects of the exported manufactures model, most of the firms heavily invested to manufacturing related assets in order to manufacture and export goods as much

as they can. Privatisation processes of the state owned enterprises such as the state airline and ground handling facilities, petrochemical industries, cement factories, electricity generators, telecommunications and tourism operations also started in Özal period.

Economic integration with the EU via customs union agreement (1996 – present)

In order to complement the economic reform package that was adopted in 1980s, a further step towards freer trade was deemed essential, and a customs union agreement which guarantees the free circulation of goods and processed agricultural products among participating countries was signed between the EU and Turkey in 1995, becoming operational 1 January 1996 (Nowak-Lehmann *et al.*, 2007; Demirbag & Tatoglu, 2008). The European customs union agreement brought Turkey into the single European market and "extended most of the EU's trade and competition rules to the Turkish economy" (Tatoglu & Glaister, 1996, p. 12). The hitherto heavily protected Turkish market became completely open to European manufactures after this customs union agreement, and although Turkish firms had taken strategic actions to defend their positions in domestic and EU markets, nearly every industry was negatively affected in the short run.

However, Nowak-Lehmann *et al.* (2007) state that in the long run certain benefits would be realised and the Turkish economy would have a positive impact in terms of increased competitiveness and stability. Indeed, the results of the first three years of the EU–Turkey customs union revealed a rather modest increase in Turkey's exports to the EU countries whilst they showed a significant growth in imports. This situation continued until 2012 and as a result, Turkey had a much wider trade deficit amounting to 77 billion USD with the EU countries.

Although the agreement caused a significant increase in the foreign trade deficit of Turkey, the competitive nature of the EU market forced Turkish firms to improve their manufacturing and service standards to be able to sustain competitive advantages in foreign markets. The remnants of the state protected policies of the Turkish economy were abolished by the EU customs union agreement and twenty-five years after the economic reforms, Turkey achieved a foreign trade volume of

357 billion USD (Undersecretariat of Foreign Trade, 2011). These figures placed the country among the largest actors in the world trade system.

Table 2-2. Main trading partners of Turkey (in 2011)

(TurkStat – Turkish Statistical Institute, 2012)

Country	Export (million USD)	Import (million USD)	Total (million USD)
1. Germany	13.961	22.985	36.946
2. China	2.467	21.693	24.430
3. Italy	7.856	13.449	21.305
4. USA	4.597	16.034	20.631
5. France	6.859	9.230	16.089
6. Iran	3.591	12.462	16.053
7. UK	8.159	5.840	13.999
8. Spain	3.920	6.196	10.116
9. Iraq	8.316	87	8.403
10. India	756	6.499	7.255

Turkey's principal exports are automotive, textiles and clothing, electronics, iron and steel, agricultural products and machinery. Main trading partners of Turkey are presented in table 2-2.

The EU Customs Union agreement played a considerable role in the development efforts of Turkish economy along with the strategic choices and resource investment decisions of Turkish firms. Economic integration of Turkey with the EU without becoming a full member of the EU is the one and only example of an economic block membership in the world. Indeed, this situation makes Turkish case more interesting than other emerging markets. Whilst even the latecomer European emerging markets such as Czech Republic and Poland accepted the EU Customs Union agreement after becoming full members and adopted the EU customs rules gradually, Turkey accepted to abide the rules of the EU Customs Union straightforward.

Although joining to this kind of an economic club which was consisted of developed countries was a very risky decision, this was a great indicator of the country's self confidence. Through the economic integration with the EU, Turkey dropped out its cheap manufacturer developing country image unlike China and India and embarked upon to become a high quality manufacturer that can offer its

goods at a relatively lower cost. Moreover, free entrance of the European goods into Turkish market compelled Turkish firms to increase their competitiveness.

Until the mid 1980s due to the closed economic model based on heavy state intervention, lack of a well functioning private service sector, and the cheap labour cost and raw material advantages in Turkey, most of the Turkish firms have defined their competitive strategy option as low-cost leadership and achieved competitive advantages in the international markets between 1980–1995. Therefore, this choice compelled Turkish firms to make most of their investments on tangible resources that can enable them to achieve low-cost production and operations rather than intangibles such as unique brands, knowledge, technology and know-how.

However, because of the increasing competition from other strong low-cost manufacturers like China and India in global markets, the competitive strategy choice of the Turkish firms has shifted from low-cost leadership to a more market-oriented differentiation strategy, following 1996 where the custom union agreement was signed between the EU and Turkey, (Demirbag & Tatoglu, 2008; Kaufmann & Roesch, 2012).

For example, the Turkish denim fabric manufacturers were among the most prominent raw material suppliers of Levi's from 1990s to early 2000s. They were selling denim fabric with tiny profit margins to be able to sustain their low-cost advantages. Low-cost advantages were achieved through cheap raw material and labour cost along with the huge machinery and equipment stocks of the firms. Yet, because of the availability of cheaper raw material and labour in China, India, Indonesia and Malaysia, most of the Turkish firms lost their low-cost advantages.

Moreover, machinery and equipment were easily available in factor markets. Therefore, after the early 2000s, the denim manufacturers created their high quality own brands, opened attractive stores in the US and sold these products with higher prices than Levi's in the US market such as Mavi Jeans in the Fashion Avenue of New York. But, implementation of this formative transition which started nearly 20 years ago is a difficult and still an ongoing process despite a significant progress achieved so far. One of the remnants of the closed economy period, state-owned

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enterprises in some industries and their privatisation, is to some extent still a problematic issue in Turkey.

However, as a result of the ambitious economic policies of the new government which came to power in 2002 that were also supported by the favourable global conditions, Turkish exports boosted by 24.3% as global trade increased an average of 8.2% in 2007 as a result of the new Turkish foreign policy which focused on improving the relationships with the regions such as Africa, Middle East and East Asia hitherto neglected. Moreover, with a tight fiscal policy, inflation rate reduced to 6.2% (34-year low) in 2010. In the first period of AKP administration (2002–2006), it succeeded in attracting a total of 87 billion USD of "hot money" and 30 billion USD of foreign direct investments (Yeldan, 2008). The stock value of foreign direct investments reached at 174 billion USD at year-end 2010.

So far, the economic situation of the country was analysed within a historical perspective. The next section will provide details about the market characteristics along with the current business conditions in Turkey.

2.3.2. Market characteristics and current business conditions

In Turkey, like in other emerging markets, firms operate in a business environment where rapid economic growth, political instability, investor heterogeneity (as a result of offering different information sets to different investors), high level of uncertainty, financial volatility and risk, less transparency and legal frameworks allowing opportunism, corruption and rent shifting dominate the whole market (Hoskisson *et al.*, 2000; Nowak-Lehmann *et al.*, 2007).

Business systems can be considered as more relationship-based compared with developed countries. Family businesses are common and structures based on multiple firms operating together due to family ties are also frequent. In case of the absence of family connections, long term relationships are very important to be able to operate the business activities and this situation can create entrance barriers for foreign MNs. The specific factors that constitute the Turkish business landscape are presented below:

2.3.2.1. Political situation

Political instability has always been a problematic issue in Turkey and the country has witnessed three military recoups in every ten years between 1960 and 1980. Moreover, the country was governed by incompatible coalition parties from 1985 to 2002. Hence, the military recoups and discordant coalitions created rather negative repercussions for the development efforts of the country to become a real democracy and limited the evolution of the private sector severely. Some firms that belong to rich families have gained monopoly power in some industries such as automotive and construction. The political stability of a country shapes its economic and legislative framework and can be deemed as a must for a robust business environment. This robust business environment was captured somehow and somewhat after the elections of 2002 in the country.

The 2001 national financial crisis created devastating effects on the Turkish economy. The Turkish public never forgot the coalition parties that caused the 2001 financial crisis and they punished all of them by discarding from the parliament and bringing completely a new party to the power in 2002 elections.

Although the single party government brought a relatively smooth and relaxed political climate which led to a well-functioning business environment, the tension between the conservative and to some extent Islamist government and the secularists has never softened. The wars in the neighbour countries Syria and Iraq, domestic Kurdish rebellion, unsteady relations with Israel and never ending negotiations between Turkey and the EU regarding the process of Turkey's EU membership create a risky and instable business environment for the country in recent years.

2.3.2.2. Financial volatility and risks

In parallel to the instable political environment, the financial market of Turkey has frequent ups and downs. From time to time instability and fluctuations in financial markets create uncertainty about the future and thereby hinders investment with respect to the high fixed costs of investment. Notwithstanding, the banking and finance industry of Turkey has become more efficient when compared to other

emerging markets and many developed countries due to reforms in the financial sector following the national banking crisis in 2001 (Cavusgil *et al.*, 2013).

In 2001 Turkish banking crisis, twenty-two banks went to bankrupt, 47 billion USD of the country vaporised mainly because of corruption, thousands of jobs were lost, and the economy diminished at a rate of 9.1% in 2001 (Akyuz & Boratav, 2003). Therefore, a number of financial and fiscal reforms as part of the IMF programme such as "a balanced budget, entrenched fiscal expenditures, and a relatively contractionary monetary policy with an ex-ante commitment to high real interest rates" (Ertugrul & Yeldan, 2003, p. 62) in order to secure investor confidence and international creditworthiness were adopted.

Moreover Turkey's attractiveness to foreign investors was boosted by the economic and judicial reforms that were imposed by the EU commission in the EU integration process. Financial markets and the banking system were re-designed and well regulated after the finance and banking crisis of 2001.

2.3.2.3. Infrastructure

The quality of infrastructure of a country directly affects the ability of a firm to engage effectively in business as well as its market entrance decisions. In recent years, investments in infrastructure and in utilities were promoted and the telecommunications and road network were modernised by the Turkish government. Public utilities in Turkey such as power, piped water supply, sanitation and sewerage are not problematic in the industrial areas but there are still some shortages in the backward areas especially in the east and southeast parts of the country. Since energy remains a major import, energy prices are high and the demand for exploring and gas resources is very high.

According to the US Commerce (2011), opportunities in Turkey for investors in oil gas distribution, power generation and renewable energies are significant. The EU Commission Report (2011) states that airway and highway networks in Turkey are satisfactory but railway network and port quality needs to be improved.

In 2012, with 37 million internet users, Turkey had the 12th highest number of internet users globally (TurkStat, 2012). Seventy percent of the internet transactions are used in financial and banking sector that relies on e-commerce

and customer services. The government aims to encourage internet use and increase computer ownership to 51% by 2013 from 15% in 2009 (Cavusgil *et al.*, 2013).

2.3.2.4. Consumption patterns

Turkey's population which is nearly 75 million is relatively young, with 15-64 year olds accounting for 69% of the population. So, the market is dominated by the consumption preferences of this group. The country suffers from highly unequal income distribution. The latest statistics indicate that whilst the richest 20% of the households command 46.6 % of the total disposable income, the poorest quintile's share remains only at 6.2% (TUIK, 2013).

With a Gini coefficient of 40.4, Turkey ranks as the 48th worst income distribution economy among 113 countries (TUIK, 2013). Urban population possesses 74.3 % of the total disposable income and their spending constitutes 76.1 % of total consumption expenditures (TUIK, 2013). According to the results of 2012 Household Budget Survey of TUIK (2013), "while the expenditures on housing and rent had the highest share in total consumption expenditures with a rate of 25.8%, the share of expenditures on food and non-alcoholic beverages was 19.6% in overall Turkey. The shares of expenditures were 1.8% for health 2.3% for educational services in total expenditures in Turkey".

The factors that shape consumer behaviour in Turkey are the globalizing occasions for shopping such as New Year, Mother's Day, Father's Day, Valentine's Day and Islamic religious festivals and holidays, the development of the market with prominent shopping malls, a great variety of and fast proliferating "new and improved" goods, the encounter with the Western styles of consumption on television and in the movies or in person, the display by nouveau riches and the conspicuousness of their flashy consumption styles in the media, and the ideology and ideals such as the global ethos of consumerism, the notion of the "good life," and modernity and progress tied to consumption (Sandikci & Ger, 2007).

Among these factors, being or becoming a modern person/family (like Westerners) is of utmost concern. Especially the motivation of consumption for the lower and middle classes is to consume like Westerners. So, "having electronics, kitchen

appliances, cellphones, and detergents, eating McDonald's hamburgers and other fast food, drinking Coke, and shopping in malls are regarded to make a normal modern life" (Sandikci & Ger, 2007, p. 145). Hence, aforementioned factors increased the brand and image-oriented consumption patterns of Turkish consumers.

In parallel with the diverse ethnic demographic structure and the differences between western and eastern consumers in terms of income and education levels, the market is quite heterogeneous. Hence, the Turkish and foreign firms must deal with a high variety of market segments along with rapid and discursive consumer shifts that may emerge as a consequence of divergent income distribution and low education levels of consumers (Cavusgil *et al.*, 2013).

2.3.2.5. Ethical issues

Excessive bureaucracy, frequent changes in regulations and red tape lead to inefficiencies that result in a loss of time and funds in Turkey. In terms of governance efficiency, Turkey stands at 59 in the ranking of 121 countries in the international property rights index in 2010 (Cavusgil *et al.*, 2013). The desire to make business in Turkey market may tempt managers and firm owners to offer bribes to government bureaucrats, politicians or corporate buyers making purchasing decisions.

Whilst, bribery and corruption is a reality in the country, due to continuous EU policy reforms, corruption level is expected to decrease in the future. In the corruption index that was published annually by Transparency International (2013), Turkey was ranked 122nd most corrupted country out of 177 countries. Although this rank qualifies Turkey as a moderately corrupted country, this position is unacceptable for an EU candidate country. The informal economy still forms a significant part of the economy. Through incentives and effective jurisdiction for tax evaders percentage of informal economy has dropped from 33% to 28% in the last ten years. However, this figure is still much higher than that of developed countries which is around 17% (TUIK, 2013).

Because of the lack of legal protection for intellectual property rights, Turkey has been the second imitator country (after China) in the world from PC games (VCD,

DVD, Internet piracy, illegal logo use, software *etc.*) to the most prestigious textile brands, jewellery, and automotive spare parts. Legal framework regarding the protection of intellectual property rights was just amended in 2008 and new regulations included serious penalties from imprisonment to heavy fine for illegal imitator firms (IIPA, Special Report on Turkey, 2011, p. 275).

According to the "ease of doing business index" of The World Bank which is based on ten topics such as "construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and getting electricity", Turkey stands at 71 in the ranking of 183 economies on the ease of starting and making a business globally (World Bank, 2012). Although it improved its place in the index from 73 in 2010 to 71 in 2011, bureaucratic issues for starting up a business need to be diminished.

Similarly, Turkey ranks 59th among 133 countries on the competitiveness index of the World Economic Forum, 2011–2012. The report of the World Economic Forum (2012) indicated "the market size, development of the private sector, and efficiency of the commodity markets" as the positive contributing elements to the competitiveness of Turkey.

However, "efficiency levels of the labour market, institutional infrastructure and higher education and vocational training" were cited as the negative elements (World Economic Forum, 2012). Additionally, small and medium-sized enterprises (SMEs) play a very important role in Turkish economy owing to their large share in total number of enterprises (99%) and in total employment (77%). But their average workforce and turnover are much smaller than the SMEs in the EU or in most other OECD countries.

According to the EU Commission Report (2011, p. 45), "Turkey enjoys a dynamic industry and services infrastructure in addition to a wide and young market generally compliant with consumption trends in the EU". Compared with the countries that have recently joined EU (*i.e.*, Poland, Hungary, Czech Republic, Bulgaria, Romania), competitive components of Turkey such as "business sophistication, innovation, institutional infrastructure in the public industry, and institutional governance performance in private sector" were evaluated more

satisfactory. Nevertheless, Turkey was seen to be worse in terms of intangible asset ownership (*i.e.*, intellectual property rights, registered trademarks and ownership of unique brands), railway network and port quality, and prevalence of information and communication technologies (Ministry of Industry and Trade, 2011).

In 2011, Turkey identified a new vision as "*being among the top 10 economies in the world and becoming the production base of Eurasia in medium and high-tech products on the 100th anniversary (year 2023) of the Republic of Turkey*" and in accordance with this vision, the government supported by Turkish business associations put new laws and regulations into practice to be able create a business friendly environment for the investors from all around the world. Today, Turkey is now entering in the second half of 2014 with a relatively smoother political climate and a dynamic economy that has a great business and export potential. Turkey has several key industries which show superior performance both in domestic and foreign markets. An analysis of the sectoral distribution of GDP provides substantial knowledge about the key industries of the country (see table 2-3). Sectoral distribution of GDP consists of three main industries: agriculture, manufacturing and services.

Table 2-3. Sectoral distribution of GDP (in 2011)

(TurkStat – Turkish Statistical Institute, 2012)

GDP (billion USD)		Value added as % of GDP					
		Industry					
		Agriculture		Manufacturing		Services	
1995	2011	1995	2011	1995	2011	1995	2011
169.494	797.605	16	8	34	27	50	65

Whilst services have the biggest share in GDP with 65%, agriculture has the lowest share with 8% in 2011. In the same year, the manufacturing industry accounted for 27% of GDP. Turkey's export performance is the main determinant of the country's economic situation and the share of manufactured goods in the total exports of Turkey reached to 94% in 2011 (see table 2-4).

Table 2-4. Sectoral distribution of the Turkish exports (billion USD in 2011)

(TurkStat – Turkish Statistical Institute, 2012)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Agriculture and forestry	1.66	1.98	1.75	2.12	2.54	3.33	3.48	3.73	3.94	4.35	4.94	5.11
Fishing	0.02	0.03	0.05	0.08	0.1	0.14	0.13	0.16	0.24	0.19	0.16	0.18
Mining and quarrying	0.4	0.35	0.39	0.47	0.65	0.81	1.15	1.66	2.16	1.68	2.68	3.04
Manufacturing	25.52	28.83	33.7	44.38	59.58	68.81	80.25	101.08	125.19	95.45	105.5	112.2
Electricity, gas and water supply	0.02	0.02	0.02	0.02	0.06	0.1	0.12	0.17	0.07	0.14	0.18	0.19
Wholesale and retail trade	0.14	0.13	0.15	0.18	0.23	0.28	0.41	0.47	0.43	0.33	0.45	0.59
Total	27.77	31.33	36.1	47.25	63.17	73.48	85.53	107.27	132.03	102.1	113.9	121.3

***According to the *"International standard industrial classification of all economic activities"* ISIC classification Rev.3 of the UN, in billions of USD, other business activities and social and personal activities are marginal and thus not reported here.

Manufactured goods make up the principal exports of the country, and with this level of performance, the manufacturing industry deserves a primary interest. Turkey's industry sectors are discussed in the following section.

2.4. Turkey's main industry sectors

2.4.1. Agriculture industry

With its favourable climate and geographical conditions, rich soil sources and biological diversity, agriculture has always been a major industry in the Turkish economy (Deloitte, 2010). The share of the agriculture industry in Turkey's GDP decreased from 16% in 1995 to 8% in 2011 as a result of the continuous economic transformation from agriculture towards industry and the services sector.

Agricultural production is supported by government policies through intervention prices and by subsidies on fertiliser and fuel costs. Most of the production is carried out in small sized farms and this situation causes inefficient use of inputs. The report of Food and Agriculture Organisation of the United Nations (2011) suggests that "Turkey needs to reassess and complete agricultural reforms to improve efficiency and to move forward in the EU harmonisation process".

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Turkey offers a wide range of agricultural product groups including grains, pulses, fruits, vegetables and livestock. The country constitutes approximately 75% of hazelnut, 70% of dried figs and apricot, and 28% of the sultana production of the world and exports to more than 100 countries (TurkStat, 2012). The major grain products exported are corn, wheat and rice. Turkey is also the 5th largest exporter of pulses in the world. Turkey's agricultural exports in 2011, excluding processed food, amounted to 5.1 billion USD.

2.4.2. Services

Turkey's economy has been able to supply a broad range of services since the early 1990s. In parallel with the nature of economic development, the share of services sector in GDP increased from 50% in 1995 to 65% in 2011. In the first instance, services are not covered by the customs union agreement between Turkey and the EU in 1996. However, as part of the pre-accession strategy for Turkey, a number of autonomous reforms for the liberalisation of services have been implemented since 2000.

Trading, banking, consulting, construction, tourism, communications, transport, energy, and real estate are the sub-sectors of the Turkish services industry. Among services, tourism and construction are the major net foreign exchange earners. Turkey ranked 7th in the world in terms of the highest numbers of tourists (31 million) and this position provided a 23 billion USD tourism revenue to the country in 2011 (Ministry of Culture and Tourism, 2012). Furthermore, Turkey expects a 10% increase in its tourism revenues which amounts to 25 billion USD in 2012.

The construction industry of Turkey is one of the largest construction industries in the world which involves in the building of bridges, roads, industrial facilities, docks, shipyards, power plants, refineries, airports, water treatment systems both inside and outside of the country. According to the annual statistics of the Turkish Contractors Association – TCA (2012), 30 of the top 225 construction firms in the world were currently based in Turkey and the total volume of the global construction contracts of Turkish firms amounted to 20 billion USD in 2011. Turkmenistan, Russia and Iraq have 50% share of the total contract volume.

Supported by the urban regeneration and commercial projects (*i.e.*, shopping malls, hospitals, A and A+ office space in the big cities), the real estate sector of Turkey has improved substantially. In the UK Trade and Investment Report, (2010), Istanbul was shown among the most profitable real estate investment areas of Europe and Turkey was announced to have shown "the highest improvement in global real estate transparency index", by Jones Lang LaSalle in 2010.

The Turkish energy industry is still dominated by several state-owned enterprises but is currently going through a liberalisation process and rapid growth. The government implements new reforms to attract private sector investments and maximise efficiency. In 2012, the share of public and private enterprises in the total energy sector is 82% and 18%, respectively. About 32% of Turkey's annual imports in 2011 had been energy related (TurkStat, 2012). Especially, in terms of oil and natural gas, the Turkish economy is heavily dependent on imports from Russia and Iran.

The telecommunications sector in Turkey consists of fixed-line and mobile operators. As at the end of December 2011, the size of the Turkish fixed-line market was nearly 3 billion USD (TurkStat, 2012) and a number of private firms expedited their preparations to enter and grab some share from the market. With the influence of the technology-savvy young population of Turkey, emulating western consumer spending patterns and the competitive mobile environment, mobile communications became the most competitive market of the Turkish telecommunications sector with a number of 65.3 million registered mobile subscribers as of 2011 year end. There are currently three licensed mobile operators, namely, Turkcell, Vodafone and Avea. Internet usage rate in Turkey reached to 52% in 2011 and this substantial increase brought Turkey close to rates in other European countries such as Italy, Bulgaria and Romania. The number of broadband subscribers reached to 9.5 million as of end of 2011 (TurkStat, 2012).

The financial services sector is another noteworthy industry of Turkey. After a decade long banking reform following the devastating 2001 Turkish banking crisis, the country has shown substantial progress in the sector in terms of increasing in size, offering more diversified services, becoming more complex organisations and

using more sophisticated technologies (World Bank, 2012). The Turkish banking and finance sector companies (*i.e.*, leasing, factoring, consumer finance companies) are subject to standard agreements mainly protecting the interests of financial institutions rather than being customer friendly documents. According to The Banks Association of Turkey (2012), as of May 2012, there are 48 banks in total, 31 of them being deposit, 13 development and investment and 4 of them interest-free participation banks. Amongst deposit banks, there are 3 state-owned banks, 12 privately-owned banks and 16 foreign banks. The Turkish banking and finance sector is very competitive as well as lucrative. The sector is still not saturated and attracts foreign banks which seek merger or acquisition opportunities.

The consulting sector is among the sectors that has a long way to go in Turkey. Although the history of the sector traces back to the beginnings of 1960s, it is still in the embryonic stage and needs to develop. This is partly because the sector is dominated by small and primitive firms lacking professional knowledge and experience. Apart from this, the business potential of Turkey is mostly created by the SMEs which are either unaware of their business needs or reluctant to get professional help from outsiders. The exact number of management consulting firms is unknown in Turkey but with a conservative estimate the number of firms which specialise in law, IT, management, human resources, audit and tax, training, and PR may exceed 3500 (Erdost, 2005; Gozlu, 2006; Kesken *et al.*, 2008). Such a situation could be the natural consequence of different definitions and perceptions within the sector.

Despite the huge number of consulting firms, Kesken *et al.*'s (2008) study revealed that only the well-known locals and the globals were considered as "the serious service providers" and the list included BCG, McKinsey Co., AT Kearney, Booz-Allen Hamilton, Bain & Co., Mercer, Saatchi & Saatchi, Accenture, Leo Burnett, PwC, KPMG, Deloitte Touche Tohmatsu, Ernst & Young *etc.* In recent years, supported by the increase in number of firms that were quoted to the Istanbul Stock Exchange (BIST–100) and the new Turkish Commercial Code which obliged firms to prepare their financial statements according to the "International Financial

Reporting Standards – IFRS", the number and business potential of the audit and tax firms substantially increased.

The trading sector can be defined as the portion of the economy that does not actually manufacture but engages in international trade, exporting and/or importing or providing trade services. Most of the business volume and potential of the Turkish trading sector consists of imported goods. After the 1996 EU customs union agreement, with the effect of descending trade barriers, many foreign companies entered the Turkish market to exploit this lucrative market by selling their products.

Putting aside raw materials and intermediate goods, the amount of the luxury goods imports (*i.e.*, fur, caviar, precious stones, glassware, silverware, wine, watches, video cameras, caviar, cordless telephones, perfumes and cosmetics) boomed between the years 2009-2011. While the amount of the luxury goods imports was 14 billion USD in 2009, it peaked to 20 billion USD in 2011 with a 43% increase (TurkStat, 2012). The competition in the market is fierce. Many foreign firms such as Ferrari, Porsche, Louis Vuitton, Bvlgari, Burberry's, Calvin Klein, Hugo Boss, Davidoff, Gucci *etc.* compete in Turkey in order to sell their products to the Turkish customers.

2.4.3. Manufacturing industry

From the import and export point of view, the most important sector linking Turkey to the global economy is manufacturing. When historically examined, a substantial increase in the share of manufactured goods in the total exports of Turkey from 37% in 1980 to 93% in 2011 was observed. The volume of manufacturing industry in the total exports of the country reached to nearly 112 billion USD in 2011 (TurkStat, 2012). As a result of the competitive pressure coming from China and India, the Turkish manufacturing industry had a noteworthy qualitative transformation in terms of industry sub-sections between 1998 and 2011 (see table 2-5). Whilst the share of machinery and transportation equipment, white goods, electronics, chemicals and rubber-plastic products increased considerably from 32% in 1998 to 60% in 2011, the share of garments, textile products and food decreased (Ministry of Industry and Trade, 2011).

Table 2-5. Structure of the manufacturing industry (in 2011)

(TurkStat – Turkish Statistical Institute, 2012)

Value added in manufacturing (billion USD)		Food, beverages and tobacco		Textiles and clothing		Machinery and transportation equipment		Chemicals		Other manufacturing	
1998	2011	Shares of total (%)									
		1998	2011	1998	2011	1998	2011	1998	2011	1998	2011
64.41	112.23	15	11	18	15	14	24	8	9	45	41

When analysed the most important sub-sectors of the Turkish manufacturing industry, automotive and spare parts, machinery, iron and steel products, white goods, textile and garments, electronics, processed food products, chemicals, and rubber-plastic products come first. Turkey has a thriving automotive sector that achieved the production of 1.2 million vehicles in 2011 (TurkStat, 2012). This production capacity makes Turkey the 15th largest automobile manufacturer in the world. The sector aims to increase its production to 2 million units by 2015. Turkey is a world leader in textiles and clothing sector and it is the world's 7th largest cotton-lint producer, with almost 1 million tons of annual production (Ministry of Industry and Trade, 2011). Along with the development in the manufacturing industry, R&D expenditures have recently begun to rise and reached to 4 billion USD in 2011.

2.5. Chapter summary

In this chapter, the Turkish economy and business environment along with the key industries were discussed. Although Turkey has experienced many economic, political and global crises in addition to military takeovers from the early years of the new republic, it achieved a remarkable economic growth and development especially between 1998 and 2012. The Turkish economy has relied on its services sector and the export performance of its manufacturing industry since 1980s. Until the country integrated economically with the EU in 1996, its competitive advantage in international markets was based on labour intensive products.

As EU integration reduced economic barriers between Turkey and the rest of the world, national boundaries no longer provided natural advantages to Turkish firms.

Fierce competition from low wage countries such as China, India, Taiwan, Indonesia *etc.* along with the major shifts of the investments from labour-intensive to capital-intensive industries in accordance with political and economic conditions, and consumer preferences compelled Turkey to change its manufacturing strategy. As a result, whilst Turkey remained chiefly specialised in agricultural products, articles of apparel and clothing accessories, and textile yarn and related products in 1998, machinery and transportation equipment, electrical products and white goods, and iron and steel industry became the new specialisation areas in 2011. Moreover, the volume of foreign trade substantially increased to 357 billion USD at the end of 2011.

During the period of 1998–2011, not only the structure of the manufacturing industry and the export combination in total export figures changed, but also the share of services sector in GDP increased from 53% to 65% as a reliable indicator of economic development. In the transition period, the Turkish firms that were accustomed to enjoying the advantages of the closed economy and state protectionism demonstrated a reasonably successful performance in domestic and international markets. One possible explanation of this success can be the use and/or the process of recombining the resources and capabilities of the Turkish firms which represent a revealing resource-based view of strategic management at the firm-level in Turkey.

CHAPTER III

LITERATURE REVIEW

3.1. Introduction

In this chapter, the RBV will be examined in a broad context. The historical roots and the developments of the RBV framework with its two streams, dynamic capabilities (DC) and knowledge-based view (KBV), will be presented and the theory's terminology and the main trends in the empirical literature associated with resource-based work will be outlined.

The importance of intangible resources will be emphasised, followed by a discussion of certain intangible resource literature that provided directions for this thesis. Complex interactions and interconnections of different sets of resources and capabilities in the process of creation of firm performance will be examined. The criticisms related to the RBV theory will also be discussed and a summary will be provided at the end of the chapter.

3.2. Resource-based view (RBV)

In the last thirty years researchers have paid considerable attention to internal firm-level factors to explore unexplained variance in firm performance. In considering the heterogeneity among firms in resources as fundamental in explaining why some firms outperform others, the RBV posits such a position (Barney, 1991).

Following the earlier work of Penrose (1959), while not completely omitting the industry effects, Wernerfelt (1984) theorised that firms should be analysed from the perspective of internal and idiosyncratic resources at the firm-level which explain the variation in success among firms competing within the same industry (Wernerfelt, 1984; Barney, 1991; Peteraf & Barney, 2003; Maritan & Peteraf, 2011).

Many researchers (*e.g.*, Kor & Mahoney, 2004; Newbert, 2007; Crook *et al.*, 2008) Barney *et al.*, 2011; Leiblein, 2011; Kor & Mesko, 2013) considered RBV as one of the most dominant and guiding theories in the field of strategic management. Similarly, while Kraaijenbrink *et al.* (2010) characterise the RBV as an appealing, easily grasped and easily taught theory, Lockett *et al.* (2008, p. 1126) suggest that

"teaching business strategy without drawing some insights from the RBV would be very difficult". Obviously, in the light of changing business conditions, firms should deliberately draw attention to the strategic resources and focus on their unique resources rather than try to control and manipulate structural forces in their industries. In this regard, the central focus of this thesis will be the resource-based view (RBV) of the firm.

3.2.1. Origins of the RBV

The resource-based thought or particularly, the RBV theory which was firstly embedded into the strategic management literature by Wernerfelt (1984) can be traced back to Ricardo (1817) who discussed "how rents could be earned due to the ownership of valuable resources that are scarce, immobile and likely to persist in equilibrium".

Although the Ricardian perspective focussed on the static resources such as land rights, the benefits of a prime location, patents and copyrights, it considered the resource-picking skills (as an organisational ability) critically important to discern profitable resources that create competitive advantage. Barney (2001a, p. 645) suggests that "the RBV is simply an extension of Ricardian economics but with the assertion that many more factors – besides land – are inelastic in supply".

In fact, Ricardo was not the only classical economist whose views have influenced the RBV. Schumpeter (1934) regarded "technological innovation" and "creative destruction" as the basis of competitive advantage. For Schumpeter (1934), firm success is not necessarily associated with market power or industry structure, but rather is the result of innovation and new technologies which are critical in influencing the dynamics of external environment and competition. Similarly, Leibenstein (1966) who introduced the concept of "X-efficiency", explained the productivity differences between identical factories with intangible "X-factors" such as labour management relations, incentive systems and selection of workers rather than the specific industry effects or other macro-economic factors.

Despite the contemporary roots of the RBV with the Ricardian perspective, several researchers (*e.g.*, Peteraf, 1993; Kor & Mahoney, 2004; Lockett & Thompson,

2004; Kraaijenbrink *et al.*, 2010; Barney *et al.*, 2011) have considered the work of Penrose (1959) as the most influential work that contributed to the RBV.

Barney *et al.* (2011) explain the evolution of RBV with three stages of product life cycle concept: introduction, growth and maturity. The authors state that the introductory stage commences with Penrose's (1959) study which theorises about how a firm's resources influence its growth. According to Barney *et al.* (2011), whilst Mahoney and Pandian's (1992) work which further delineates the RBV by relating it to core capabilities, "organisational economics and theory on industrial organisation can be accepted as the time of inception for the growth stage" (p. 1301), the theory reaches to the maturity with Alvarez and Busenitz's (2001) study which explains the contributions of RBV to entrepreneurship research.

3.2.1.1. Early years and Penrose's (1959) contributions to the RBV

Penrose (1959) regards firms as complex institutions and characterises them "... as a collection of productive resources the disposal of which between different uses and over time is determined by administrative decision" (p. 24). According to Penrose (1959), dynamic interactions between resources and managerial decisions organised within an administrative framework not only provide a thorough explanation of heterogeneity between firms but also enable firms to have unique advantages relative to their competitors.

Penrose (1959) also suggests that in order for a firm to have unique advantages, the transfer of resources between firms should be difficult and the chance of replication for competitors should be denied since resource scarcity and inimitability secure and protect superior returns. As it is noted, many themes of Penrose's (1959) framework can be linked to the modern RBV. Apart from Penrose (1959), Lippman and Rumelt (1982), Wernerfelt (1984), Barney (1986a,b; 1991) and, Dierickx and Cool (1989) can be seen as the other noteworthy researchers who contributed to the development of the RBV literature in early years.

In later years, the theory was extended by other scholars such as Conner (1991), Kogut and Zander (1992), Amit and Schoemaker (1993), Peteraf (1993), Grant (1996a,b), Teece *et al.* (1997) and, Combs and Ketchen (1999). The significant contributions occurred in the early years of the RBV are summarised in table 3-1.

Table 3-1. Key early works of the RBV

(Barney *et al.*, 2011)

Authors (years)	Major contribution
Penrose (1959)	Theorised about how a firm's resources influence its growth; in particular, growth is constrained when resources are inadequate
Lippman & Rumelt (1982)	Explained the concepts of inimitability and causal ambiguity
Wernerfelt (1984)	Emphasised the value of focusing on firms' resources rather than on their products; coined the term *resource-based view*
Barney (1986a)	Theorised about how organisational culture could be a source of sustained competitive advantage
Dierickx & Cool (1989)	Developed the notion that resources are especially useful when no effective substitutes are available
Barney (1991)	Presented and developed the core tenets of RBV; presented a detailed definition of resources; and articulated the full set of characteristics that make a resource a potential source of competitive advantage
Castanias & Helfat (1991)	Characterised CEOs as firm resources that possess varying (idiosyncratic) qualities and quantities of general, industry-specific, and firm-specific skills
Conner (1991)	Juxtaposed the RBV with industrial-organisation economics in order to demonstrate that RBV was developing as a new theory of the firm
Mahoney & Pandian (1992)	Further delineated the RBV by relating it to core capabilities, organisational economics, and theory on industrial organisation
Kogut & Zander (1992)	Introduced the concept of combinative capabilities; emphasised the importance of knowledge as a resource
Amit & Schoemaker (1993)	Split the overall construct of resources into resources and capabilities
Peteraf (1993)	Outlined the conditions under which competitive advantage exists
Day (1994)	Introduced capabilities framework of strategic competitive advantage
Grant (1996a,b)	Articulated the knowledge-based view of the firm as a spinoff of RBV
Teece *et al.* (1997)	Built on RBV ideas to introduce the concept of dynamic capabilities; in particular, explained competitive advantage as arising from the confluence of assets, processes, and evolutionary paths
Coff (1999)	Initiated discussion of how the excess profits derived from resources might be appropriated by various stakeholders
Combs & Ketchen (1999)	Examined how to reconcile competing predictions from RBV and organisational economics about the choice of organisational form

3.2.1.2. Emergence of the RBV with Wernerfelt (1984)

Wernerfelt was the first researcher who coined the term "resource-based view" in 1984. Wernerfelt (1984) emphasised the internal workings of a firm but did not entirely dismiss industry structure effects, and further linked firm performance to the idiosyncratic and heterogeneous resources of the organisations and proposed that acquisition of these resources are critical for earning above normal returns. Wernerfelt (1984) described the firm as bundles of resources and argued that "resources and products are two sides of the same coin" (p. 171). Newbert (2007) clarifies this expression: "while a firm's performance is driven directly by its products, it is indirectly (and ultimately) driven by the resources that go into their production" (p. 122).

Wernerfelt (1984) theorised that resources were leveraged inside the firm and that each firm had a unique resource endowment (Lockett *et al.*, 2008). Resource bundles represented unique combinations of effectively deployed resources (*e.g.*, machine capacity, customer loyalty, production experience and technological leads) that enable firms to create business strategies that rivals are not able to match and to develop competitive advantage in the markets, eventually (Collis, 1994; Peteraf & Barney, 2003; Sirmon *et al.*, 2007; Chisholm & Nielsen, 2009; Holcomb *et al.*, 2009). Wernerfelt's (1984) work introduced some important ideas into the strategic management literature such as resource heterogeneity among firms and the strategy establishment based on firms' strengths (Lockett *et al.*, 2008).

3.2.1.3. Barney's (1986) role in the development of the RBV and the VRIN criteria

Barney (1991) who defined *competitive advantage* as "an advantage that continues to hold after efforts of others to duplicate the advantage have ceased" (p. 116), suggested that competitive advantage can only be generated and sustained by firm-level resources that are *valuable (V)*, *rare (R)*, *inimitable (I)* and *non-substitutable (N)* – the so-called VRIN criteria framework. Namely, Barney (1991) developed a framework which proposed the necessary criteria for firm resources to possess strategic nature and generate a competitive advantage.

In the RBV, resources are defined as "the tangible and intangible assets that a firm controls that it can use to conceive and implement its strategies" (Barney & Hesterly, 2010, p. 66). Barney (1991) claimed that only the resources that satisfy the VRIN criteria should be termed strategic resources which can improve the firm's efficiency and effectiveness. Barney *et al.* (2001) clarified these strategic resources as managerial skills, organisational processes and routines, and information and knowledge under the control of the firm.

A number of researchers (*e.g.*, Conner, 1991; Barney, 1991, 2001b; Priem & Butler, 2001a) linked the conditions under which resources are valuable to context dependency. Priem and Butler (2001a) suggest that level of the interaction of a resource with the organisational strategy and external environment is the main determinant of the value of a certain resource. Value can be attributed to a resource as long as it enables a firm to exploit market opportunities or neutralise threats from competitors. In other words, a resource can be deemed as valuable when it improves the market efficiency and effectiveness of the owner firm.

Barney (1991) emphasises the importance of the resource rarity stating that rare resources provide competitive advantage; otherwise valuable resources only provide competitive parity. To be able to define a valuable resource as rare, it should not be possessed by large numbers of competing firms. Barney (1991) also adds that "a valuable and rare resource can help sustain a firm's competitive advantage to the extent that the resource is difficult to imitate" (p. 106). The level of resistance to duplication determines whether a resource is inimitable or not. Along with several researchers (*e.g.*, Lippman & Rumelt, 1982; Dierickx & Cool, 1989; Peteraf, 1993), Barney (1991) proposed that the sources of inimitability can be explained by three isolating mechanisms; *historical uniqueness*, *causal ambiguity*, and *social complexity*.

However, in addition to these mechanisms, *time compression diseconomies* and *interconnectedness* have been widely discussed in strategic management literature (Dierickx & Cool, 1989; Mahoney & Pandian, 1992; Bharadwaj, 2000). According to Barney (1991), *historical uniqueness* refers to "unique historical events such as a firm's founding, being taken over by a firm some time in the past by legendary managers or owners, emergence of the unique, valuable organisational culture in

the early stages of a firm's history, choice of facility location decisions which created distinctive location advantages in the following years and choice of market entrance decisions as a first mover, that determined the long term performance of the firm" (p.108). These unique historical conditions endowed firms with resources that cannot be controlled by rivals and that cannot be imitated.

Causal ambiguity refers to "the ambiguity surrounding the connection between a firm's resource portfolio and its performance" (Bharadwaj, 2000, p. 171). Barney (1991) suggests that causal ambiguity exists when the link between its resources and sustained competitive advantage is not understood by competing firms. In this situation, obviously, it is very difficult for imitating firms to duplicate a successful firm's strategies since they do not understand exactly what makes a firm successful. *Social complexity* can be found where resources are based on complex social phenomena (Hambrick, 1987; Barney, 1991) and it significantly constraints the ability of other firms to imitate these resources. Socially complex resources such as interpersonal relations among managers (Hambrick, 1987), corporate reputation of a firm among customers (Roberts & Dowling, 2002) and suppliers (Porter, 1980) and organisational culture (Barney, 1986a) are imperfectly imitable because, although it may be possible for competitors to specify and replicate (or engineer) these resources, there is no guarantee that they can achieve similar valuable benefits since socially complex resources are not subject to direct and standard management (Barney, 1991).

Another mechanism *time compression diseconomies* which is related to "the observed tendency of the costs of resource accumulation to rise within a given time interval" (Lockett *et al*., 2009, p. 15) has also been widely mentioned in the literature. According to Dierickx and Cool (1989, p. 1507), time compression diseconomies refers to "the time needed to develop resources through learning, experience, firm-specific knowledge or, trained proficiency in a skill". Dierickx and Cool (1989) argue that the inimitability of a resource is linked to the characteristics of the resource accumulation process. They state that the degree of the necessity of time, effort and investment for competitors to duplicate a competitive resource can make this resource inimitable at least for some period of time.

Interconnectedness was discussed by Dierickx and Cool (1989) as the last isolating mechanism that helps to secure a resource from being imitated. Resource interconnectedness refers to "the value of a resource being inexplicably linked to the presence of another complementary or co-specialised resource" (Bharadwaj, 2000, p. 171). Lockett *et al.* (2009) explain resource interconnectedness as the link between the existing stock of resources and the cost of adding an increment of another resource to the firm's stock. The closer and more complicated the link, the more difficult for rivals to understand the process and to imitate the competitive resource. A manufacturer which lowers its new product development costs via feedback benefits derived from the same firm's customer service department can be a good example for value creating and imitation preventing resource interconnectedness (Dierickx & Cool, 1989).

Non-substitutability is the final criterion that can be used to test the ability of a resource in terms of sustaining a competitive advantage. If a resource is substituted, then the advantages gained may not be enduring.

3.2.1.4. From VRIN to VRIO

Barney's (1991) VRIN criteria has been criticised by some authors (*e.g.*, Black & Boal, 1994; Powell & Dent-Micallef, 1997) because the dynamics of resource creation had been overlooked in the framework. In addition to this, Black and Boal (1994) argued that imitation could occur through direct duplication or through substitution, and for this reason, non-substitutability was not a criterion itself but a form of "inimitability" that was not referred explicitly in Barney's (1991) VRIN framework. In response to these critics, Barney (1997) modified the VRIN framework to become VRIO (*O – Organisation*) framework which included a focus on the role of organisation in exploiting the full competitive potential of its resources.

Barney and Hesterly (2010) state that a firm must be appropriately organised in order to take full advantage of the potential of its resources and they consider the components of a firm's organisation that can affect the exploitation of resources as a firm's structure, management control systems, formal reporting structure, and compensation policies. The VRIO framework did not only build a strong base for

the theoretical understanding of resource characteristics and firm performance relationship but it also increased the practicability and managerial implications of the RBV (Newbert, 2008; Arend & Lévesque, 2010). The common view about the core tenets of the RBV can be presented by figure 3-1.
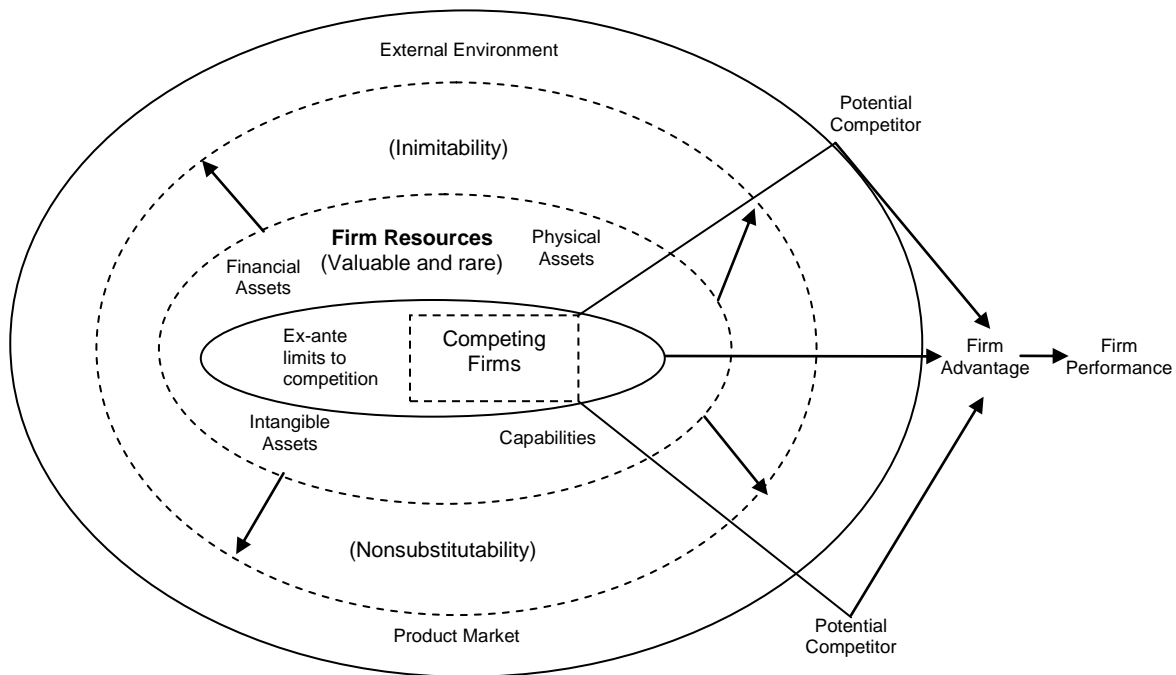
Figure 3-1. Conceptual representation of the RBV

(Galbreath, 2004, p. 23)

Significant new developments in RBV research introduced various streams that extended the scope of the RBV in the last decade. These streams are explained in the following section.

3.2.2. Additional streams within resource-based theory

Since rapid technological development and digitalisation along with globalisation altered the dynamics of global competition and generated a "hypercompetitive" (D'Aveni, 1997) environment in which the development of novel strategies became necessary for competitive survival, the RBV researchers proposed new dynamic and knowledge-based approaches for the companies striving to attain competitive advantage. Two general streams of the RBV, *Dynamic Capabilities (DC)* and *Knowledge-Based View (KBV)* of the firm are outlined below since they will help to ground the theoretical hypotheses of this study.

3.2.2.1. Dynamic Capabilities (DC)

The concept of dynamic capabilities (or interchangeably used as core capabilities) evolved from the resource-based view of the firm (Teece *et al.*, 1997; Eisenhardt & Martin, 2000) and hence, the literature on dynamic capabilities should be viewed as a complement to the RBV (Ambrosini & Bowman, 2009; Drnevic & Kriauciunas, 2011; Maritan & Peteraf, 2011; Kor & Mesko, 2013). Several researchers (*e.g.*, Barney 2001a,b; Priem & Butler, 2001a; Lockett *et al.*, 2009) suggested that the RBV explained how the firms can earn super-profits in equilibrium from a rather static point of view.

Helfat *et al.* (2007) define dynamic capabilities as *"*the capacity of an organisation to purposefully create, extend or modify its resource-base" (p. 4). Thus, the dynamic capabilities perspective posits that the organisations must integrate and reconfigure their resources and capabilities to renew or alter their resource mix to be able to cope with environmental changes (Teece *et al.*, 1997; Eisenhardt & Martin, 2000). According to Fiol (2001, p. 697), "it is no longer possible to gain sustainability for a competitive advantage based on any fixed set of resources, and only continuous changes in resources mix may provide sustainability". Song *et al.* (2007) urge that competitive advantage can only be achieved by the core capabilities which direct firms deploying their superior resources effectively and efficiently (The main differences between the RBV and DC are shown in table 3-2).

Different scholars in the field refer to different organisational and managerial skills as core capabilities For example, whilst Amit and Schoemaker (1993) designate organisational processes as a capability, Day (1994) acknowledges capabilities as "bundles of skills and accumulated knowledge" that are separate from the processes. Grant (1996b) argues that although organisational processes and routines can be regarded as "firm-level capabilities", the fundamental building block of capabilities is know-how. On the other hand, several researchers (*e.g.*, Teece *et al.*, 1997; Fahy, 2000; Wang & Ahmed, 2007) suggest that tacit knowledge and know-how are either hidden somewhere in the organisation or held and exercised by individuals as static intangible resources.

Table 3-2. Comparing and contrasting the views of RBV and DC

(Cavusgil *et al.*, 2007, p. 162)

	Resource-based view	Dynamic capabilities
Conceptualisation	Bundle of heterogeneous resources	Specific organisational processes by which managers alter their resource base
Resources/Capabilities	Idiosyncratic	Commonalities with some idiosyncratic details
Environment	Does not differentiate	Moderately dynamic versus high-velocity market
Competitive advantage	From VRIN attributes	• From valuable, somewhat rare, substitutable DC's • Lies in resource configurations built from DC's

Thus, only the mechanisms that turn these static intangible resources into dynamic nature such as social collaborative platforms or skills of the managers that can facilitate knowledge sharing and help revealing embedded tacit knowledge can be deemed as capabilities (Ambrosini *et al.*, 2007; Holcomb *et al.*, 2009; Weigelt, 2013). The most common point that can be inferred from these definitions is that dynamic capabilities are managerial and organisational processes and their basic role is "to assess the firm's extant resource base and transform it to create a new configuration of resources that can sustain competitive advantage" (Ambrosini & Bowman, 2009, p. 32). Moreover, the literature reflects that "dynamic capabilities are built rather than bought in the market, are path-dependent and are embedded in the firm" (Ambrosini & Bowman, 2009, p. 33).

In spite of having a community of ideas regarding the meaning of dynamic capability, some researchers (*e.g.*, Teece, 2007; Helfat *et al.*, 2007) identified different typologies for dynamic capabilities. Helfat and Winter (2011) who categorise capabilities as dynamic and operational (non-dynamic) capabilities state that "dynamic and operational capabilities differ in their purposes and intended outcomes" (p. 1245). The difference between dynamic and operational capabilities was elucidated by Ambrosini and Bowman (2009, p. 34) as "dynamic capabilities are future oriented, whereas operational capabilities are about competing today, and they are static if no dynamic capabilities are deployed to alter them". However, they also suggest that it is not possible to draw a bright line between these capabilities. It is obvious that the growing literature on dynamic capabilities has

provided an expanding set of specific examples to researchers in recent years. However, Newbert's (2007) research about the assessment of resource-based articles has shown that the capabilities approach is the least employed framework among the resource-based grounded studies.

Those empirical studies identified specific examples of dynamic capabilities such as acquisition processes (Barney & Arikan, 2001), customer relationship (Chari & David, 2012), supply chain management (Barney, 2012), client-specific capabilities (Weigelt, 2013), organisational structure reconfiguration (Karim, 2006), resource divestment (Moliterno & Wiersema, 2007), managerial ability (Holcomb *et al.*, 2009), marketing capabilities (Vorhies *et al.*, 2009; Nath *et al.*, 2010), strategic decision making (Shamsie *et al.*, 2009) and network ties (Mahmood *et al.*, 2011).

Although core capabilities have been discussed in the literature in explaining how to achieve competitive advantage, Leonard-Barton (1992) argued that because of the excessive stickiness to existing resources and capabilities, core capabilities may turn into *core rigidities* in the long run which hamper creativity and innovation skills of the firms. For this reason, Leonard-Barton (1992) suggests that firms should be attentive to replace some resources and capabilities when their dysfunctional side begins to inhibit too many projects.

Lavie (2012) illustrates how a core capability can turn into a core rigidity through Xerox example: although Xerox possessed "path-breaking technologies such as the personal computer, Windows-based operating system, and laser printer" (p. 320) that were invented by the top scientists and engineers employed in its Palo Alto Research Centre (PARC) recently, "it failed to deploy these internal technologies in commercial products" (p. 320) because of the unawareness of its managers about these resources, strict organisational bureaucracy, and improper "incentive systems that limited Xerox's ability to push these resources to prospective corporate users" (p. 320) and caused to a great loss for the firm.

In summary, the dynamic capabilities approach is considered as an offshoot of the RBV (Teece *et al.*, 1997; Cavusgil *et al.*, 2007; Drnevic & Kriauciunas, 2011) since it provides a thorough explanation about how the current stock of VRIN resources can be regenerated. In order to be able to achieve competitive advantage, firms

must continue to invest for the resources that create new strategic growth alternatives and they must possess some dynamic capabilities (Teece *et al.*, 1997; Wang & Ahmed, 2007; Ambrosini & Bowman, 2009). The following section discusses the other major stream within the resource-based view; knowledge-based view of the firm.

3.2.2.2. Knowledge-based view (KBV)

KBV theorises that firms exist since markets cannot create and transfer valuable knowledge efficiently (Kogut & Zander, 1992; Spender, 1996; Zollo & Winter, 2002). Hence, the main logic behind the KBV can be explained as the development, transfer and spread of rare and valuable knowledge which is deemed as the most important strategic resource, throughout the organisation in order to create value that constitutes a basis for sustained competitive advantage (Nonaka, 1994; Grant, 1996a,b; Grant & Baden-Fuller, 2004; Bogner & Bansal, 2007; Palacios *et al.*, 2009).

Kogut and Zander (1992) indicate that knowledge consists of know-how (procedural knowledge) and information (declarative knowledge). According to Kogut and Zander (1992, p. 385), know-how is "the accumulated practical skill or experience that allows one to do something smoothly and efficiently". In Grant's (1996a,b) view, know-how is the source of a firm's sustainable advantage, because it is firm-specific and relatively immobile in nature.

Spender (1996) focuses on the dynamic side of the knowledge-based view such as knowledge creating, processing and transferring rather than on knowledge per se as an economic asset. The author is arguing that competitive advantage is more likely to derive from intangible firm-specific knowledge and stresses the importance of the conversion of static knowledge into dynamic processes (*e.g.*, from declarative to procedural knowledge and; from tacit to explicit knowledge).

The importance of *creation*, *integration* and *application* of knowledge was especially emphasised in the KBV literature (March, 1991; Nonaka, 1994; Spender, 1996; Grant, 1996a; Droge *et al.*, 2003). Droge *et al.* (2003) suggest that while some firms only focus on the application of knowledge rather than its creation which is vitally important for creating and building knowledge resources, others put

their all efforts into knowledge creation and overlook the application and usage of knowledge in the organisation which is also necessary to fulfil organisational purposes.

In order for a firm to transform inputs into outputs, integration of individual and specialised knowledge to the organisational units is essential and knowledge integration can only be achieved by mechanisms such as transfer, direction, sequencing and routines (Nonaka, 1994; Grant, 1996a, 1997).

Table 3-3. Comparing the RBV and the KBV

(Adapted from Conner, 1991 and Galbreath, 2004)

Resource stream

Main Theme	Resource-based view	Knowledge-based view
Locus of attention is the firm and its resources	Firms are bundles of resources including tangible and intangible resources	Firms exist to integrate and coordinate individual, specialised knowledge
Source of competitive advantage	Strategic resources (theorised to be intangible resources)	Individual knowledge and operational routines (intangible resources)
Isolating mechanisms	History, specificity, immobility, path dependency, causal ambiguity, non-equivalency	Span of knowledge integration, internal knowledge replication, non-transferability of knowledge, time compression diseconomies
Key management challenge	Accumulating, developing, and deploying rent-yielding (*i.e.,* strategic) resources	Coordination and internal transfer of specialist knowledge

Consequently, in the resource-based literature, the difference between the KBV and the other theories of the firm has always been questioned. While Moran and Ghoshal (1996) explained the main difference between the other theories and the KBV as "the KBV shifts the focus from the historically dominant view of value appropriation to value creation" (p. 43), Grant (1997) considered the KBV as the "climax" of resource-based theory. Conner (1991) notes the differences between the traditional RBV and the KBV in table 3-3.

As the concern for the KBV grows in strategic management literature, various forms of the knowledge-based approach such as *intellectual capital* (Davenport & Prusak, 2000), *knowledge management* (Teece, 1998) and *organisational network as knowledge* (Kogut, 2000) have also evolved.

3.2.3. The focus on intangible resources

The International Accounting Standards' (1998) article 38 defines intangible resources as "non-monetary assets without physical substance held for use in production or supply of goods and services, for rental to others, or for administrative purposes that are identifiable, that are controlled by an enterprise as a result of past events, and from which future economic benefits are expected to flow to the enterprise".

Several scholars (*e.g.*, Hitt *et al.*, 2001a; Shamsie *et al.*, 2009; Chisholm & Nielsen, 2009) argue that the firms which have the similar factor endowments of financial and physical resources will not be able to deal with the intense competition in today's dynamic and competitive business environment. Chisholm and Nielsen (2009) who fall into this category of scholars contend that "in this new and modern economic system, firms rely far less on homogenous factors of production and much more on differentiated resources to achieve competitive advantage" (p. 10).

Shamsie *et al.* (2009) suggest that talent, know-how, technology, creativity, and innovation are the resources that are crucial to success in new economy where the competition is fierce. Similarly, Barney (1991) claims that firms can compete in this rapidly changing business environment via heterogeneous intangible resources rather than homogenous tangible resources since intangibles are more likely to be rare, valuable, and imperfectly imitable.

D'Aveni (1997) and Solow (1999) hold that resources tangible in nature are durable, subject to depreciation and have clear legal ownership so that they can be easily bought and sold in markets whereas grasping an intangible resource is extremely difficult. In line with these views, many researchers (*e.g.*, Itami & Roehl, 1987; Barney, 1991; Hall, 1992, 1993; Michalisin *et al.*, 1997; Carmeli, 2001; Hitt *et al.*, 2001a; Carmeli & Tishler, 2004; Ambrosini & Bowman, 2009) argue that focus on the use of *intangible* resources (*e.g.*, human know-how, organisational culture, reputation, brand name) as opposed to *tangible* resources (*e.g.*, capital, property, equipment) increasingly becomes the most important strategic issue.

Indeed, empirical studies that were conducted to measure the relative effects of tangible and intangible resources on firm performance revealed a number of

intangible resources which were related to performance. These identified intangible resources can be described as employee know-how (Hall, 1992, 1993; Coff, 1999), firm-specific tacit knowledge (Wiklund & Shepperd, 2003; Wang *et al.*, 2009), human capital (Hitt *et al.*, 2001b; Russo & Harrison, 2005; Ambrosini *et al.*, 2007), innovation (Palacios *et al.*, 2009), customer relationships (Aaker, 1989; Ambrosini *et al.*, 2007), firm reputation and organisational culture (Hall, 1992; Roberts & Dowling, 2002; Rindova *et al.*, 2010), social capital (Chisholm & Nielsen, 2009), entrepreneurial skills (Hoskisson *et al.*, 2000), and information technology (Powell & Dent-Micallef, 1997; Ray *et al.*, 2013).

RBV suggests that firm-specific intangible assets which provide important advantages to firms are the most desirable resources in sustaining competitive advantage (Chisholm & Nielsen, 2009; Surroca *et al.*, 2010). Some researchers (*e.g.*, Itami & Roehl, 1987; Wernerfelt, 1989) state that financial and physical assets have a relatively fixed long-run capacity compared to intangible resources which have relatively unlimited capacity. This feature of intangible resources creates such a potential that "they can be used simultaneously in more than one area without reducing value in other areas" (Galbreath, 2004, p. 43). Grant (1996a) highlights that this situation bestows great advantage to firms in exploiting both economies of scale and scope.

Furthermore, duplication difficulty of intangible assets is argued to be another eminent advantage compared to tangible assets (Barney, 1991; Amit & Schoemaker, 1993; Michalisin *et al.*, 1997). In the light of these suggestions and empirical evidence, many firms tend to increase their investments in intangibles such as research and development, software, education and training, advertising, and marketing, while investments in gross fixed tangible resources have been decreased (Tanriverdi & Lee, 2008; Wang *et al.*, 2009).

Consequently, Teece (1998) summarises the key intangible resources of wealth creation in today's business environment as "new enterprise formation, the renewal of incumbents, the exploitation of technological know-how, intellectual property, and brands, and the successful development and commercialisation of new products and services" (p. 76).

3.2.4. Empirical research on the RBV

As the RBV advances its theoretical framework, a growing number of empirical studies using resource-based approach have appeared in the literature (Barney & Arikan, 2001; Armstrong & Shimizu, 2007; Crook *et al.*, 2008). Barney and Arikan (2001) assert that the resource-based logic has not only been conducted in the strategy literature but also in a diverse assortment of management related disciplines such as human resources, marketing, entrepreneurship, and technology and innovation management.

Against the growing interest in resource-based streams of research and important contributions of recent and past studies, the number of empirical studies examining the relationship between firm-level resources and performance outcomes is still limited and needs further exploration (Lockett *et al.*, 2009; Kraaijenbrink *et al.*, 2010; Barney *et al.*, 2011). Having reviewed the past empirical work of the RBV, Barney and Arikan (2001) identified six distinct topic areas in current research: "firm versus industry effects, the impact of different resources and capabilities, corporate strategies, international strategies, strategic alliances, and rules for riches" (p. 146). Among these distinct bodies of research which utilise the RBV, the linkage between firm-specific resources along with the capabilities and performance has specifically been examined by researchers (Barney & Arikan, 2001). While each topic with their growing bodies of empirical research can be concerned as a rich source for the RBV literature, "the impact of different resources and capabilities" [on firm performance] is the most relevant issue to the current thesis.

Aaker's (1989) qualitative study of a number of CEOs in California was one of the earliest contributions to examining resource (and/or capability) performance relationship. Results of the interviews in which the CEOs were asked to identify the sources which provide sustained competitive advantage to their firms revealed quality, corporate image and reputation, customer orientation, brand name recognition and employee retention as the top five sources of advantage. However, although the study was quite successful in bringing to light the intangibles that may contribute to performance, it was criticised by some researchers (*e.g.*, Michalisin *et al.*, 1997; Galbreath, 2004) because of its theoretical and statistical weaknesses.

Hall (1992, 1993) has examined the relative contribution of 13 intangible resources which were elicited in his previous 1987 and 1990 studies, to firm performance by two empirical studies. In his 1992 study, he surveyed 95 CEOs in the United Kingdom representing firms which have at least 100 employees and asked them to rank 13 resources in order of importance as they perceive to their firm's success. According to survey results, employee know-how, company reputation, product reputation, organisational culture and networks are perceived as the most important resources that make contribution to firm success.

In his second study that can be deemed as a follow up to his 1992 research, Hall (1993) aimed to explore the crucial intangible resources in business success. Six firms based in the UK were studied by case method that included structured interviews with either the Managing Director or Personnel Director of the organisations. The findings were similar to those of the 1992 study since company reputation, product reputation, employee know-how, perception of quality standards, and ability to manage change along with participative management style as the attributes of organisational culture were seen as the most important resources for firm success.

Against many similarities occurred in the results of 1992 of 1993 studies of Hall, the attempt to break down organisational culture which was construed as a certain resource in 1992 study, into six attributes such as perception of quality, perception of customer service, ability to manage change, ability to innovate, team working ability, and participative management has appeared as the main difference between two studies. Despite their important contributions, Hall's (1992, 1993) studies were subject to certain limitations and have been criticised by some researchers (*e.g.*, Michalisin *et al.*, 1997) because of the research design used in 1993 study and the weaknesses in theoretical grounding along with the lack of statistical rigorousness (*e.g.,* psychometric evaluation of constructs and tests of significance).

Miller and Shamsie (1996) examined the impact of property- and knowledge-based resources on firm performance, in two different environments in the Hollywood film industry between the years of 1936 to 1965. The study yielded firm results about both property- and knowledge-based resources' positive impacts on performance in

both stable and predictable environments, and changing and unpredictable environments (Galbreath, 2004). In a similar vein, Welbourne and Wright's (1997) study investigated the relative predictive value of the resources culture, human resource management, management, product/marketing, and technology on initial public offering (IPO) firms' stock price performance over time. Results revealed that the management resource was perceived as the most important contributor to firm performance overall whereas management and technology had positive effects on stock price performance.

Powell and Dent-Micallef (1997) explored the direct and indirect relationships between information technology (they have evaluated information technology from the hardware side as computers and equipment, and accordingly, considered it as a specific tangible resource), and firm performance. In doing this, the researchers tested both the contribution of information technology as a stand-alone resource and as a complement to the other constructs, human and business resources in contributing to firm performance. While the tests that investigate the direct impact of information technology itself on firm performance did not find a significant relationship, the interaction of human and business resources with information technology yielded significant relationships that explain performance differences. Based on these findings which indicate the importance of intangible resources in effecting firm performance positively, Powell and Dent-Micallef (1997, p. 394) concluded that "in order to gain advantages from tangible resources, integration with complementary intangible resources is a must". Powell and Dent-Micallef's (1997) study captured the attention of other scholars because of its striking results that stress the importance of possible moderating and mediating mechanisms between tangible and intangible resources in explaining firm performance.

Schroeder *et al.*'s (2000) research supported Powell and Dent-Micallef (1997) to the extent that the interaction of tangible (proprietary process and manufacturing equipment) and intangible resources (external and internal learning abilities) may contribute to firm performance more than that of the contribution of resources alone. The results of their study showed that the integration of external and internal learning with proprietary process and manufacturing equipment yielded better

performance results compared to the performance results created by the resources individually.

Carmeli's (2001) study furthered the work of Hall (1992, 1993) by investigating intangible resource profiles of high- and low-performing firms. A self-administrated survey was conducted on a sample of 10 Israel-based public firms by asking CEOs of these organisations to rate how 22 intangible resources that were identified in previous studies (*e.g.*, Itami & Roehl, 1987; Aaker, 1989; Hall, 1992, 1993) compared with respect to the VRIN criteria cited by Barney (1991). Results of the study indicated that organisational strategy was perceived as the most valuable intangible resource among high-performing firms whereas marketing and selling were rated as the most valuable by low-performing firms. Although Carmeli's (2001) work was deemed as a progressive study in the RBV literature, it was criticised because of its small sample size, the use of incomplete list of intangible resources and the lack of statistical rigour.

Roberts and Dowling (2002), and Boyd *et al.* (2010) tested the relationship between the reputation constructs (*e.g.*, brand reputation, corporate image) and firm performance. Their studies yielded similar results that prove a positive correlation between reputation and firm performance.

Hatch and Dyer (2004) explored the human capital investment and performance relationship in the semiconductor industry. Results indicated a significant impact of superior human capital experience on learning performance of employees which is ultimately turned into cost savings.

Similarly, Galbreath and Galvin (2008) investigated the effects of intangible resources which consisted of company reputation, copyrights, culture, customer service reputation, designs, human resource management policies, organisation structure, patents, product reputation, and trademarks in explaining performance variation in firm performance. The findings revealed that intangible resources were the most important determinants of performance variation in the overall sample.

The study of Palacios *et al.* (2009) that was carried out in 222 from the Spanish biotechnology and telecommunications industries showed that knowledge assets and effective knowledge management had a positive impact on innovation and

entrepreneurship performance of the firms. Surroca *et al.* (2010) examined the effects of a firm's intangible resources on firm success which was measured by corporate responsibility performance and financial performance with the use of a database comprising 599 companies from 28 countries. Results indicated that corporate responsibility performance stimulated the development of intangible resources such as innovation, human capital, reputation and organisational culture which led in turn to improved financial outcomes. Hence, the study revealed a different role of intangibles as a mediator in explaining firm performance. The authors concluded that "the development of intangibles is the key factor in improving both financial and responsibility performance" (Surroca *et al.*, 2010, p. 483).

Network ties, structures and social networking relationships as intangibles were investigated in recent years. Mahmood *et al.*'s (2011) research which examined the effects of multiplex network ties such as buyer-supplier equity, network structure and network density as capabilities on R&D and financial performance found a rigorous relationship. The support to Mahmood *et al.*'s (2011) research came from Acquaah (2012) who investigated the relationships between social networking and firm-specific managerial experience, and firm performance. Based on the data obtained from 106 firms in Ghana, the firms that can use social networking relations and firm-specific managerial experience effectively yielded much better performance compared to other firms.

In a more recent study, Weigelt (2013) examined the effects of suppliers' IT capabilities on the performance of client firms on market arrangements along with financial performance by using the archival data on 964 U.S. credit unions contracting with 22 technology solution providers. The findings indicated a strong relationship between suppliers' IT capabilities and client firms' performance.

3.2.5. RBV and resource possessions within the emerging market context

When the empirical RBV section of the strategic management literature was examined, little empirical research with respect to emerging markets was found. Having reviewed the limited number of resource-based studies on emerging markets, some differences between developed economies and emerging markets

were observed in terms of resource possessions along with resource investments and related business strategy practices of the firms due to the relative importance of the resources on firm performance creation depending on different economic, political and social structures (Hoskisson *et al.*, 2000; Raymond *et al.*, 2001; Yang *et al.*, 2009; Purkayastha *et al.*, 2012). These differences are explained in the following sections.

3.2.5.1. Priorities of firms in resource possession

Whilst developed country firms compete in foreign and domestic markets through a more balanced and broader marketing-driven approach, emerging market firms have far relied mainly on their cost and price leadership advantages, and their experience with operating in challenging environments (Khanna & Rivkin, 2001; Purkayastha *et al.*, 2012). According to Purkayastha *et al.* (2012), production and cost concerns of the emerging market firms have always been more than that of developed country firms. Hence, against developed country firms that deployed their resource-base through intangibles (especially marketing capabilities), most of the emerging market firms have high tangible resource intensity and they have made new investments into their physical asset bases as well as upgrading the existing ones (Kaufmann & Roesch, 2012; Norman *et al.*, 2013).

However, it would be difficult to suggest that developed country firms do not have cost concerns but several studies *(e.g.*, Raymond *et al.*, 2001; Intekhab, 2011) show that when they focus on cutting costs they shift their investments to intangible resources (such as software, knowledge *etc.*) that enhance technological developments and know-how creation. Conversely, in a study that was conducted in Turkey (Garten, 1996), because of the lack of substantial intangible asset ownership and the availability of physical resources such as labour, many Turkish firms have specialised in producing high volume of products at lower costs.

Another factor that influences resource possession differences between developed country firms and emerging market firms can be explained through corporate growth strategies that they adopt. Research (*e.g.*, Coff, 2002; Puranam *et al.*, 2006) shows that whilst emerging market firms prefer growing organically or via establishing business groups, developed country firms generally act in favour of

acquisition strategies. The absence or inefficiency of external intermediate institutions such as financial and market intermediaries results in firms developing these institutions internally or merging with other firms in emerging markets (Hoskisson *et al.*, 2000; Purkayastha *et al.*, 2012).

However, developed country firms have mostly been potential acquirers for the large emerging market firms as well as small to medium enterprises (through private equities or venture capitals) in the world markets (*e.g.*, Intel's acquisitions of dozens of firms in Taiwan, South Korea, India, China and Philippines). Prior research (*e.g.*, Ambrose & Megginson, 1992; Puranam *et al.*, 2006) has shown that a firm's tangible resource intensity affects its attractiveness and being acquired becomes more likely as a firm's tangible resource intensity increases. Norman *et al.* (2013) suggest that developed country acquirers are often attracted to emerging market firms that possess highly valued tangible resources since "the nature of tangible resources provides potential acquirers the opportunity for clear due diligence and valuation" (Coff, 2002, p. 119). Hence, emerging market firms that are aware of this situation may make investments mostly to their tangible resource-base to become an attractive acquisition target for developed country firms at a premium pay.

3.2.5.2. Institutional effects on resource and capability accumulations

Key institutional forces in emerging markets such as "government quality, the extent of state ownership, and the degree of financial development, impact upon the structures and behaviours of firms including their investments, financing, governance and growth" (Kearney, 2012, p. 160). The types of resources and capabilities that firms acquire over time are related to the institutional environment surrounding them. In emerging markets, bureaucracy and government is too much involved into business and corruption level in these countries can be high. Hence, it is very difficult to achieve economic advantages such as obtaining licences whose number is often limited by a government or accessing to valuable and scarce raw material in these markets without establishing good relationships with politicians and government institutions. Moreover, the absence or inefficiency of government and financial institutions is a common situation in emerging markets (Purkayastha *et al.*, 2012). For this reason, emerging market firms may have

developed better relationship-based management and networking capabilities that substitute the lack of institutional infrastructure compared to developed country firms.

3.2.5.3. Environmental dynamism and capability development

Environmental dynamism may influence the resource-base and development of capabilities of the firms (Kearney, 2012). Jansen *et al.* (2006, p. 1665) present "frequent changes in industry structure, the instability of market demand, and the probability of environmental shocks" as the most important elements of environmental dynamism. Emerging markets are described as "highly dynamic and turbulent environments where rapid and discontinuous changes are common" (Schilke, 2014, p.180). The presence and efficacy of dynamic capabilities has been equated with environmental conditions characterised by high dynamism in the RBV literature (Zollo & Winter, 2002; Zahra *et al.*, 2006; Schilke, 2014). Prior research (*e.g.*, Hoskisson *et al.*, 2000; Cavusgil *et al.*, 2013; Liu *et al.*, 2013) shows that emerging market firms which operate in business environments where high environmental dynamism occurs have acquired different capabilities compared to developed country firms.

The most striking difference in capability possession between developed country and emerging market firms that was affected by environmental dynamism is that whilst developed country firms use organisational routines, emerging market firms highly utilise from business processes (Drnevic & Kriauciunas, 2011; Liu *et al.*, 2013). It is simply because, routines are the repetitive joint actions embedded in firms which regulate and standardise procedures, decisions, solutions, and to some extent the way of doing business of the firms (Salvato & Rerup, 2011; Dionysiou & Tsoukas, 2013).

Namely, routines aim to offer standard procedures and solutions to the firms when they are faced with problems in order to minimise resource wastages (time, money *etc.*) and increase organisational efficiency. Hence, many of the organisational routines may be very stable such as production procedures, new product development processes, quality and inventory management, pricing or recruitment (Becker, 2004). Because organisational routines are standard and stable in nature,

they may restrict the strategic flexibility, modification and manoeuvring capabilities of the firms. However, strategic flexibility which "allows firms to respond quickly to dynamic and unstable environmental changes by committing resources to new courses of action, and recognise and act promptly when it is time to halt or reverse existing resource commitments" (Liu *et al.*, 2013, p. 82) is particularly important for the firms operating in emerging markets.

In contrast to organisational routines, business processes such as IT skills, ERP, electronic data interchange (EDI), and supply chain management (SCM) systems provide firms agility and enable them to respond market demands quickly (Ray *et al.*, 2004, 2013). Apart from the turbulent and fluctuating business environments, emerging market firms must deal with a high variety of market segments along with rapid and discursive consumer shifts that may emerge as a consequence of divergent income distribution and low education levels of consumers (Cavusgil *et al.*, 2013).

In this situation, effective IT and SCM systems help firms to address market needs (*i.e.*, changing product ranges and/or accelerating product logistics) rapidly. Additionally, knowledge management capabilities which reveal tacit and embedded organisational knowledge and provide sufficient intelligence pertaining to current and future customer needs, competitor strategies and actions, channel requirements, and the broader business environment through different kinds of social software tools can increase responsiveness of the firm. So, strong dynamic capability possession of emerging market firms in terms of business processes and knowledge management capabilities compared to other developed country firms is coherent with their strategic flexibility requirements in turbulent environments.

3.2.5.4. Cultural effects on resource possessions

Cultural effects are influential to determining the resource investment decisions and capability development efforts of the emerging market firms (Zahra *et al.*, 2006; Kearney, 2012). The dimensions of culture such as "assertiveness, competitiveness, decisiveness emotional expression, value perception, family cohesiveness, tolerance of inequality, group loyalty, inclusiveness, respect for tradition and social responsibility" (Kearney, 2012, p. 179) can be important

determinants of resource possessions of firms by affecting the consumption patterns and the way of doing business in emerging markets.

For example, value perception that is defined as "consumer's overall assessment of the utility of product (or service) based on perceptions of what is received and what is given" (Zeithaml, 1988, p. 4) creates significant differences in consumption patterns of the countries. In a study, Sharma (2010) found that materialism had a growing trend in emerging markets, whilst it was slowing down in developed countries. Supported with the increasing exposure to global media and the depiction of western life-styles in local media, the desire for high-quality and/or luxurious goods and services might increase among consumers in emerging markets (Shukla, 2012). In relation to this argument, the report of Bain & Company. (2011) predicts that "85% of all luxury stores will be opening in emerging markets over the coming decade". The report also draws attention to the growing trends of conspicuous consumption in large emerging markets such as China, India, Russia and Brazil as well as in smaller emerging markets such as Malaysia, Egypt, Thailand and Turkey.

These consumption trends that were shaped by cultural dimensions may compel emerging market firms whose main concern is low-cost production to shift their focus to developing reputational intangible resources such as branding and corporate image.

As mentioned above, the relative importance of the resources on firm performance may differ radically in emerging markets because of the different economic and social factors. Given the limited number of emerging market studies and the inaccuracy of the studies that were carried out in developed countries to reflect the performance realities in emerging economies, new emerging market studies are needed.

Hence, this thesis aims to contribute to the understanding of resource possessions of emerging market firms and performance realities in emerging markets through providing an empirical study from Turkey. In the next section, creation of firm performance through the interaction of different sets of resources

and capabilities which is another challenging issue in the strategic management literature (Maritan & Peteraf, 2011; Sirmon *et al.*, 2007, 2011) is discussed.

3.2.6. Creation of firm performance through resource orchestration

In recent years, the RBV's focal point has been to gain insights about managing strategic resources effectively since a firm's ability to acquire, bundle, deploy and develop resources through complex social and organisational capabilities is more important than absolute resource levels in achieving sustainable competitive advantage as well as driving performance (Teece, 2007; Maritan & Peteraf, 2011; Sirmon *et al.*, 2007, 2011). As of yet, the "black box" role of these social and organisational capabilities in creating firm performance is an unexplained issue in the RBV research which needs further examination (Maritan & Peteraf, 2011; Sirmon *et al.*, 2007, 2011; Bridoux *et al.*, 2013; Huesch, 2013). Sirmon *et al.* (2011) and Bridoux *et al.* (2013) suggest that a complete understanding of the interactions, causal relationships and other value-creating mechanisms among resources and capabilities is not only a necessary condition for managers to make effective decisions regarding their own resource investments but also an important issue for academics to build a more accurate resource-based theory.

While Foss (2011) emphasises the importance of knowledge-based capabilities such as routines and knowledge sharing and management tools in incorporating firm-level resources, Maritan and Peteraf (2011) who introduce a process-oriented perspective state the resource-capability linking role of managerial and business processes in explaining the generation of firm performance. Additionally, Sirmon *et al.* (2011) focus on the facilitating role of knowledge in resource-capability interactions and the pioneering role of networking capabilities such as the idiosyncratic relationships between firm managers (Ahearne *et al.*, 2014) and other business parties that may lead to effective strategic partnerships in creating firm performance.

Huesch (2013) combines the arguments of these RBV scholars and discusses about the synergy created by the positive interaction of productive and quality resources with managerial capabilities using business processes (*i.e.*, IT systems, intranet, EDI, and ERP) and knowledge-based routines and other tools (*i.e.*, social

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relations of employees, mobile and digital social media tools, websites and call centres). The existence of complementarities among resources and capabilities in creating firm performance is a common perception in the RBV research (Sirmon *et al.*, 2011; Huesch, 2013).

Argyres and Zenger (2012, p. 1649-51) illustrate the complementarity and synergistic interactions among resources and capabilities with Walt Disney example:

> "In the 1950s and 1960s, Disney created a number of famous characters such as Mickey Mouse and Donald Duck (**intellectual property-intangible resources**) and developed a unique capability in animation (**animation production capability**). However, following Walt's death, Disney failed to appreciate animation's key role in generating value. The board decided to hire Michael Eisner as CEO (**strategic decision making capability**). After a detailed internal analysis and information gathering about the future trends (**knowledge management**), Eisner rediscovered Disney's strategic map specifying the unique complementarities among Disney's activities and assets (**managerial processes**). As a consequence, the company decided to diversify its activities such as theme parks, books, movies *etc*. By the mid- to late 1990s, Disney had clearly lost its superior capability in animation since Pixar have developed a unique technology in producing animations. Disney made a contractual agreement with Pixar to produce five animated films for Disney (**managerial processes and networking capabilities**). Thus, Disney governed access to a uniquely complementary animation capability through a contractual relationship with Pixar. Disney eventually acquired Pixar and the acquisition was completed in January 2006 for 7.4 billion dollar in stock (**strategic decision making capability, managerial processes and financial tangible resources**)".

Hence, different types of interactions between tangible and intangible resources along with capabilities created sustainable competitive advantage for Disney that lead firm performance. However, as stated by Maritan and Peteraf (2011) and Sirmon *et al.* (2011), the nature of these interactions is still unknown in the RBV literature and more attention should be paid to "how" questions in order to have a better understanding about the underlying mechanisms of firm performance.

The resource-capability interactions on the way of creating performance are just more than complex and still remain opaque in strategic management literature (Maritan & Peteraf, 2011; Bridoux *et al.*, 2013). However, these interactions that are called micro-foundations certainly need to be explained thoroughly to be able to understand the performance related issues in the organisations (Teece, 2007; Foss, 2011). Micro-foundations of the RBV are defined "as the foundations that are rooted in individual action and interaction" (Foss, 2011, p. 1414).

According to Foss (2011), the roles that micro-foundations play in explaining firm-level performance are critical since they take into account individual level heterogeneity of resources, address macro-constructs such as routines and capabilities in terms of individual behaviours, explain how the links between macro variables are mediated by micro-mechanisms related to behaviours, and investigate how strategic dynamics may be rooted in individual characteristics and behaviours. Abell *et al.* (2008) claim that links between macro variables are always mediated by individual action and interaction and for this reason, the micro-foundations have a certain explanatory power. Among micro-foundational issues, appropriation, routines, work top management teams, leadership characteristics of owners and managers, creative skills of managers and employees, strategic human resource management, management of knowledge and relationships established with external parties along with networking capabilities can be mentioned (Foss, 2011; Argyres & Zenger, 2012).

Maritan and Peteraf (2011) suggest that lack of thorough investigation of micro-foundational aspects of the RBV limited the understanding of the issue of how intangibles, routines, capabilities and firm performance are linked. Most of the RBV studies which were based on statistical data sources (*e.g.*, Powell & Dent-Micallef, 1997; Schroeder *et al.*, 2000; Roberts & Dowling, 2002; Galbreath & Galvin, 2008; Surroca *et al.*, 2010; Weigelt, 2013) that measure the links between a single resource or a number of resources and firm performance provided atomistic evaluations about specific resource-performance relationships rather than offering a holistic understanding about the creation of performance in an organisation.

However, "the ability of a firm to create performance is a function of multitude of factors" (Levitas & Ndofor, 2006, p. 139) and "firms generally compete by deploying bundles of complementary resources" (Foss, 2011, p. 1384). Therefore, resource-based competition along with performance creation cannot be understood through analysing an independent single transaction of resources. For example, when the relationship between corporate reputation and firm performance is measured, it is likely to have results that justify a positive relationship between two constructs.

Although the study can show that corporate reputation (or image) is linked to firm performance, it may not provide information about how corporate reputation was transformed to firm performance which may be more important for practitioners and theorists than just being aware of the existence of this relationship. Sometimes corporate reputation can only be a source of firm performance as long as it can be used effectively in marketing campaigns or launching new products. Market and product decisions are made by managers and different managerial decisions may result to different performance levels. So, explanation of the roles of marketing or other managers and also other micro-foundations (*e.g.*, leadership characters and risk taking attitudes of the managers and/or human resource management policies of the firm that motivate the managers, creative skills of employees) in the creation of performance in an organisation may remain unveiled in the study.

A similar example can be given for innovation and performance relationship. At the macro-level, a strong relationship between innovation and performance can be found. But as long as the interdependencies and interactions among micro-foundations (such as organisational culture that supports the creative skills of the employees or managerial interventions that boost innovative thinking atmosphere in the organisation) are not explained and the roles and effects of these heterogeneous complementarities on innovation performance are not revealed, innovation capability of the organisation cannot be managed.

To increase performance of the firm, innovation and creative skills of the organisation should be increased as well. To achieve this, managerial intervention is required. Although the managers cannot directly affect the innovativeness of the firm, they can influence capabilities by hiring new employees with new characteristics and creative skills or by creating conditions that favour the accumulation of certain kinds of human capital or by modifying the architecture of the organisation in favour of flat structure rather than hierarchical structure. So, managerial intervention plays a mediating/moderating role in the relationship between innovation and performance and without analysing these interventions, performance creation process cannot be understood.

Apart from managerial interventions and organisational interactions, complex network of interconnections of other resources and capabilities in the process of

performance creation can be explained by another example. A number of studies (*e.g.*, Ray *et al.*, 2004; Hult *et al.*, 2007) found a significant relationship between distribution capability and performance. What researchers found was a direct relationship. In fact, distribution capability is only part of a system of resources and capabilities responsible for an enduring competitive advantage and it may determine other resources and capabilities by interacting with other micro-foundations. Namely, distribution can provide further knowledge of logistical efficiencies and knowledge of customers (Levitas & Ndofor, 2006). Knowledge obtained provides the impetus for developing new products and desired areas for expansion. Through expanding to new markets and/or segments, more cash can be obtained as a performance indicator. Hence, creation of firm performance is difficult to be understood if the resources and/or capabilities are studied individually. But as a result of collective and conjoint actions of resources and capabilities, performance creation process belongs to an exceptionally intricate and complex web of links that is beyond true comprehension of RBV researchers (Levitas & Ndofor, 2006; Foss, 2011; Bridoux *et al.*, 2013). What is known and what needs to be explored in this process is depicted in figure 3-2.
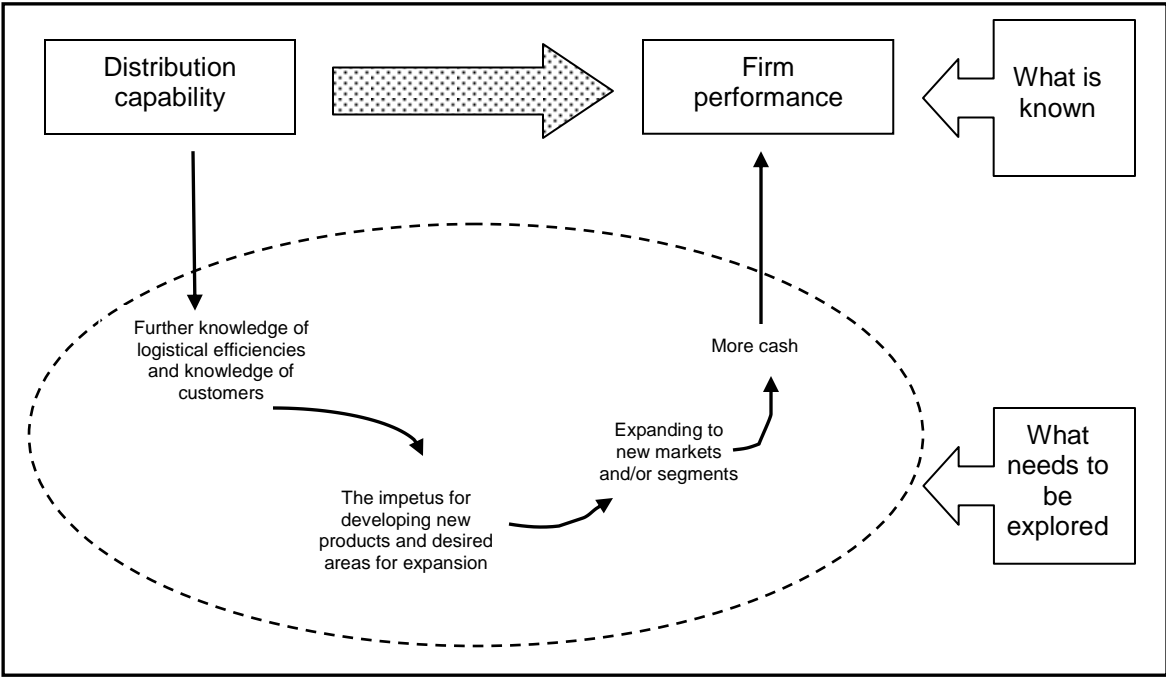
Figure 3-2. Performance creation process in organisations

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The fact that managers and even theorists cannot understand the performance creation process that was explained above may result to the ignorance of identifying the resources and capabilities critical to sustainable competitive advantage. In order to address this gap which is consistent with its second objective, this thesis aims to explain the complex resource-micro foundation-performance relationships by providing several illustrations and analysing causal mechanisms derived from the case studies. Although many studies have made significant contributions to improve and legitimise the RBV in the field of strategic management, several challenges in empirically testing the RBV that are discussed in the following section still remain (Armstrong & Shimizu, 2007; Molloy *et al.*, 2011; Hill *et al.*, 2012).

3.2.7. Limitations and criticisms of the RBV

Based on an extensive literature review which involves the most relevant and recent studies (*e.g.*, Priem & Butler, 2001a,b; Acedo *et al.*, 2006; Newbert, 2007; Armstrong & Shimizu, 2007; Lockett *et al.*, 2009; Kraaijenbrink *et al.*, 2010; Hill *et al.*, 2012) analysing the theoretical and empirical development of the RBV, the criticisms of resource-based theory can be classified into four main areas; (1) terminological confusion and vagueness in resource definitions associated with the RBV; (2) failure in becoming a robust and rigorous theory of the firm because of its tautological nature; (3) limited applicability and usefulness with no managerial implication and infinite regress; (4) lack of strong empirical evidence with respect to the sufficiency of VRIN/O criteria and achievability of sustained competitive advantage.

The lack of agreement on the use and definitions of terms (which is consistent with the first objective of this thesis) that directs researchers to the different ways of understanding of the various resources has received significant criticism in the RBV literature (*e.g.*, Williamson, 1999; Fahy, 2000; Hoopes *et al.*, 2003; Nag *et al.*, 2007; Kraaijenbrink *et al.*, 2010). In a meta-analytic study based on a total of 447 articles placed in the leading journals, Nag *et al.* (2007) found that the terminology in the RBV literature is rather mixed and confusing. Similarly, through a content analysis, Molloy *et al.*'s (2011) study revealed 186 intangible resource constructs that were used or examined in recently published RBV studies. Besides, because

of the puzzling inclusive definitions of resources (*i.e.*, R&D and advertising intensity, patents, human capital leverage and investment), the RBV can neither sufficiently acknowledge the distinction between the resources and capabilities, nor can it address how different types of sources may contribute to firm performance in a different manner (Kraaijenbrink *et al.*, 2010).

Kraaijenbrink *et al.* (2010) comment that acceptance of all-inclusive definitions can turn everything in a firm into a resource and "many attributes such as trust, cost leadership, economies of scale, and learning curve economies might also be considered resources" (p. 358). The authors claim that in this case every resource can be used to sustain competitive advantage. However, authors like Caloghirou *et al.* (2004) and Barney and Clark (2007) suggest that efforts in developing a common definition of terms are not necessary because different definitions are just labels for the same basic logic that the RBV holds.

Another significant and perhaps the most fundamental critique is that the RBV is not a new and original theory of the firm and still strives to differ materially from transaction cost economies (Conner, 1991; Kogut & Zander, 1992; Priem & Butler, 2001a,b; Newbert, 2007; Lockett *et al.*, 2009; Kraaijenbrink *et al.*, 2010). Priem and Butler (2001a,b) who elucidate the tautological (saying the same thing twice) nature of the RBV argue that the RBV's main prescription is rather insufficient to meet the law-like generalisation standards. In another commentary, Lockett *et al.* (2009) conclude that "the RBV is certainly prone to circular reasoning" (p. 17). Against these critics, Hoopes *et al.* (2003) and Dosi *et al.* (2008) comment that especially with its focus on the coordinative and integrative capabilities, and knowledge creation, the RBV contributed to explain why firms are better at rent creation than others. Kraaijenbrink *et al.* (2010) suggest that the RBV seems more a complement to transaction cost economies rather than a new theory but there is "no reason to require the RBV to meet the criteria for a theory of the firm" (p. 355).

The third major criticism (which is under investigation of this thesis as the second research objective) is the limited applicability of the theory that appeared as a result of neglected process (managerial and organisational or business) and routine issues and the underestimated concern given to the emerging interactions of resources while creating value (Kraaijenbrink *et al.*, 2010; Sirmon *et al.*, 2011).

Priem and Butler (2001a,b) claim that the RBV lacks valuable managerial implications and operationalisability through actions. The main issue is therefore to determine whether the RBV offers results that a manager would find useful (Arend & Lévesque, 2010). Newbert (2008) asserts that the RBV gives straightforward advice to managers to develop and obtain strategic resources that are congruent with VRIN/O criteria but it does not give any clue on how this should be done.

The last criticism (which is also consistent with the third research objective of this thesis) is the lack of empirical verification of the RBV (*e.g.*, Armstrong & Shimizu, 2007; Newbert, 2007; Lockett *et al.*, 2009; Kraaijenbrink *et al.*, 2010; Hill *et al.*, 2012). Lockett *et al.* (2009) state that methodological choices along with the identification of unobservable resources and the difficulties of VRIN/O resources measurement limit the generation and testing of direct hypotheses. According to Priem and Butler (2001a,b), the VRIN/O criteria are ultimately true by nature and but they are not amenable to empirical tests.

Apart from the problematic measurement nature of the VRIN/O resources, several researchers (*e.g.*, Powell & Dent-Micallef, 1997; Fiol, 2001; Kraaijenbrink *et al.*, 2010) argue that VRIN/O criteria are not necessary to explain sustained competitive advantage. They further claim that "the locus of sustained competitive advantage lies in the characteristics of individuals and teams making up the firm rather than in resources or market failures" (Kraaijenbrink *et al.*, 2010, p. 356). Fiol (2001) and Kraaijenbrink *et al.* (2010) assert that no sustained competitive advantage can last forever and a sustained competitive advantage cannot be derived from a static set of resources.

To date, in fact, only a few studies (*e.g.*, Barney & Arikan, 2001; Armstrong & Shimizu, 2007; Barney & Clark, 2007; Newbert, 2007; Crook *et al.*, 2008; Arend & Lévesque, 2010) related to the systematic assessment of the RBV's empirical verification have been observed in the literature. The first known study that aims to assess the empirical validity of the RBV belongs to Barney and Arikan (2001). Based on a sample of 166 empirical articles, Barney and Arikan (2001) conducted a study which found 162 of the studies were consistent with the RBV logic. Hence, they would seem to validate the RBV as a "true" theory.

However, Newbert (2007) suggests that Barney and Arikan's (2001) study is premature and should not be used "to assess the actual level of support for the RBV" (p. 122) since it did not treat non-findings (such as insignificant regression coefficients) as inconsistency indicators and identified the sample with a selection bias.

In a comprehensive review of 125 empirical studies, Armstrong and Shimizu (2007) examined the operationalisation of resource-based constructs and the research designs used in the RBV literature. Armstrong and Shimizu's (2007) findings were mixed and inconclusive. The results indicated that current quantitative research design and methods that have employed large scale surveys with strong bias and type II errors have limited its application in strategic management research (Rouse & Daellenbach, 1999; Armstrong & Shimizu, 2007). The authors concluded that quantitative studies should be supported with qualitative and field based methodologies which are more appropriate to reveal the complex nature of the resources and organisations. Short *et al.* (2007) specifically aimed to test the relative effects of firm-level resources, strategic groups and industry level resources on firm performance based on ROA, *Tobin's Q* and *Altman's Z* by a study using data on 1,165 non-diversified firms from 12 industries across seven years. They found that although three variables are significantly associated with performance, the firm-level resource effects are the strongest. However, the study yielded quite general results and the results were unable to explain the effects specific resources. Another well-known work that investigates the empirical support and verification of the RBV is Newbert's (2007) study. His study which was conducted on a sample of 55 empirical articles indicated that only 53% of the tests assessed in the study were empirically supported.

The other major facet of the RBV research is, certainly, the strategic resource and performance relationship. Perhaps the most elaborate study exploring the strategic resource and performance relationship was that of Crook *et al.* (2008). In a meta-analytic study comprised of 125 empirical articles that collectively encompass 29,000 organisations, they have examined how strongly strategic resources relate to performance. The findings revealed that "22% of the utility available from predicted performance differences across organisations is provided by strategic

resources identified by researchers" (Crook *et al.*, 2008, p. 1150). Another interesting and important finding was the relative contributions of the resources that meet the VRIN/O criteria and the ones that do not meet. Results for the second hypothesis of the study indicated that resource measures that meet VRIN/O criteria are more strongly related to performance than measures that do not meet the criteria.

Similarly, in a more recent study, Arend and Lévesque (2010) tested the relationship between strategic resources and performance by a simulation study. Contrary to the expectations, the results revealed that "a resource with relatively low levels of critical VRIO characteristics provided a firm with statistically significant sustained superior performance" (Arend & Lévesque, 2010, p. 927). The researchers concluded that the RBV requires complementary support from other theories of performance to provide more practical value.

Critique of the RBV	What needs to be explored	How it was addressed in the thesis
All-inclusive definitions of resources and capabilities.	An adequate definition and conceptualisation of resources and capabilities.	A solid resource and capability list was generated and a conceptual framework was offered.
Lack of strong empirical evidence and the problem of generalisation.	More empirical RBV studies in different settings.	An empirical study that aims to test research findings with regard to major general constructs (tangible and intangible resources and capabilities) was conducted. Idiosyncratic, unique and context-specific resources were analysed individually.
Limited applicability and usefulness with no managerial implication because of the ignorance of the performance creation process in organisations.	The complex network of interconnections and interactions of resources and capabilities in the process of performance creation should be investigated.	The complex resource-micro foundation-capability-performance relationships were examined with all details by providing several illustrations and analysing causal mechanisms (causal network models) derived from the case studies.
Most of the studies were conducted in similar settings (in developed countries) which resulted to similar findings.	The RBV research should focus on emerging economies since performance realities and priorities of firms in resource possession may differ.	An RBV study was carried out based on new and current data in an emerging market and the findings were discussed within the context of Turkish economic, political, social and cultural environment.

Table 3-4. The gaps in the RBV research and how they were addressed in the study

Overall, it would not be too erroneous to conclude that empirical studies within the RBV stream have not been very successful in identifying which sort of resources are the most important determinants of firm performance. Thus, researchers examining the true sources of competitive advantage should employ new methods and research designs that are adequate to the complex nature of the RBV. So far, the major criticisms with regard to the RBV were analysed. Table 3-4 aims provide a better understanding about the weaknesses in the RBV research and how this study will contribute to the existing resource-based theory. Despite these criticisms, the RBV still appears to be a major strategic management theory which attracts many researchers (Barney *et al.*, 2011). So, in the light of the logic of the RBV, the key managerial challenge is to achieve sustained competitive advantage and maximise value through the optimal deployment of existing resources, while developing the firm's strategic resource base for the future.

3.3. Chapter summary

The resource-based view of the firm (RBV), largely developed in the last decade, has been considered as the most recent thinking on clarifying performance variability and has attracted the attention of many researchers. In the area of resource-based theory, two general streams (*i.e.*, the capabilities school and the knowledge-based theory of the firm) which share some common viewpoints have emerged. Firstly, in both streams, idiosyncratic resources have been highlighted as determinants of firm performance and sources of competitive advantage. Secondly, isolating mechanisms that surround resources, such as historical uniqueness, causal ambiguity, social complexity, time compression diseconomies and interconnectedness, create competitive environments where availability and replicability of resources by other firms is largely undermined.

Finally, although firm-level resources include both tangible and intangible ones, all streams agree that not every resource can be a source of sustained competitive advantage. Referring to the isolating mechanisms, resources that are intangible in nature are considered as the strategic resources. Hence, the optimal deployment of resources should be regarded as the key management challenge.

A number of criticisms concerning the RBV were presented in strategy literature. However, a large number of researchers associated the weaknesses of the RBV with the lack of adequate identification of the resources. Furthermore, Hoopes *et al.* (2003) suggest that vague resource construct definitions did not only incapacitate the past empirical research but also limited the attempts at replicating results. So, the limited explanation available through the use of vague resource categories in resource-based studies directs researchers to explore new research designs which can enhance the understanding of the relationships between resources and firm success. Having summarised the literature review, the research methodology which will be used to fulfil the aims of the research, is presented in the next chapter.

CHAPTER IV

RESEARCH METHODOLOGY

4.1. Introduction

The selection of a research methodology is crucial since it guides the conduct of the research and affects the quality and the accuracy of research results (Scandura & Williams, 2000; Creswell, 2003). Remenyi *et al.* (1998) stress the critical role of an appropriate methodology choice in obtaining thorough knowledge about a specific problem. So, this chapter describes the methodology developed to fulfil the proposed research objectives and justifies the selection of the research method chosen.

The chapter begins by presenting major research paradigms and their relevance to the research design for this study. Moreover, the methodology choices in previous strategic management research are examined, and the mixed-method approach including case study and survey methods employed in this research along with the rationale behind the choice of this specific method is explained. Next, a description of the process and other elements of the qualitative research (*i.e.,* unit of analysis, pilot and in-depth interviews, observations and documentation, case study protocol, and triangulation of data) along with the interview questions used in data collection procedures which constitute the first phase of the mixed-methods research design employed in this study are presented.

4.2. Positivism and phenomenology paradigms

The research methods literature provides two major research paradigms: positivism and phenomenology (Collis & Hussey, 2003). Nonetheless, different labels for these paradigms are frequently used in the methodology literature. While rationalist, normative and quantitative terms are interchangeably used to describe the positivism paradigm, phenomenology is often termed as social constructivism, interpretivism and qualitative research.

The main principle of the positivism paradigm underlies the separation of the researcher (subject) and the research object to increase the chance of getting impartial results (Maqsood, 2006). Positivists suggest that "exploration can only be

based upon observed and captured facts using direct data or information" because of the concrete and external nature of the world (Easterby-Smith *et al.*, 2002, p. 25). In order to prevent (or at least minimise) any subjective effect that can be exerted by the researcher, standard procedures must be used in conducting research. The rationale behind this separation lies in the facilitation endeavours of the research process coherence through hypotheses testing. Hypotheses connect two disjointed parts of the research process and the aim of a research activity is to refute them (Maqsood, 2006).

In contrast to the positivism paradigm, the phenomenology paradigm posits that "the real world is determined by people rather than by objective and external observable facts" (Easterby-Smith *et al.*, 2002, p. 26). Truth and reality are deemed as social phenomena that do not act independently from social actors. Dynamics of social events along with the human activity make the social world too complex to be explained in simple positivist terms.
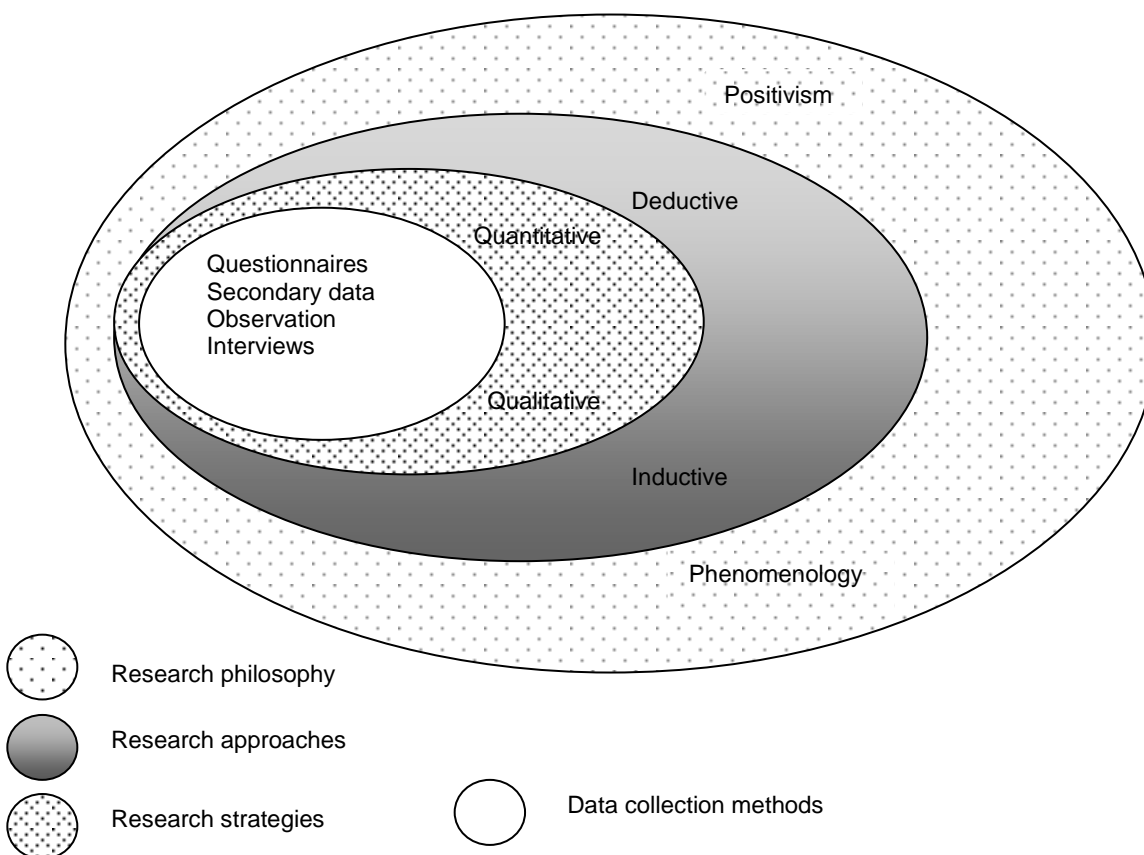
Figure 4-1. The research process

(Song, 2007, p. 73)

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Obviously, this complex world cannot be explored without discovering all details of social relations, events, situations and the mechanisms behind such situations (Remenyi *et al.*, 1998; Collis & Hussey, 2003). In the phenomenological paradigm, human activity was concerned with "a collection of symbols expressing layers of meaning" (Maqsood, 2006, p. 93).

Therefore, the phenomena can only be analysed and understood through "assessing the meanings that participants assign to them" (Rastrick, 2008, p. 54). The philosophical differences between two paradigms in terms of research approaches, research strategies and data collection methods that they use are shown in figure 4-1. Two main philosophical paradigms use different research approaches; deductive approach and inductive approach (Creswell, 2003; Corbetta, 2003).

4.2.1. Deductive versus inductive approaches

The deductive approach which was mainly adopted by positivist paradigm is "a theory testing process that commences with an established theory or generalisation and seeks to examine whether theory applies to specific instances" (Lin, 2007, p. 132). The reason for using this approach is to design a research strategy that aims to test hypotheses through developing and validating measures of key constructs (Creswell, 2003). Researchers who seek to falsify initial findings objectively, and look for support from alternative elucidations utilise the deductive approach (Collis & Hussey, 2003). Dealing with the research problem from the other end is the application of the inductive approach. The phenomenology paradigm tends to adopt inductive approach. The reasoning process of the inductive approach moves from the particular to the general and the conclusion arises from one or more particular facts or pieces of evidence (Corbetta, 2003).

Hence, the inductive approach is about theory building rather than theory testing which starts with data collection followed by a search for patterns and relationships in the data (Lin, 2007). Then, theory is derived from the accumulation of generalised patterns (or from the data collected and empirical observations) (Saunders *et al.*, 2007). Whilst research paradigms define the sources from which

data are collected and provide a general plan to conduct a research, research approaches specify the details of data collection and analysis (Corbetta, 2003).

4.2.2. Quantitative versus qualitative research methods

In general, two different types of data collection methods are mentioned in the research methodology literature; quantitative and qualitative data collection methods. There is still an ongoing argument among the defenders of positivist and phenomenological paradigms about the usability of these research methods. According to positivists, qualitative data do not exist since "everything is distinctively measurable, either 1 or 0, black or white" (Maqsood, 2006, p. 93).

However, phenomenology paradigm researchers oppose this view by claiming that "all data are basically quantitative and so they attach meaning to raw experience, words or numbers" (Maqsood, 2006, p. 93). Such arguments have been continuing for a long time in the research methodology literature.

Quantitative methods which emphasise quantification in the collection and data analysis, aim to make predictions and explanations that are general to other circumstances and settings (Song, 2007; Kovacic, 2008). Based on rigid sampling, quantitative methods obtain data through questionnaire surveys, on-site observations and secondary data sources and use statistics tools to analyse the data and draw meaningful conclusions. In quantitative analysis, measurable relationships between identifiable constructs are explored and established hypotheses are tested (Scandura & Williams, 2000; Corbetta, 2003).

In comparison, qualitative methods neither seek to test or measure the relationships between the constructs nor offer any predictions for the phenomena examined. Unlike quantitative methods, qualitative methods do not intend to explore representative samples. Mainly, the qualitative research methods aim to investigate and understand a phenomenon through describing a scenario that uses words rather than numbers in the collection and analysis of data (Yin, 2003; Saunders *et al.*, 2007).

Theory building is at the heart of qualitative research (Yin, 2003). Several researchers (*e.g.*, Glaser, 1992; Corbetta, 2003) consider qualitative methods more insightful and holistic than quantitative methods. Examples of qualitative

analysis methods include case study, grounded theory, ethnography, and action research

In order to resolve the ongoing debate on the supremacy of one method over another one, Patton (1990) proposes that different methods can be employed through an approach of "triangulation" which refers to the combination of several research methods to study the same phenomenon (Denzin, 1988). The weaknesses, problems and intrinsic biases that may emerge from single method or single theory research can be overcome by triangulation (Patton, 1990; Molina-Azorin, 2009). The process of triangulation also provides an ample opportunity to increase the validity and the reliability of the explanation and the findings of social phenomena through convergence of different perspectives (*i.e.*, quantitative testing). Therefore, this study employs triangulation to have a rich understanding of social phenomena and to test the relevant hypotheses that aim to measure cause effect relationships. The triangulation of the literature, qualitative and quantitative research is schematised in figure 4-2.

Literature Review

Qualitative Research
(Case study method)

Quantitative Research
(Survey method)
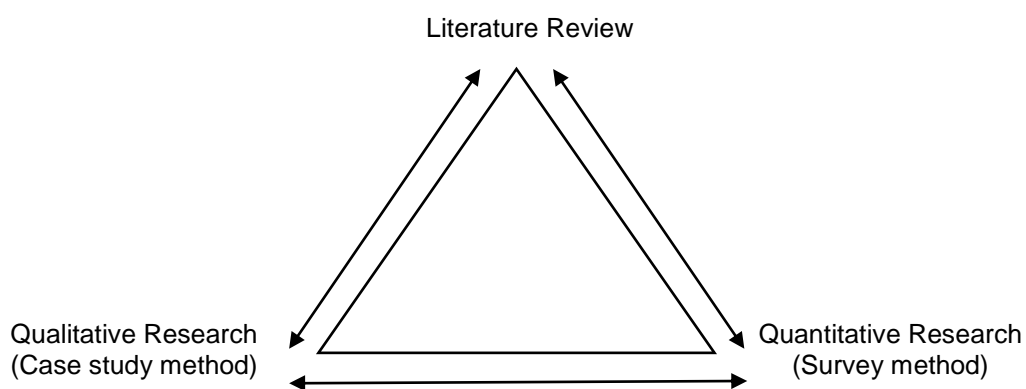
Figure 4-2. The methodological triangulation

In the first phase of the methodological triangulation procedure, after a general literature review, the research area was defined and the themes pertinent to research objectives and questions were investigated by a multiple case-based qualitative study. Since the aim of this research was to investigate the veiled or less examined issues of the powerful RBV theory rather than to build a new theory, the qualitative findings were compared critically with the existing RBV literature to ensure the internal consistency and reliability of the study.

Hence, a mutual relation between the literature and the qualitative investigation was established in the first side of the triangle. In the second phase of the procedure, qualitative findings were used to establish a quantitative measurement instrument and important qualitative data were substantially integrated with the quantitative investigation. In this way, the rich and comprehensive picture of resources and capabilities generated by the case studies was empirically tested across large samples. As such, a multiple confirmation of findings that enhanced the reliability of the study was implemented by measuring the same constructs with different methods. With the qualitative and quantitative research interaction, the second side of the triangle was formed.

Lastly, triangulation procedure of the research was completed by comparing the findings of the study with previous empirical RBV research. In doing so, it was aimed to eliminate the possibility of making radical theoretical mistakes and assess the theoretical and practical contribution of the study to previous literature. The chapter continues with the explanation of the methodological choice of this study along with the rationales behind methodology selection.

4.3. Methodology selection and underlying rationales

In the field of strategic management and in the RBV, a variety of methodologies that depend on the issue under examination were employed. As an overall investigation regarding the use of research approaches in strategy research, Molina-Azorin (2009) studied the research methods as represented in articles from all issues of the *Strategic Management Journal* from 1997 to 2006. The review of 570 empirical articles revealed that of these empirical articles over three quarters were quantitative 77% (n=441) and only 23% (n=129) of articles were qualitative and mixed-methods (Molina-Azorin, 2009). This study illustrates that there is a high level of usage and acceptance of quantitative methods within the strategic management field. In a similar line, Molloy *et al*. (2011) and Molina-Azorin (2012) state that quantitative methodology is very prevalent in strategy research.

When examined historically, among early strategic management researchers, Ansoff (1965) and Andrews (1971) focused on the practical aspect of strategy and did not pursue purely for deductive advancement. The main consensus was that

the deductive approach to strategy research was unsuitable and the generalisation of findings was neither feasible nor desirable because of the complexities of each firm studied and the uncontrollable nature of variables used in research (Galbreath, 2004). Hence, the preferred research approach was induction especially focusing on qualitative methods such as detailed case studies of single firms or industries (Hoskisson *et al.*, 1999; Galbreath, 2004). In the years that followed, many strategy researchers (*e.g.*, Aaker, 1989; Hall, 1992, 1993; Carmeli, 2001; Fahy, 2002) conducted their studies with the emphasis on qualitative methods and inductive reasoning approaches. However, the heavy emphasis on qualitative approaches in strategy research has been criticised by other academic disciplines (*i.e.*, economics) as well as from management scholars (*e.g.*, Michalisin *et al.*, 1997; Williamson, 1999; Levitas & Chi, 2002; Armstrong & Shimizu, 2007).

Since the criticisms about the scientific nature of the strategic management field have increased, the methodological choice has shifted from qualitative, inductive based studies to quantitative, deductive approaches in order to elevate the area to a more "scientific academic discipline" (Hoskisson *et al.*, 1999). A number of researchers (*e.g.*, Welbourne & Wright, 1997; Powell & Dent-Micallef, 1997; Spanos & Lioukas, 2001; Galbreath & Galvin, 2008) have empirically tested the resource – firm performance relationship based on various financial and market measures such as market share, profitability, stock price increases, market-to-book ratios and sales growth.

Particularly, with the use of secondary data sources (*i.e.*, COMPUSTAT, PIMS, CRSP, FTC), quantitative methods became rather attractive to RBV researchers and the number of studies that includes quantitative testing with respect to resource – performance effect has increased. This approach is considered appropriate to assess the influence of resources on firm performance that was necessary for validation and generalisation of the RBV. However, since there were no generally accepted accounting standards to report the value of intangibles, researchers employed "proxy measures such as investment in advertising or research and development" to use in their analysis (Galbreath, 2004, p. 138).

Therefore, the unobservable nature of intangibles has created difficulty in measuring resource constructs and made secondary data difficult to use and

assess with sufficient validity (Das & Teng, 2000; Newbert, 2007; Crook *et al.*, 2008; Molloy *et al.*, 2011). Moreover, resources are organisational in origin and complex, and neither their identification nor their role in creating competitive advantage can be assessed by large scale industry studies (Rouse & Daellenbach, 1999). So, alternative methods including a combination of different approaches that capture data for construct development and measurement along with empirical testing are required (Saunders *et al.*, 2007; Harrigan, 2009). One approach is the use of mixed-methodology including quantitative and qualitative methods together.

Mixed-methods research is found in the strategy and RBV literature but it is rarely used (Harrigan, 2009; Molina-Azorin, 2012). In his RBV specific study, Molina-Azorin (2009) found nearly 30 research articles (*e.g.*, Sharma & Vredenburg, 1998; Rouse & Daellenbach, 1999; Hatch & Dyer, 2004; Dyer & Hatch, 2006; Tanriverdi & Lee, 2008) using mixed-methods that have been published in all the issues of *Strategic Management Journal* between 1984 and 2006.

As an illustrative example of mixed-methods research, Sharma and Vredenburg (1998) conducted a two phase qualitative – quantitative (QUAL → QUAN) sequential research design in the Canadian oil and gas industry which aims to ground the RBV of the firm within the domain of corporate environmental responsiveness. In the first phase (exploratory), the linkages between environmental strategies and the development of capabilities along with the nature of any emergent capabilities and their competitive outcomes were examined through in-depth interviews in seven firms in the Canadian oil and gas industry. The first phase ended with a qualitative content analysis and two hypotheses based on previous literature and the findings of qualitative study. In the second phase (confirmatory), the relationship between emergent linkages and competitive outcomes was empirically tested through a mail survey-based study. Whilst the qualitative phase helps to get to know the industry, and develop theory, hypotheses and the measurement instrument, the quantitative phase empirically examines the relationships for generalisation and verification purposes.

In another RBV study which examines the role of network knowledge resources in influencing firm performance in the American automotive suppliers industry, Dyer and Hatch (2006) employed a mixed-methods research that consists of a

quantitative – qualitative (QUAN → QUAL) sequential design. In the first phase of the study, the relationship between customer-to-supplier knowledge-sharing activities and the rate of improvement in supplier network performance was empirically examined by the quantitative part. Based on the empirical findings, 13 interviews (in the qualitative part) were conducted to explore why the supplier performs better as a member of one network (*i.e.*, Toyota's) than another network (*i.e.*, GM, Ford, or Chrysler) in the second phase.

Therefore, mixed-methods research as "a midway between the fineness of detail of case studies and the large-sample empirical studies using data analysis techniques" (Harrigan, 2009, p. 122) was used by researchers in the RBV and strategy literature to assess different facets of a phenomenon.

4.3.1. Selecting mixed-method approach for the research

Selection of the appropriate methodology must be consistent with the research objectives. So, from the research point of view, this thesis seeks to explain a variety of complex issues and organisational phenomena and attempts to generate empirically robust results through the data obtained from a large population of firms in the Turkish business context.

Harrigan (2009, p. 125) highlighting the importance of methodology selection in strategy research suggests that "hypotheses concerning strategy are complex and researchers who have relied on either single case studies or large database methodologies are missing important aspects of the construct they study".

Since the unique and unobservable nature of resources made nearly impossible to generate standard resource identifications, each resource-based research examining the resource-performance relationship may require its own construct definition (Barney *et al.*, 2011; Molloy *et al.*, 2011).

Hence, definitions enable construct development and, given the lack of a standardised nomenclature, the need for defining a resource pool that can be used for construct clarity in this RBV research is apparent. As the first objective of this thesis, this research seeks to develop a pragmatic, if not perfect, resource framework in which resources can be adequately defined and conceptualised.
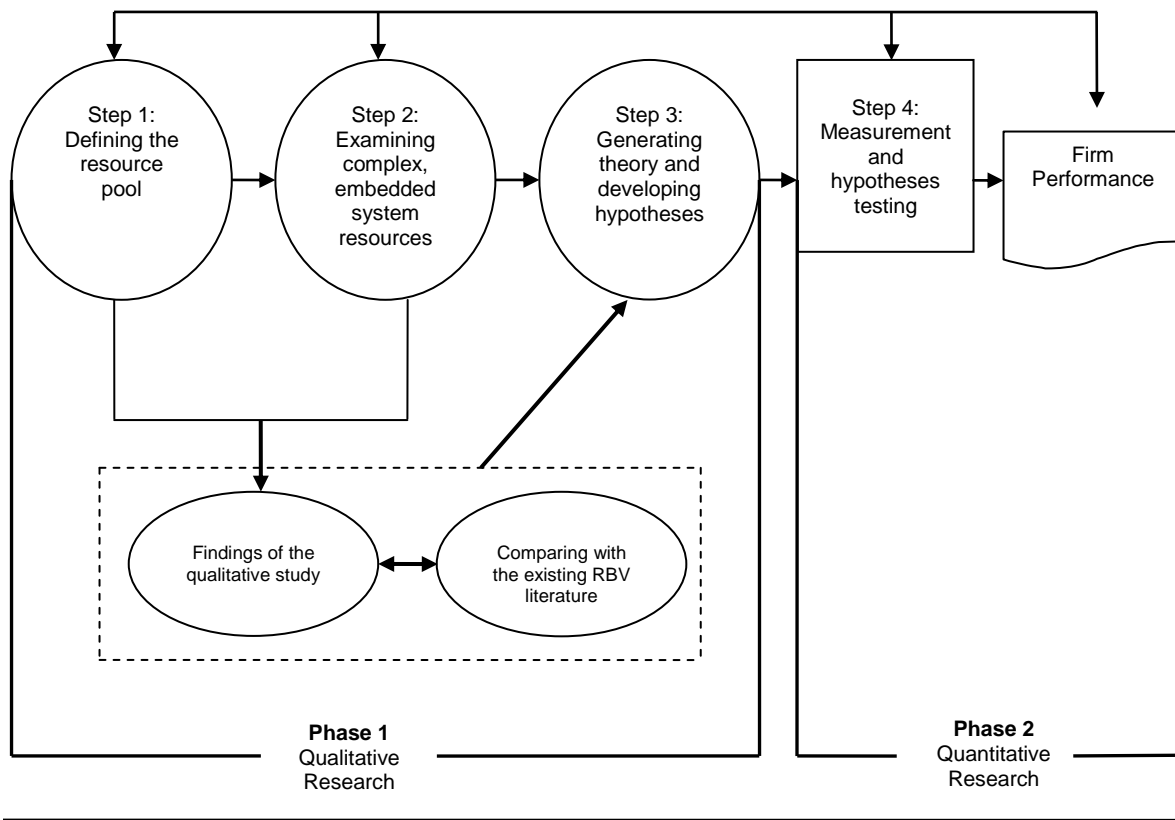
Figure 4-3. Brief representation of the research methodology adopted for the study

(Adapted from Molloy *et al.*, 2011, p. 1508)

As the second objective, this study also aims to explain the complex system of resources and capabilities. That is, to examine how the complex and embedded system resources might lead to firm success.

In order to address the first and second aims of this research, the researcher used a qualitative research strategy in the form of a multiple case study method that takes an inductive approach to forming links between the literature and empirical research. By using inductive approach, the researcher created his subjective meanings as they interact with the world and attempted to understand phenomena through assessing the meanings that participants assign to them. Inductive approach can be used to peruse various aims such as providing descriptions, generating a completely new theory, or developing an existing theory (Collis & Hussey, 2003). Apart from defining the resources and capabilities in a coherent manner, this research aims to develop an existing theory with regard to complex interaction and interconnections of different sets of resources and capabilities on

the way of performance creation in firms. Hence, generation of a completely new theory is not the main focus of this study.

The literature review was used as a guide in developing seed interview questions and the critically important resources for firm performance that were identified in previous RBV studies were used as discussion points in the interview process. Then it was aimed to develop or modify the existing RBV theory through a methodology that is grounded in data systematically gathered by multiple sources. The theory is "grounded" because it is related to and grounded on the qualitative data collected (Glaser & Strauss, 1967). Whilst the literature helped the researcher to form meta questions, no hypothesis to test and no theory under construction were included (Eisenhardt, 1989) in this qualitative analysis. Since grounded theory is not rigidly structured as some positivistic paradigms (Glaser, 1992), it allowed the researcher to adopt inductive development and modification of theory through qualitative analysis. However, the findings from grounded theory may have limited generalisability since they are stand alone findings and may not be applicable to all settings (Collis & Hussey, 2003). At this stage, quantitative studies can be very suitable complementarities of qualitative studies that include grounded methods (Collis & Hussey, 2003; Harrigan, 2009).

Therefore, in order to increase the generalisability of qualitative findings, the research process continued with a sequential quantitative study. In the process of transition from qualitative to quantitative investigation, the qualitative findings played a crucial role especially in developing hypotheses. Creswell (2003) suggested that "problems best suited for quantitative research are those requiring a description of trends or an explanation of the relationship among variables" (p. 94). As the last objective of this study, a number of hypotheses derived from the qualitative components were tested empirically through the data collected from a large sample of Turkish firms. Thus, based on the research objectives, the combination of quantitative and qualitative research techniques emerges as an appropriate option for this study. A brief representation of the research methodology adopted for this study is depicted in figure 4-3.

Since the quantitative methodology of this research will be elaborated after the qualitative investigation in Chapter VII, more details regarding the qualitative components and procedures are provided in the next section.

4.4. Qualitative approach adopted: Inductive case study

An inductive case study method that offers "a rich content of organisational complexity from an insider's perspective by providing insightful stories" (Collis & Hussey, 2003, p. 68) is found appropriate in the first phase of this study for a number of reasons. First, it is consistent with the research questions that are grounded on "understanding" the main sources of performance in organisations. Specifically, *in* organisations was outlined in the research questions and the research regards organisations as the main focus. Rouse and Daellenbach (1999) suggest that the roles of complex system resources should be examined *in* natural organisational settings and there is no need for the researcher to control and manipulate behavioural events neither in identifying nor in examining resources and capabilities. Thus, the *in* organisations aspect of this study points out the choice of a case study.

Additionally, given the complex and embedded characteristics of resources and capabilities, the exploratory nature of the study requires the use of "what", "how" and "why" types of questions and researchers need to interact closely with top managers in the organisations to maximise the quality of data collected. In order to reveal the complex and indivisible relationships between tangible and intangible resources along with capabilities and to provide a rich content about the performance creation process in the organisations, the social actors' perceptions of the meanings and the managerial processes embedded within organisations should be observed. In such circumstances, case studies provide in-depth knowledge and deeper understanding of the sources of firm success by taking the researcher into the organisation (Eisenhardt, 1989; Yin, 2003).

Second, case studies do not only help to generate theories but also provide theoretical platforms for quantitative testing (Creswell, 2003; Yin, 2003). Although case study research can achieve analytical generalisability, its aim is not to provide statistical generalisability. Some theorists (*e.g.*, Eisenhardt, 1989; Yin, 2003)

suggest that findings of the case studies can be used for the purpose of designing quantitative research and empirical testing of the qualitative findings is among the objectives of this study.

Lastly, a case study approach is appropriate for this study since it integrates multiple sources such as in-depth interviews, observation and documentation that were considered important in this research (Eisenhardt, 1989). In inductive case studies, the theory is derived from the raw data. Although there is a firm consensus among researchers that emerging theory should be built based on the raw data, opinions about the position and the role of existing theory and previous literature in case studies differ (Glaser, 1992; Saunders *et al.*, 2007).

4.4.1. The role of theory in the study

In theory development, whilst some theorists (*e.g.*, Glaser, 1992) argue that a researcher should adopt the research problem with almost no prior models and previous literature in mind, others (*e.g.*, Strauss & Corbin, 1998) suggest that past experiences, understandings and existing literature should be used in developing theory to stimulate theoretical sensitivity. They also claim that inductive aspects which may cause to extremely subjective research findings should not be overplayed. According to Creswell (2003), the ideal starting point in building new theory is to omit all preconceptions emerging from existing literature but this is impractical and misleading.

Eisenhardt (1989), Creswell (2003) and Saunders *et al.* (2007) concur that unless the field of research is truly novel, existing literature should be considered and incorporated with current research to guide the formation of research questions and ensure that the research is valuable to the field. Lin (2007), stating that failure to refer to relevant literature reduces confidence in findings, suggests that the literature comparison helps the researcher to find "similarities, differences and reasons behind any new hypothesis and has the overall effect of increasing both the quality and validity of findings" (p. 132).

Despite some of its ambiguous aspects which need further examination, the RBV is widely acknowledged as a well-established and powerful theory in management literature (Barney *et al.*, 2011). Thus, concerning its strong theoretical base, the

previous RBV literature cannot be ignored in theory development phase of this research.

The literature was used as a starting point to formulate the research problem but close examination of the theory (in this case developing categories of resources and capabilities, examining complex systems of resources and capabilities along with the roles of processes) was avoided (Eisenhardt, 1989). Therefore, the previous RBV literature was employed to identify potentially relevant resources and capabilities, and to enable prompts for the semi-structured interviews while developing theory.

In such a process, the emerging theory would be shaped by the combination of the raw data collected and the existing literature as another source of data as the theory starts to form. Besides, the process would enable the researcher to compare "the emerging theory with concepts already present in the literature and help identify concepts and categories of the structure of resultant theory" (Rastrick, 2008, p. 68). However, while developing theory, the researcher has been meticulous in using the current literature and sensitive to possibilities of changing theories so that theorising becomes based on the data rather than the literature. In the process extreme induction was avoided with the concern that it may deprive researcher of useful theoretical viewpoints and concepts that can help guide further exploration of the phenomenon.

The following section continues with the unit of analysis and the detailed description of the processes along with the data collection methods used in the qualitative investigation stage of this study.

4.4.2. Unit of analysis

Collis and Hussey (2003) define the unit of analysis in case study research "as the focus point to which the phenomena of interest (and therefore the research questions) refer" (p. 116). According to Saunders *et al.* (2007), the unit of analysis determines the whole concentration of a study since it is the central concept under investigation. As such, the unit of analysis is the phenomenon under study about which data is collected and analysed. The focal point of this research is the examination of the relationship between resources and capabilities, and firm

success. Thus, this study seeks to examine the sources of value to the customer and to assess the origins of firm performance in the area of the resources and capabilities. In this context, the unit of analysis used in this study is clear cut: the resources and capabilities.

4.4.3. Qualitative data collection

In this research, data was collected by using multiple sources. The multiple sources used in this study were the semi-structured interviews with the managers of the firms taking part in the study, the observations within the organisations in the complete observer mode and the documents that provide information about the organisations. Several researchers (*e.g.*, Eisenhardt, 1989; Collis & Hussey, 2003; Yin, 2003) state that the use of multiple data sources should be a common practice in research which particularly aims to build theory since it increases the validity and reliability of the findings.

Yin (2003) who highlights the supremacy of the use of multiple source of evidence to the single source, describes interviews, physical artefacts, archival records, public and private documentation and observation as the most common sources of evidence in case study research. It should be noted that although insightful stories which provide better understanding of organisational complexity can be generated through in-depth interviews that develop the multiple cases, the interview process is often criticised in terms of the validity and reliability issues (Patton, 1990; Yin, 2003). These issues along with the data collection methods used are discussed in detail in the following sub-sections.

4.4.3.1. Issues of validity and reliability

Since interviews are primary methods in qualitative research, it should be noted that a lack of standardisation and data collection procedures may affect the validity and reliability of the interview process, due to interviewer and interviewee bias (Patton, 1990; Yin, 2003). Patton (1990) compares validity in quantitative and qualitative research as "validity in quantitative research depends on careful instrument construction to be sure that the instrument measures what it is supposed to measure" (p. 14). In qualitative inquiry, the researcher is the instrument. Validity in qualitative methods, therefore, hinges to a great extent on

the skill, competence and rigour of the people doing the fieldwork. Reliability of research is the ability of providing similar results even if the research is repeated at a later date or with a different sample whilst validity is the extent to which the data collected truly represent the phenomena being studied (Saunders *et al.*, 2007).

Yin (2003) proposes three types of validity: construct validity (ensuring adequate operational measures for the concepts under investigation), internal validity (establishing causal relationships whereby certain variables may influence other variables in the research study) and external validity (establishing domains on which findings can be generalised).

Table 4-1. Tactics used in ensuring validity and reliability

Tests	Case study tactics	How tactic was employed
Construct validity	Prolonged engagement.	A sufficient time period (6 months) was spent in the data collection phase.
	Data triangulation.	Multiple sources of data (in-depth interviews, observation and documentation) were used.
	Development of a data collection record (chain of evidence) and peer critique.	The interviews were tape recorded and transcribed. The results were reviewed by the supervisors and colleagues in the composition stage.
Internal validity	Causal network models.	Causal relationships whereby certain variables may influence other variables in the research study were established.
	Within-case analysis.	Each case was analysed on its own before making comparisons and drawing conclusions from a set of cases. This method enabled the researcher to monitor the internal consistency of the findings.
	Cross-case analysis.	Tabular summaries to identify patterns in multiple cases were compared.
External validity	Use of extant theory in case studies.	Well-established previous RBV literature was used in developing theory from the case studies.
	Use of multiple case studies.	Multiple case studies with the replication logic were used to generalise the findings to some extent. However, the qualitative phase of the thesis does not look for generalising the findings which will be addressed in the quantitative phase.
Reliability	Pilot interviews.	Two pilot interviews were conducted prior to the implementation of the study in order to refine research regarding design, content and procedures.
	Case study protocol.	A case study protocol which aimed to standardise the semi-structured interview questions and served as a guide for the present researcher was used.
	Develop case study database.	A case study database which includes the copies of the completed interview guides for the firms, the other additional notes taken outside the interview guide, and a written summary of each case was developed.

In order to increase the validity and reliability of a case study, a number of tactics were adopted in the different phases of this research based on the guideline that was provided by Yin (2003). Each of these tactics for ensuring rigour and how they were employed in this study is shown in table 4-1. The details of the tactics used to address the reliability and validity issues in this study are provided in the following section.

4.4.3.1.1. Construct validity

According to Sekaran (1992, p. 173), construct validity "testifies to how well the results obtained from the use of the measure fit the theories around which the test is designed". In most qualitative research, the constructs which are used for expository purposes are not only at an unobservable and conceptual level, but they also are imperfectly measurable.

Obviously, this situation may create potential investigator subjectivity and in such a case, the unity and correlation between construct and its measure may not be ensured. In order to achieve construct validity, a number of procedures such as prolonged engagement, data triangulation, and development of a data collection record and peer critique were used in this research.

4.4.3.1.1.1 Prolonged engagement

Qualitative data collection is a complex and comprehensive process which requires elaborate effort. Moreover, it can often take a very long time and necessitate having multiple contacts for the sake of increasing research validity (Eisenhardt, 1989; Sekaran, 1992; Yin, 2003). Yin (2003) suggests that data should be collected in the field over an extended time period.

According to Collis and Hussey (2003), in order to enable a thorough understanding of phenomenon, the researcher should immerse in the research for a prolonged period of time. This means not superficial but persistent observation of the case(s) to gain an in-depth understanding over a sufficient period of time (Rastrick, 2008). As a prolonged engagement, 6 months was spent in the qualitative data collection phase (March – September, 2012) which included multiple contacts: 11 interviews in 4 different firms. Hence, a sufficient period of time (at least 1 month) in each firm was spent to be able to master the

phenomenon and improve the construct validity in the study. The details about how this period of time was spent in the organisations will be provided in the following sections.

4.4.3.1.1.2. Data triangulation

Apart from methodological triangulation, some other triangulation strategies such as theory, data and investigator triangulations were described in management research literature. Collis and Hussey (2003) and (Yin, 2003) argue that triangulation of data by way of using multiple data sources is a primary element of construct validity. Hence, in order to improve the construct validity and the reliability of the whole study, a data triangulation method that involves the use of observation, interviews, and documentation as the multiple data sources was employed in this research. Data triangulation strategy used in the study is shown in figure 4-4.

Semi-structured
interviews

Observations within the
organisations in the
complete observer mode

Documentation that
provides information
about the organisations
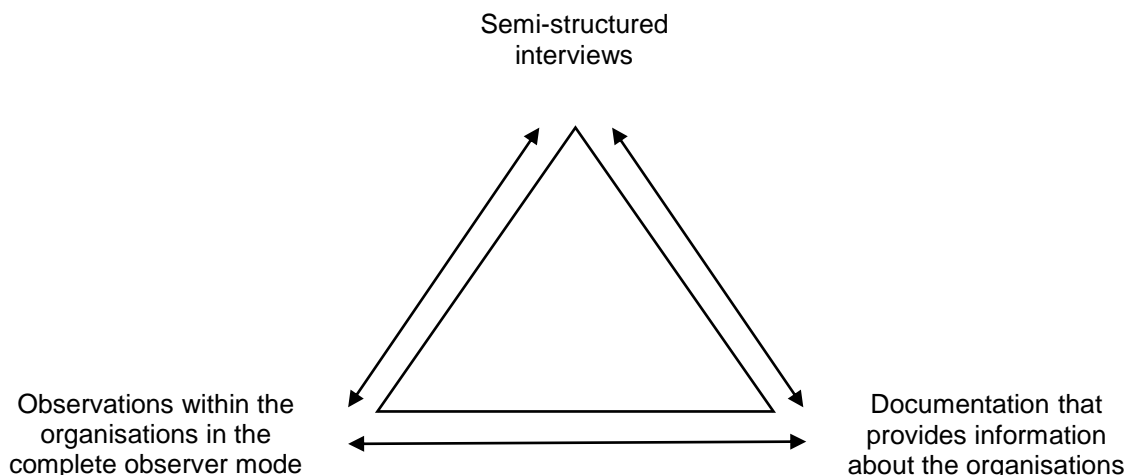
Figure 4-4. Data triangulation used in the study

If data collection is conducted by using only one method, a number of potential data biases can be identified. For example, in structured and semi-structured interviews, the data can be limited to the given questions and some important aspects may be overlooked. Additionally, the interviewees might not be able to express their feelings and thoughts correctly or might not want to disclose information for several reasons. In this case, observation which implies viewing participants in their natural working environment might provide a more accurate picture and enable researcher to cross validate the results (Collis & Hussey, 2003).

Moreover, some theorists (*e.g.*, Denzin, 1998; Oppermann, 2000; Creswell, 2003) emphasise the importance of the third measure to overcome the potential data bias problem. According to Oppermann (2000), the use of at least three reference points should be the standard procedure in researching. Oppermann (2000) suggests that although the intersection of two different data sources "allow exact calculation of the point of interest (through bisecting the two lines), it does not allow for an accuracy test and if, for example, an instrument or data error occurs, a wrong point would be calculated" (p. 144).

Thus, the use of a third data source can enhance the accuracy of the first two data sources and improves the construct validity. For this reason, another data collection source, documentation including the public and private documents (*e.g.*, newspaper articles, industry reports, relevant internet pages, archival documents, annual reports, meetings, memos *etc.*) that enables the researcher to obtain the language and words of the participants in a more meaningful manner was employed (Creswell, 2003).

4.4.3.1.1.3. Chain of evidence and peer critique in data collection

All interviews were tape recorded and transcribed to keep a data collection record which attempts to save the original material and provides a full description of what was said in the interviewing process (Yin, 2003). This practice aimed to help the reader to trace the research and follow the case studies from the initial stage through to the conclusion. Moreover, the critiques and opinions of some peer research students (which is termed as "peer debrief" by Collis & Hussey, 2003) and two academic supervisors about the results were also taken in order to reduce the single opinion bias, to achieve a common sense and to have some useful challenges and insights. The peers and supervisors were sceptical and challenging the researcher to provide solid evidence for any interpretations and conclusions.

4.4.3.1.2. Internal validity

Internal validity is "the extent to which the researcher can conclude that there is a cause and effect relationship between variables" (Creswell, 2003, p. 211). Similarly, Yin (2003) states that internal validity means establishing a causal relationship between variables. Qualitative research generally deals with

establishing a phenomenon in a credible manner, that is, "generative mechanisms" or "causal powers" rather than measuring the linear or non-linear cause and effect relationships of independent and dependent variables statistically (Eisenhardt, 1989; Miles & Huberman, 1994; Yin, 2003). In line with this, since an outcome of this research was caused by an independent variable (*i.e.*, unique organisational culture that leads to performance was created by the combination of organisational climate, leadership characteristics and human resource practices), apart from making proper inferences from data, this study requires the investigation of causal interactions, explanations, descriptions and relationships between the resources and capabilities. Therefore, causal inference becomes an internal validity concern in this research.

For this reason, causal network models which attempt to reveal causal relationships whereby certain resources may influence other resources or capabilities were used. Moreover, within-case analysis which allows researchers to gather detailed information and draw conclusions about the research problem was employed. From a theoretical perspective, by using within-case analysis, the researcher aimed to comply with the argument of Glaser and Strauss (1967, p. 118), "acceptable validity and reliability can be obtained through revealing an inner interpretation of events". Additionally, cross-case analysis which gives a rich comparative picture about the findings of different cases and helps researcher to monitor the internal coherence of these findings by providing tabular summaries that identify patterns in multiple cases was used.

4.4.3.1.3. External validity

External validity is the scope to which the research findings can be generalised and replicated across different samples, settings, times and treatment variations (Sekaran, 1992; Miles & Huberman, 1994). That is, external validity has to do with the generalisation of findings that enables the researcher to have more trustworthy and defensible results. Although generalisation procedure of the research findings will take place in the second (quantitative) phase, "analytic generalisation through replication logic and/or corroboration of findings" should be a major external validity concern in the qualitative phase of this study (Eisenhardt, 1989). Patton (1990)

claims that the best way of creating a potential for generalisability of findings in qualitative research is the use of multiple case studies.

Therefore, in the context of multiple case methodology, 4 firms from manufacturing, trading, audit and consulting, and banking industries were analysed to satisfy theory generation and verification purposes of the study. Moreover, this approach did not only enable the researcher to move beyond outcomes of individual cases and derive a generalised conclusion from a set of cases, but it also provided a rigorous methodology for replication logic (Patton, 1990; Yin, 2003). Hence, replication logic was selected as the most proper sampling approach in this study since each individual case was considered as an experiment itself and cases were used either to confirm or refute previous findings of the RBV. In relation to theoretical replication, the strong theoretical base of the RBV theory was incorporated into the research and the findings of this study were compared with previous RBV literature in order to avoid radical and deviant mistakes that may affect external validity of the study negatively.

4.4.3.1.4. Reliability

Reliability addresses the repeatability of an experiment, that is, whether the research conducted by other researchers will achieve similar results (Yin, 2003). Although a single reality is expected after the research activities that were carried out repeatedly on the same real life situation, because of the different data collection methods that were employed by different researchers, and at different times, the findings of similar studies may differ and create a different picture in qualitative research.

This situation presents the necessity for a clearly structured research procedure in qualitative research. Thus, reliability in case study research can be ensured by the enactment of case study procedures that identifies a documentation trail. Several researchers (*e.g.*, Eisenhardt, 1989; Yin, 2003) suggest that reliability in case study research can be achieved by the establishment of a case study protocol during data collection, the execution of an interview protocol and the development of a case study data base. Therefore, a case study protocol along with the formation of a case study database was employed in this study for reliability purposes.

4.4.3.1.4.1. Case study protocol

A case study protocol is a set of guidelines that contains the research instrument, the standard procedures, and the general rules to be followed during each interview (Yin, 2003). Case study protocol increases the reliability of a case study by structuring and governing the case research project, and ensuring the present investigator to collect and analyse the data in a uniform way (Eisenhardt, 1989). Similarly, Yin (2003) suggests that the development of a case study protocol is the most appropriate method for clarifying the necessary procedures and enhancing the reliability of a qualitative study.

For these purposes, a case study protocol (see table 4-2) was developed outlining interview guidelines that relate to research questions of this study. The case study protocol used in this study outlined six main issues: the main research questions which limit the scope of the conceptual model and lead to the succeeding quantitative research, unit of analysis, time limits of the study, the interviewing procedure, location (or the firms under investigation), and the interview (or the case study) questions.

The actual field aspect of the qualitative research began with some pilot interviews. These interviews did not conduct for pre-testing purposes but for refining research regarding the content and procedures (Yin, 2003). More details about the interviewing procedure are given in the following section.

4.4.3.1.4.2. Development of a case study database

Finally, in order to increase reliability, a case study database (*i.e.*, a copy of the interviews conducted, hand notes taken outside the interviews, and a written summary of each case) for the access of other researchers was developed (Yin, 2003). More specifically, since case studies involve data in several forms, information gathered from the interviews via semi-structured questions, printed materials about the firms (*e.g.*, brochures, catalogues, annual reports), and information from company websites were included in the database. However against all these techniques, it should be noted that "reliability still may be limited by the creativity of the researcher" (Yin, 2003, p. 89).

Table 4-2. The case study protocol used in the qualitative research of the study

Main research questions	• What are the key resources and capabilities that demonstrate contribution to firm success? • How and why these resources and capabilities lead to firm performance?
Unit of analysis	The firm-level resources and capabilities
Time limits	Six months between March – September 2012
Procedure	On site and tape recorded semi-structured interviews with 11 top managers which approximately run ninety-minute durations
Location	Four Turkish firms (with multi-national orientation) from different industries: manufacturing, trading, audit and consulting, and banking (Ülker, Estée Lauder, PwC and Albaraka-Türk)
Interview (case study) questions	***Opening*** Introduction of the interviewer and participant Overview of the aim of study Permission to use the name of the company in research Permission to use audiotape ***Demographic data*** Participants' background Background on organisation and industry ***Guiding questions*** • Can you please discuss the different resources or capabilities of your firm that are important in contributing to your firm success? • Which resources or capabilities most contributed to firm success over time? • Can you please rank the top ten resources and capabilities that contribute to your firm success? • Why do you think that these resources and capabilities are the most important contributors to firm success? • How would you discuss competitive advantage in your company? • How do you use these resources and capabilities in sustaining competitive advantage? • How would you explain the relationships and interactions between the resources and capabilities in contributing to firm success and/or sustaining competitive advantage? • Why do the resources and capabilities interact with each other in contributing to firm success and/or sustaining competitive advantage? ***Additional unplanned/floating prompts*** • Please describe • Will you explain that in more detail? • Can you give me examples or tell a story of an experience about that? • How does that work?

Beyond the validity and reliability issues, the next section provides detailed information about the qualitative data collection procedures such as interviews, observation and documentation used in this study.

4.4.3.2. Interviews

As the main qualitative data collection method, face-to-face, on site and tape recorded semi-structured interviews of approximately ninety minutes durations which involved a list of pre-determined questions were conducted. The researcher determined the interview questions by taking into account main research questions of the thesis. Face-to-face interviewing does not only allow the researcher to record non-verbal clues but also enables the researcher to "control the line of questioning" (Eisenhardt, 1989; Creswell, 2003).

Hence, the researcher may intervene and ask additional questions to provide better understanding of essential issues as the need arises. The interviews were tape recorded since tape recording enables the researcher to have "a full description of what was said in the interview" unlike note-taking which offers only a partial description of the interview material (Rastrick, 2008).

4.4.3.2.1. Firms and participants

Eleven top managers of four companies (Ülker, Albaraka-Türk, Estée Lauder and PricewaterhouseCoopers) were interviewed between March – September, 2012. Turkey branches of Albaraka, Estée Lauder and PricewaterhouseCoopers (henceforth known as PwC) have been under investigation in the study. Fieldwork schedule which includes the details of the different phases of data collection and timescales involved is shown in table 4-3.

Firm selection and gaining access

The general process for selecting firms that have established the case studies was based on diversity along the industry dimensions (*e.g.*, manufacturing, services and finance) and type of firm (*e.g.*, international and multi-national). Moreover, firm size was also considered as a selection criterion since several types of asset and capability ownership may generally be found in large firms rather than small and medium ones (Rawley & Simcoe, 2013). Apart from these criteria, only the firms

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that the researcher could gain access were selected. Gaining access to the firms has been a problem for the researcher since the aim of the research was considered as a sensitive and strategic topic which includes firm performance related figures by the prospective participating firms.

Moreover, a considerable number of theorists (*e.g.*, Hambrick, 1987; Hambrick & Cannella, 2004; Homburg *et al.*, 2012; Menz, 2012) who emphasise the significant role of top management in strategy related issues consider only top managers or board members as the key and reliable informants who can adequately assess the firm's resource base with respect to its performance by their specialised knowledge. Hence, the interviews should have been made only with the executives and senior top managers who deal with firm's strategy and make strategic decisions (*e.g.*, CEO, general manager, assistant general manager, group directors).

Table 4-3. Fieldwork schedule

Preparatory Work	
Date/ Location	**Research Activity**
Location: Istanbul Period: 2 months (January–February 2012)	Initiate contact with target organisations. Define themes from the literature. Identify key informants. Preparation and conduction of two pilot interviews in Ülker. Minor modifications regarding the interview questions and procedure.
Main Fieldwork	
Date/ Location	**Research Activity**
Location: Istanbul Period: 6 months (March–September 2012)	Confirmation of access and preparation of the interview schedule. Engage in-depth interviews, observations and documentation. - 01.03.2012 – 05.04.2012 (Ülker) - 09.04.2012 – 11.05.2012 (Albaraka-Türk) - 15.05.2012 – 20.06.2012 (PwC - 30.07.2012 – 29.08.2012 (Estée Lauder)

So, the sample targeted for the interviews was highly ranked within the organisations and this situation made the access problem more difficult and complex for the researcher. Namely, since the researcher mentions the names of the participating firms, even if the respondent managers are disguised and treated confidentially their identities would be unveiled. For this reason, access was established through the network and personal relations of the researcher. Some of the top managers of the participating firms had friendship relations with the researcher and they requested other managers who work in the same organisation to participate the study. It also needs to be acknowledged that the researcher had previously worked within the training, education and HR function of one of the case study organisation (Ülker) between the years 2005-2008.

The negotiations for access started in the first week of January 2012. Initial contact was made with eight companies that would be able to be studied throughout the entire case study and match the requirements for composition of the sample. Four companies have denied the access. Whilst two banks (Garanti Bank and Is Bankasi) stated that they were too busy to participate to the research, other two firms (Turkcell-the leading telecommunication firm and Unilever-the prominent FMCG firm) expressed that they were unable to be a part of the research due to its nature of strategic information requirement. Hence, only four of these firms that could provide evidence of the investigated phenomenon agreed to participate to the research.

Therefore, based on the suggestion of Eisenhardt (1989, p. 545) who states that "there is no ideal number of cases, a number between four and ten cases often works well", four large firms (all from different industries) were found appropriate to establish the multiple cases of the research.

4.4.3.2.2. Sampling

Purposive sampling which refers to "sampling strategy in which the researcher exercises his or her judgment about who will provide the best perspective on the phenomenon of interest, and then intentionally invites those specific perspectives into the study" (Abrams, 2010, p. 538) was employed as the qualitative sampling approach. Purposive sampling tends to involve relatively small samples of carefully

and purposively selected individuals who share a common interest, expertise and knowledge, and produce believable, ethical and feasible descriptions with the aim of generating rich and detailed information about the phenomena (Miles & Huberman, 1994; Yin, 2003). Additionally, purposive sampling can tie the sample to the research objectives (Yin, 2003).

Therefore, the number of the most essential top management people of four firms dictated the number of interviews and the sampling ceased at eleven.

4.4.3.2.3. Procedure

The appointments with the participants were arranged in January – February, 2012 and most of the interviews which included a list of pre-determined questions were conducted in the offices of the managers. Some details of the interviewees are presented in table 4-4.

Two pilot interviews were scheduled and carried out before the main investigation in the mid-February, 2012 in order to enhance the quality and the practicality of the research content and procedure (Yin, 2003). Based on the interview results and follow-up feedback from the interviewees, some minor modifications regarding the interview questions and procedure were made.

Table 4-4. Description of the interviews undertaken and interviewee details

Position of interviewee in the organisation	Demographic profiles	Interview date	Length of interview	Length of transcript[**]
General manager[1]	Male, 63	08.03.2012	103 mins.	16 pages
Group human resources director[1]	Male, 58	19.03.2012	85 mins.	12 pages
Category brand manager[1]	Female, 34	29.03.2012	92 mins.	14 pages
General manager[2]	Male, 52	10.04.2012	86 mins.	13 pages
Asst. general manager (Operations)[2]	Male, 47	19.04.2012	97 mins.	14 pages
Asst. general manager (HR)[2]	Male, 45	03.05.2012	80 mins.	9 pages
General manager[3]	Male, 49	17.05.2012	93 mins.	12 pages
Senior partner[3]	Male, 42	30.05.2012	95 mins.	11 pages
Senior partner[3]	Female, 39	12.06.2012	85 mins.	10 pages
CEO[4]	Male, 64	07.08.2012	82 mins.	12 pages
General manager[4]	Male, 44	22.08.2012	94 mins.	13 pages

Ülker[1], Albaraka-Türk[2], PwC[3], Estée Lauder[4]
*** Refers to the number of 1.5 lined spaced typed pages*

Having conducted the pilot interviews, the interviews which comprise the main investigation started in the first week of March, 2012.

Interview application

The interviewing process took nearly six months and the last interview was conducted in the last week of August, 2012. No interview and other fieldwork activity were conducted in July 2012 due to the summer holiday arrangements of most of the managers and other employees in the organisations. The researcher used this month for data classification purposes (*e.g.*, transcript preparations, translation of material from Turkish to English).

Before the interviews, the participants were informed about the aim of the research and a consent form (see Appendix A) was signed with each of the participant (scanned copies of two signed consent forms can be seen in figure 4-5). Tape recorded interviews were transcribed by the researcher. Following the interviews, where necessary, some of the respondents were re-contacted via e-mails to clarify any ambiguous issue or meaning which took place in the interviews (Eisenhardt, 1989; Cresswell, 2003). Commonality in the types of questions asked of each interviewee was kept and questioning focused on what (which resources and capabilities) they saw as important in the firm performance creation process and how they became important in the process.

A proper understanding of the organisational context is necessary to be able gain interviewee confidence. Hence, prior to engaging in interviews, the researcher obtained up-to-date information with respect to institutional issues such as culture and power distance level in the organisations, the ongoing change projects or processes, sensitive issues (*e.g.*, employee thoughts and perceptions about superordinates and top management) that the researcher should be careful about, and the primary concerns of staff. For example, due to the appointment of a new group HR director to Albaraka-Türk from another bank, some of the employees were feeling uncomfortable and unsafe in the organisation. For this reason, the assistant general manager has gently warned the researcher about not to ask any question to the employees that may have a direct association with this issue with the concern that uneasiness and aggressiveness may increase.

A conscious effort was made to note non-verbal behaviours, body language, and verbal cues such as facial expressions, lowering or raising the tone of voice, and long pauses before responding that provided valuable supplementary data. For example, in an interview in Estée Lauder whilst the general manager was mentioning the importance of marketing related resources to sustain competitive advantage, he suddenly banged on the table and started to complain about the lack of sufficient amount of marketing budget provided by the head office and started to talk about the extraordinary efforts and success of the sales team and its role for firm performance. So, the researcher noted that despite the interviewee was talking about the ideal resources (marketing related intangible resources or capabilities) in his mind to sustain competitive advantage, the real source of firm performance and competitive advantage in Turkey was different (quality of sales people).

Figure 4-5. Copies of the signed consent forms
(Only two of them, others are kept by the researcher)

In total, 11 semi-structured interviews were conducted during the fieldwork period. Theoretically, higher number of interviews may provide more detail about the phenomenon under investigation.

The number of interviews conducted in this research was limited by three reasons: (1) the aims of this research compelled the researcher to deal with top managers whom are difficult to find in organisations (2) because of the strategic information requirement of the research, several firms refused to participate (3) interview results made an impression on the researcher that similar responses to the questions began to surface and the key themes have been adequately covered within the organisational context (Eisenhardt, 1989; Strauss & Corbin, 1998). Although this was an indication of theoretical saturation, the researcher honestly thinks that more interviews would offer additional valuable insights about the issue.

Whilst 4 interviews were scheduled via personal phone calls, 3 interviews were scheduled by e-mail. The dates of 4 interviews were determined by the secretaries of the managers. The interviews varied in length from 1hour 22 minutes to 1 hour 43 minutes with a median interview length of 1 hour 31 minutes. The researcher made special effort to spend more time with the interviewees to be able to receive as much as information possible and to address the weakness of a limited number of interviews.

Eight interviews were conducted in the offices of the respondents and 3 of them preferred that interviews should be carried out during the lunch break when no other staff were available. One interview was conducted in a restaurant outside the organisation during lunch time and 2 interviews were conducted in an informal dinner. Some photos that were taken with the Albaraka-Türk managers in a dinner were presented in figure 4-6.

One respondent did not wish his comments to be recorded by using the excuse of privacy but allowed the researcher to take notes during the course of the interview.

Figure 4-6. Photos taken with the interviewees

4.4.3.3. Observations

Creswell (2003) suggests that on-site observations enable the researcher to have a firsthand information and experience about the research subjects and "to notice unusual aspects which may have been missed otherwise" (p. 191). However, quality of the data collected through this method is subject to the researcher's observation skills and every observed behaviour may not be reported in a formal way. Moreover, the participants may hide private information and/or change their behaviour in the observation process when they perceive the researcher intrusive or obtrusive (Miles & Huberman, 1994; Yin, 2003).

In this study, the researcher used observation as a tool in several situations such as visiting the natural working environments and attending specific company meetings, presentations and events [(*e.g.*, workgroup meetings regarding new product and service development, product launch, adaptation of new ERP

(Enterprise Resource Planning)] system and transition from AS400 to SAP, the latest news and achievements of the company, education needs of the sales force, and the distributor requests) with the aim of complementing the interviews and increasing the data collection spectrum. The researcher acted as a complete observer (with no participation in any kind of meeting) in order to avoid the behavioural manipulations of the interviewees and focus on the issues. The researcher was located in different manners in the organisations. Namely, whilst he was offered a desk with a computer in a room shared with other employees in Ülker (figure 4-7), he just sat next to the customer representatives in different branches of Albaraka-Türk to be able to observe the relationships between employees and customers of the bank and had tiny seats in other firms' (PwC and Estée Lauder) headquarters where open office style was adopted. The days that were spent in the firms were not identical. The researcher was unable to spend five days a week at the organisations from 9 a.m to 5 p.m. But, at least an average of three hours was spent every day in the organisations during the fieldwork.

Figure 4-7. The desk provided to the researcher

Participation observation of the researcher included 21 formal meetings of a strategic nature and 6 bank branch visits, 3 department store visits (in order to observe employees in Estée Lauder stands), and 2 distributor visits were conducted during six months. Apart from short chats with the customers in bank branches, a number of informal discussions in canteens were conducted with the employees. Whilst a few number of employees avoided talking much with the researcher, some of the employees preferred to speak outside the office environment with the concern that they may be overheard. This situation was

especially observed in the organisations where conservative culture was dominant and power distance between employees and managers was high. Similar situations were experienced in some departmental meetings where the managers were tense and anxious about having someone observe them. However, the atmosphere in the department and committee meetings of PwC and Estée Lauder where the researcher took place as an observer was more relax and the approach against the researcher was more pleasant. But, over time and after numerous observations, members of all firms seemed friendly to the researcher. Henceforth, the researcher was even called to attend some meetings of which he was unaware. Besides, in one instance, a very knowledgeable partner (who has not been asked for an interview because of his mid-level management position) with 15 years in PwC provided insights on strategic resource issues through three informal discussions.

Field notes

Eisenhardt (1989) encourages researchers to take field notes that may capture their thoughts and reflections of what was observed. Eisenhardt (1989) also suggests that field notes can be very helpful to researchers throughout the observation period where important and detailed information was gathered to complement the bigger picture. In this sense, note-taking process played a role of building block within the holistic perspective to create a comprehensive description of resource issues in the organisations. Hence, notes were taken by the researcher during or after (where necessary) the observations and the data collected from the observations were integrated with the data stemmed from the interviews in the data analysis process. Field notes basically include the notes on follow-ups from meetings, behaviours of employees in the organisations, and the impressions along with the information that were obtained from the observations and informal discussions conducted with customers and distributors (notes were written shortly after observations took place). The researcher took field notes in a more casual way rather than following a systematic. This sometimes happened as taking some notes on the margins of a company document or writing the impressions of the researcher about an issue on a block note paper. Some illustrations with respect to field notes can be seen in figure 4-8.

Figure 4-8. Some illustrations from the field notes

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Although note-taking has not been the primary way of collecting data in this research, field notes that were taken by the researcher were especially used for cross-checking purposes of what the managers said in the interviews. Namely, the field notes provided valuable insights to the researcher to understand whether the main concern of the top managers in terms of resource accumulation and/or acquisition issues in the organisations matches with the concerns of other managers and/or employees of the firm within the same context or not.

4.4.3.4. Documentation

As the last component of the data triangulation strategy, public and private documents such as annual company reports and company catalogues, organisational charts, vision, mission and values documents, investor relations reports, memoranda, archival documents, company intranets, websites and videos, newspaper articles, industry reports, trade magazines and presentation slides which may constitute a case study were collected and combined with the other data sources. In order to have a general idea about the growth and economic performance of the firms over time, annual reports of the last three years were also compared. Moreover, the documentation database was created by the researcher to be able to manage a wide range of documents in a more effective way (Creswell, 2003). Some illustrations with respect to organisational documents that were utilised in this study can be seen in figure 4-9.

The data gathered from the documentation was treated differently from that obtained from the interviews and observations. Instead of transcribing and coding the raw data obtained from the documentation as the data analysis strategy, it was mainly used to provide support for the interviews, when and where appropriate (Rastrick, 2008). The main reason of using this data collection method is that the researcher may obtain the language and words of the participants from other sources which offer an unobtrusive form of data collection (Creswell, 2003). Annual reports and newspaper articles especially provided valuable information about how the firms were perceived by external parties such as society, customers and government (*i.e.*, in order to assess the importance of reputational resources and relationship-based capabilities) as well as offering evidence about financial performance.

Handbooks of some firms (*e.g.*, Ülker) also provided insights with respect to internal operations of the organisations. Therefore, this information enabled the researcher to have a better understanding about the roles of organisational culture, working styles, routine actions *etc.* in the creation of firm performance.
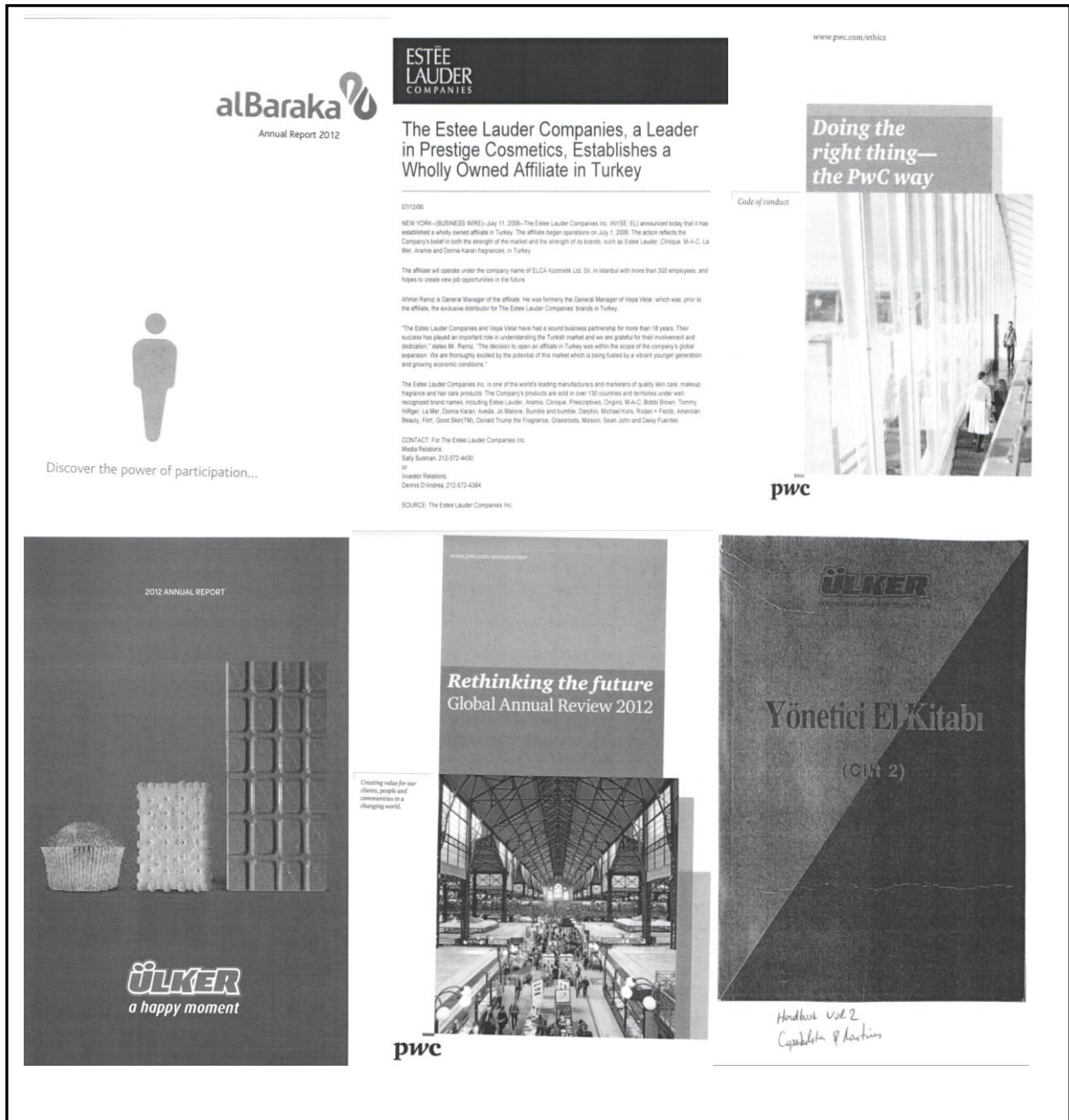
Figure 4-9. Some illustrations from the organisational documents

The details about the multiple sources that were used to collect data about four companies were presented in table 4-5. The next section discusses the challenges that the researcher encountered during qualitative investigation period.

Table 4-5. Multiple sources of evidence for the research work

	In-depth interviews	Participant observations	Organisational documents
ÜLKER	3 in-depth interviews with the general manager (08.03.2012), the group human resources director (19.03.2012), and the category brand manager (29.03.2012).	✓ 5 department meetings (weekly performance evaluations), ✓ 1 strategy meeting (future vision and growth strategy options) ✓ 1 SAP meeting (observation of developers and end users of the system shortly after implementation of the project), ✓ 3 informal individual presentations, 2 distributor visits, and informal chats and discussions in the office and canteen. 14 pages (A4 and smaller block note pages) of field notes.	✓ Annual reports, ✓ Corporate web-site, ✓ Food industry reports, ✓ Handbooks, ✓ Godiva acquisition case study, ✓ Job satisfaction survey ✓ Company's published reports for the stock exchange of Istanbul, ✓ Steering group meeting agenda, ✓ Newsletters.
Albaraka-TÜRK	3 in-depth interviews with the general manager (10.04.2012), the asst. general manager of operations (19.04.2012), and the asst. general manager of HR (03.05.2012).	✓ 3 department meetings (conducted in every Monday to define the programme of the week), ✓ 1 SIMURG change programme meeting (major project stakeholders from all parts of the organisation were present to discuss the position of the project), ✓ 6 branch visits in three different branches (observation of the customers and their relations with the staff), ✓ Informal chats and discussions in breaks and lunch times. 15 pages (A4 and smaller block note pages) of field notes.	✓ Annual reports, ✓ Corporate web-site, ✓ Reports of banking regulating and supervision agency, ✓ Memorandums, ✓ Project discussion paper, ✓ Employee databases, ✓ Magazines, ✓ Customer complaint database, ✓ Newsletters.
PwC	3 in-depth interviews with the general manager (17.05.2012), and two senior partners (30.05.2012; 12.06.2012).	✓ 5 meetings of audit section, 1 meeting of tax section, and 1 meeting of business consulting section (mainly approach of the staff to customers and the way of doing business were observed), ✓ 1 individual presentation to a corporate customer, and informal chats in lunch times. 11 pages (A4 and smaller block note pages) of field notes.	✓ Annual reports, ✓ Corporate web-site, ✓ Magazines, ✓ Ethical code of conduct document, ✓ Salary surveys in consulting industry, ✓ Memorandums, ✓ Archive of the corporate announcements, ✓ CD's of public announcements for tax rules, ✓ Videos for education purposes.
Estée Lauder	2 in-depth interviews with the CEO (17.08.2012), and the general manager (22.08.2012).	✓ 2 department meetings (regarding customers with specific needs and the marketing decisions), ✓ 1 new product launch meeting, ✓ 3 department store visits (the staff girls in the stands that take place in Boyner and YKM stores were observed), and informal chats in breaks. 9 pages (A4 and smaller block note pages) of field notes.	✓ Annual reports, ✓ Future vision reports, ✓ Corporate web-site, ✓ Memorandums, ✓ Archive of the corporate announcements, ✓ Newsletters.

Firms (row label spanning all firm rows)

4.5. Research philosophy and the challenges that the researcher faced in qualitative investigation

In the selection and implementation of the research philosophy, the researcher faced with some challenges that were worth mentioning. Having been in private sector for almost 15 years and before deciding to study for a doctoral degree, the researcher has often felt intuitively as a practitioner that there was an incompatibility between academic work and management practice. In fact, the reality of the divide between industry and academia goes beyond the feelings of the researcher. Several authors (*i.e.*, Lillien, 2011; Bartunek & Rynes, 2014; Tucker & Lowe, 2014) suggest that there are considerable gaps between the normative recommendations of organisational researchers and actual management practices in organisations. This divergence can be noticed from the periodic journal selection differences of academics and practitioners. Main stream academic journals are only written for academics since the focal concern of academic research lies in pure accuracy and rigour whilst these are less important for practitioners who are more concerned with their day-to-day issues and practical solutions (Rynes *et al.*, 2001; Lillien, 2011).

This divergence may occur for various reasons. According to Shrivastava and Mitroff (1984), because of "the differences between the assumptions made by academics in creating what they consider knowledge and practitioners in using what they, in turn, call knowledge" (p. 18), sense-making reference points are perceived differently. In this context, the focus of their research can differ "with respect to the goals they seek to influence, the social systems in which they operate, the variables they attempt to manipulate, and acceptable time frames for addressing problems" (Rynes *et al.*, 2001, p. 341).

A more pragmatic approach

In light of the explanations, this researcher believes that his research philosophy may have been influenced by his industry experience and practitioner background. Unlike the classical sense of inquiry that deals with the ultimate nature of things, subjective evaluations of the researcher about the phenomena may have referred "to the correct use of knowledge to achieve a definite and practical purpose and to

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support the advancement of a business enterprise" (Yip, 2011, p. 96). Namely, the research philosophy of the researcher may follow a more pragmatic approach "which takes in answering the research questions be meaningful and able to create as well as contribute knowledge in the practical business world" (Yip, 2011, p. 97) compared to pure interpretivism which aims to understand the fundamental meanings (social relations, behaviours, events *etc.*) of social phenomena attached to organisational life (Easterby-Smith *et al.*, 2002).

Positivism and interpretivism are research paradigms that stand on opposite ends in management research (Easterby-Smith *et al.*, 2002). However, Johnson and Clark (2006) suggest that the most important criterion for a researcher on the way of adopting a thorough research paradigm does not (and should not) lie so much in the debate between a positivistic and interpretivistic view but in the research question itself. Similarly, Tashakkori and Teddlie (1998) state that the most appropriate way for a researcher to select a suitable research approach is "to think of the philosophy adopted as a continuum rather than opposite positions (p. 32)".

This study employs a mixed-methods research that includes both qualitative and quantitative studies. Through utilising a mixed-methods research, the researcher aimed to obtain complementary rather than fragmentary results that were emerged from different methods of investigation and to see the big picture about the resource priorities and the roles of different resources in performance creation in the context of Turkish business environment.

Under this orientation, transition process from qualitative to quantitative research should be somehow seamless to ensure the continuum which leads to a more integrative framework for the findings of the study. At this stage, pragmatism as a branch of interpretivist philosophy played a bridge role and softened the transition process from qualitative to quantitative research. As such, resource and capability definitions along with the complex interaction of different resource and capability sets were investigated in the qualitative phase and a rich qualitative data were obtained. Whilst analysing the qualitative data, the researcher followed a more pragmatic way of interpretation of qualitative data which lead to the development of hypotheses to be tested in the quantitative phase. With a pragmatic way of interpretation, at the first instance, the researcher defined the resources and

capabilities and then investigated the interactions between these resources and capabilities in the performance creation process. As suggested by Burrel and Morgan (1982), the researcher is required to adopt the positions of "overturning the state of affairs" or "working within the state of affairs". Whilst the former position requires "a critical perspective to make fundamental changes to the normal order of things in order to create knowledge for the purpose of advancing management theory", the latter urges the researcher "to be less judgemental and critical with the aim of informing others within the framework of the way things are done at the present" (Yip, 2011, p. 98). From this perspective, identification of resources and capabilities and investigation of their relative importance in the creation of firm performance which establish the aims and objectives of this thesis, allowed the researcher to adopt a more pragmatic approach in the qualitative phase of this study.

Although understanding the complex interaction of resources and capabilities is among the objectives of this study, the ultimate research question is "to explore the most important determinants of firm performance within the context of Turkish business" and the qualitative study extensively serves to the establishment of a strong basis for the quantitative study in this regard. For this reason, the researcher may be less judgemental and critical, and attempt to consider, if not completely, the positive points mentioned for sustaining firm performance in the analysis of case studies.

However, knowledge obtained from qualitative data through pragmatic approach is not confined to "just knowing". Apart from identification of general resource categories to be tested empirically in a more broad business setting, interactions and interconnectedness between different resources were subjectively analysed by the researcher, some links between unique and firm-specific findings and the findings that can be generalised were formed, and some suggestions were made in the last chapter of the thesis.

Challenges of the researcher in the conduction of qualitative study

The researcher had some challenges in the conduction of qualitative study. A challenging issue was to gaining access to the firms. Because of the requirement

of strategic information and knowledge or this study, a number of firms refrained to be a part of this study.

The other challenge was about the accuracy of the data that were collected in the organisations. Whilst most of the top managers were attempting to present their firms in a best manner, other employees preferred to keep their quietness about the issues due to their uneasiness or even fear of being fired. This situation created a rather difficult research environment for the researcher from time to time.

The last but not the least challenge was about the interpretation of the qualitative data collected. Quantitative background (statistics and econometrics) inevitably gave a theoretical lens to the researcher which compelled him to follow a more positivistic way of scientific investigation in his previous research. In this sense, sometimes the subjective analyses of qualitative findings have been a difficult task for the researcher. However, the researcher tried to overcome this problem with quite a few reading and practice in the field.

After a detailed description of the process and data collection procedures employed in the qualitative research stage of the study, qualitative data analysis strategy is presented in the next chapter.

4.6. Chapter summary

The methodological issues which relate to this study were discussed in this chapter. Positivism and phenomenology which are the two major research paradigms were highlighted followed by an explanation of the research methodology developed to fulfil the proposed research objectives. Obviously, methodologies that are employed by the aforementioned paradigms differ as well. Whilst quantitative methods that were typically used for theory testing and verification have been primary research instruments of the positivist paradigm, phenomenology has mostly used qualitative methods for theory building and generation.

Thus, most quantitative research is confirmatory whereas much qualitative research is exploratory. Mono-method designs are not found applicable to all strategy and RBV research questions (Molina-Azorin, 2012). Hence, a two-phased mixed-methods research design which combines qualitative and quantitative data

collection and analysis within a single study was used in this research. Mixed-methods research does not only provide more comprehensive findings, increased confidence and validity in results, and more insightful understanding of the underlying phenomenon but it also offsets the disadvantages that certain of the methods have by themselves (Molina-Azorin, 2012).

In the first stage of the study, the qualitative data was collected in six months (March – August, 2012) through in-depth interviews that were conducted on eleven top managers of four companies along with the observations and documentation. Moreover, several methods were used in order to address the validity and reliability issues. Although this chapter highlights the constructive methodological issues of the research along with the description of the qualitative procedures used in this study, more details about the qualitative and quantitative investigations are elaborately provided in Chapter V, Chapter VI and Chapter VII, respectively.

CHAPTER V

QUALITATIVE INVESTIGATION

5.1. Introduction

This chapter presents the implementation of the qualitative research which constitutes the first phase of the mixed-methods research design employed in this study. The chapter begins by describing the pre-determined data analysis strategy that includes data coding, within-case analysis, cross-case analysis and causal network models.

Then, how qualitative raw data is coded and analysed by the multiple case study approach is explained. Based on the qualitative findings and comparative literature review, key firm-level resources and capabilities which help to develop hypotheses and derive the measurement instrument are defined and organised and how resources, capabilities or competences emerge and led to firm performance is examined. Lastly, the chapter ends with the summary.

5.2. Qualitative data analysis

Qualitative data analysis that enables the researcher to understand the results of the study took place over a five-month period (September, 2012 – February, 2013). The analysis, which started with data coding, continued with within-case analyses and cross-case analysis and lastly culminated in building causal network models (Miles & Huberman, 1994). Following the analysis procedure, the research findings were compared with the RBV literature and a conceptual framework that also includes the research hypotheses was established by consolidating the first phase qualitative findings and previous RBV literature.

Hence, the qualitative investigation ended by offering a complete resource and capabilities set, providing detailed and insightful information about the complex resource and capability interaction that leads to firm success, and establishing a number of hypotheses to be tested empirically that provide further evidence to the validity and reliability of the qualitative findings on a broader sample. The qualitative analysis procedure is presented in the following section.

5.2.1. Data coding stage

The main purpose of data coding is to reduce, organise and compare the large amount of data collected through interviewing, on-site observations and documentation (Kovacic, 2008). The data coding stage which includes a line by line analysis of the different scripts generated from the interviews, began by discovering and identifying the central concepts and their properties. Central concepts are the ideas and the building blocks of a theory which expose the thoughts and meanings about the phenomenon that was represented through the data (Kovacic, 2008). Data collection process yielded a large amount of data that led to the danger of drowning in data. For this reason, the researcher followed a systematic coding process that breaks the huge amount of data down into smaller sections (Miles & Huberman, 1994; Strauss & Corbin, 1998).

Hence, after a detailed examination and comparison for similarities and differences in the scripts based on the words, phrases, meanings, sentences or whole paragraphs that can provide connections to the research objectives and questions, the complete raw data were set down into manageable parts and an initial code was assigned to each central concept (Strauss & Corbin, 1998).

5.2.1.1. Initial data coding

Although the researcher examined the raw data in a line by line style, in order to overcome the time consuming effects of the method and to have a more complete and precise story about the phenomena, the sentences, paragraphs and the entire document were analysed in a more holistic manner (Strauss & Corbin, 1998). So, the transcripts were first revised in a holistic way by taking notes in the margins of the pages instead of just focusing on the frequency of the words and checking the relationships of the words and sentences with the potential phenomena, central concepts and categories (Strauss & Corbin, 1998). The first holistic revision of the data enabled the researcher to investigate the central concepts and assign an initial code to each central concept.

The central concepts were selected and identified based on their connections to the research objectives and questions, the criteria for choosing a central category

offered by Strauss and Corbin (1998) (see table 5-1) and the place of these concepts in the resource-based literature.

Table 5-1. The central category selection criteria in qualitative analysis

(Strauss & Corbin, 1998, p. 147)

1	It must be central; that is, all other major categories can be related to it.
2	It must appear frequently in the data. This means that within all or almost all cases, there are indicators pointing to that concept.
3	The explanation that evolves by relating the categories is logical and consistent.
4	The name or phrase used to describe the central category should be sufficiently abstract that it can be used to do research in other substantive areas, leading to the development of a more general theory.
5	As the concept is refined analytically through integration with other concepts, the theory grows in depth and explanatory power.
6	The concept is able to explain variation as well as the main point made by the data; that is, when conditions vary, the explanation still holds, although the way in which a phenomenon is expressed might look somewhat different. One also should be able to explain contradictory or alternative cases in terms of that central idea.

This research is not truly novel for the RBV since it aims to explore, elaborate or somewhat modify the existing theory in a specific context instead of building a new theory. In parallel to this, meta-research questions were developed at the beginning of the study and this situation made the use of the existing resource-based literature inevitable.

Therefore, rather than a strict approach, an adaptation of grounded theory acknowledged in the literature was used to analyse the qualitative data (Miles & Huberman, 1994; Strauss & Corbin, 1998). The first holistic examination of the transcripts yielded three central resource categories which were consistent with the previous RBV literature: tangible resources, intangible resources and capabilities (Fahy, 2000; McKelvie & Davidsson, 2009; Barney *et al.*, 2011).

The researcher grouped different resources into three central concepts according to the answers of the participants to the first three interview questions (presented in the case study protocol, table 4-2) regarding the resource and capability definitions. In identifying the central resource categories, the RBV literature was also considered. In the transcripts, all mentioned resources (*e.g.*, cash, investments, production units, stores, offices and warehouses, vehicles in the distribution network) that can be observed, touched and quantified by accounting

standards were deemed as tangible resources (Galbreath & Galvin, 2006; Barney & Hesterly, 2010).

Most of the tangible resource definitions in the RBV literature (*e.g.*, Galbreath & Galvin, 2006; Molloy *et al.*, 2011) are more or less similar and resources such as cash, financial investments, raised financial capital, production equipment, raw materials, manufacturing facilities, machinery, physical buildings, real estate, land *etc.* were generally identified as tangible resources. Hence, as an initial code, *TR* was assigned for the tangible resources mentioned in the study.

Against tangible resources, defining intangible resources has always been harder in the resource-based literature because of their measurement difficulties and disclosure problems in financial statements. However, the increasing importance of the intangible resources in the new economy compelled theorists and practitioners to generate standard and adequate intangible resources definitions such as the one in The International Accounting Standards' (1998) article 38 (see chapter III) not only for the assessment of firm success but also for the accounting purposes. Hence, considering this generally accepted definition, resources that are intangible in nature (*e.g.*, copyrights, registered designs, patents, organisational culture, brand name reputation, corporate image, strategic partnerships) were detected in the scripts and the initial code *IR* was assigned to the central intangible resources category.

Compared to tangible and intangible resources, capabilities certainly remained the most amorphous and complicated to define among the constructs that constitute the RBV (Galbreath, 2004). However, despite this complexity, the RBV scholars have had a common point that (*e.g.*, Teece, 2007; Helfat & Winter, 2011; Maritan & Peteraf, 2011) capabilities are managerial and organisational processes and their basic role is "to assess the firm's extant resource base and transform it to create a new configuration of resources that can sustain competitive advantage" (Ambrosini & Bowman, 2009, p. 32). So, the researcher focused on the skills which possess the ability of turning static resources into competitive advantage that were mentioned in the qualitative data especially with the help of existing RBV literature (Helfat, 1997; Teece *et al.*, 1997; Fahy, 2000; Ambrosini *et al.*, 2007; Moliterno &

Wiersema, 2007; McKelvie & Davidsson, 2009; Maritan & Peteraf, 2011; Kor & Mesko, 2013).

In the scripts, the respondents especially mentioned the important roles of human resource (both for the employees and managers) quality, relationships built and maintained with customers, suppliers and distributors, and the systems which refer to the business processes (*e.g.*, IT and supply chain systems) to create new configurations of resources. Moreover, the significance of revealing the tacit knowledge, advantages obtained from networking abilities, and possessing organisational routines were frequently emphasised as the key mechanisms to achieve congruence between the firms' resources and dynamic environmental conditions in the interviews. The ability of a firm to extract its resources and direct them to particular users is not trivial and perhaps more important than to identify these resources and assess their fit (Lavie, 2012; Kor & Mesko, 2013). Therefore, as an initial code, *CAP* was assigned for the aforementioned capabilities in this research. An example of the coding process along with the other stages of grounded theory is provided in Appendix C.

The choice of performance measurement that was used in this study stemmed from the past RBV research. Profitability and market-based measures such as sales growth and market share were associated with firm performance and were frequently used in the RBV literature (Hansen & Wernerfelt, 1989; Powell & Dent-Micallef, 1997; Spanos & Lioukas, 2001; Fahy, 2002; Nath *et al.*, 2010). Respondents were informed about the performance measures before the interviews. For this reason, all performance and performance related words and sentences mentioned in the qualitative data referred to profitability, sales growth and market share. The initial code *PER* was used for the performance constructs. Thus, the initial codes assigned for the central categories were:

TR – Tangible resources

IR – Intangible resources

CAP – Capabilities

PER – Performance

This initial data coding procedure provided some benefits to the researcher. First, data analysis process became much easier. Second, it enabled the researcher to assess the main central resource categories which were used to define the sub-categories of these resources that led to the organisation of the resources and capabilities in a coherent manner.

Defining and organising resource sets in a coherent system was not only important in terms of addressing the first objective of the research but it was also necessary for portraying the resource constructs which guide to the hypotheses that investigate the relative contribution of different resources to firm success.

And, lastly causal links and networks that examine complex, embedded system resources were presented by using the identified resource categories and sub-categories. Having identified the central resource concepts and categories, the sub-categories were classified by second level data coding.

5.2.1.2. Second level data coding

In the second level data coding, the identified central resource categories were divided into sub-categories in order to have a clearer picture and better understanding about the interactions and links between different resources and capabilities that lead to firm success presented in the causal network analysis. Sub-resource categories were generated by the detailed line by line analysis of the holistic central resource concepts and categories along with the review of current RBV literature.

5.2.1.2.1. Tangible resource categories

Consistent with the parent literature, the interviews generated some resources that were tangible in nature such as cash, financial investments, raised financial capital, production equipment, raw materials, manufacturing facilities, machinery, physical buildings, real estate and land.

Hence, tangible resources were classified into two main categories: (1) *financial assets* and (2) *physical assets*. Then, each tangible resource pertaining to these categories was assigned a second level code as:

    (1) <u>Financial Assets</u>

Cash   : TR – Cash

Raised financial capital   : TR – RFINCap

Financial investments   : TR – Finv

    (2) <u>Physical Assets</u>

Buildings   : TR – Build

Equipment   : TR – Equip

Land   : TR – Land

5.2.1.2.2. Intangible resource categories

When the RBV literature is examined, Hall (1992, 1993) can be seen among the few researchers who made substantial effort in dealing with the issue of intangible resource categorisation. Hall (1992, 1993) divided intangible resources into two general categories such as assets and skills. Whilst an intangible resource which is something that the firm *has* was called "an asset", an intangible resource which is something that the firm *does* was termed as "a skill" or a capability (Hall, 1992, 1993).

However, given the wide-ranging literature review of conceptual definitions, perhaps, Galbreath and Galvin's (2006) intangible resource categorisation appears to be the most systematic, conceptual, and robust framework that was derived from the past RBV studies that encompass a broad spectrum of disciplines including the general management, strategic management, psychology, marketing, and economics (*e.g.*, Itami & Roehl, 1987; Barney, 1991; Hall, 1992, 1993; Welbourne & Wright, 1997; Fahy, 2000; Hoopes *et al.*, 2003; Grant & Baden-Fuller, 2004; Karim, 2006). Moreover, the researcher found frequent overlaps, if not all, between the names and meanings of the resources occurred in the interviews and the intangible resource sets indicated in Galbreath and Galvin's (2006) framework. For example, intangible resources such as organisational culture and policies, unique brands, high-tech manufacturing, corporate image and reputation, product and service quality, strategic partnerships, patents and copyrights (that will be seen in the narratives presented in the within-case analyses) which were included in the

framework were also regularly mentioned in the interviews. Galbreath and Galvin's (2006) framework consists three main intangible resource categories: (1) *organisational assets*, (2) *intellectual property assets*, and (3) *reputational assets*.

Organisational assets, as the "glue" of an organisation contribute "order, stability and quality to a firm" (Galbreath, 2004, p. 111) and establish a strong link between what the firm does and how it does it. Organisational assets defined in this research are: contracts and agreements (strategic partnerships), organisational culture, organisational policies, and organisational structure.

Intellectual property assets can be defined as "the intangible assets that are mainly derived from the intellectual, creative and innovation capacity of human talent and protected by law or unpatented systems and inventions that are held-in-secret" (Galbreath, 2004, p. 110). Supported with the R&D efforts, intellectual property assets include several types of artistic works, audio and video materials, names, logos, symbols, inventive products and processes, and patterns *etc.* (Itami & Roehl, 1987; Hall, 1992; Schroeder *et al.*, 2002). So, intellectual property assets defined in this research are: copyrights, designs, trademarks, patents, and in-secret technology.

Reputational assets refer to the intangible assets that develop positive feelings such as high-esteem, regard, and confidence across stakeholders of the firm by influencing their perceptions (Fombrun & Shanley, 1990; Roberts & Dowling, 2002; Rindova *et al.*, 2010). Reputational assets are associated with and derived mostly from the perception of external constituents (the only exception can be employees) such as shareholders, customers, suppliers, distributors, and even competitors and governments (Fombrun & Shanley, 1990; Michalisin *et al.*, 1997; Boyd *et al.*, 2010) and they are external in nature unlike the other intangible resources (*i.e.*, organisational and intellectual property assets). Hence, this feature distinguishes reputational assets from the other intangible assets. Based on the interviews and the literature review, brand name, corporate image and reputation, customer service reputation, and product and service reputation are defined as the reputational assets in this research.

Therefore, by modifying Galbreath and Galvin's (2006) framework slightly with a few new intangible resource constructs (*e.g.*, organisational agreements and contracts that have been established in the forms of M&A, joint venture, franchising, licensing, and distribution agreements), the following intangible resource categories along with their second level codes were adopted in this research (for more detailed definitions of the resource constructs see Appendix B):

(1) <u>Organisational Assets</u>

Strategic partnerships : IR – STR-Part

Organisational culture : IR – ORG-Cult

Organisational structure : IR – ORG-Struct

Organisational policies : IR – ORG-Pol

(2) <u>Intellectual Property Assets</u>

Copyrights : IR – LP-Copy

Designs : IR – LP-Design

Trademarks : IR – LP-Trade

Patents : IR – LP-Patent

In-secret technology: IR – IS-Tech

(3) <u>Reputational Assets</u>

Brand name : IR – BRAND-Rep

Corporate image/reputation : IR – CORP-Rep

Customer service reputation: IR – CUSTSER-Rep

Product/service reputation : IR – PRODSER-Rep

5.2.1.2.3. Capability categories

Referring to the capability definitions of the researchers in the strategy field (*e.g.*, Amit & Schoemaker, 1993; Teece *et al.*, 1997; Helfat *et al.*, 2007), capabilities can be called as all sort of "organisational enablers" (Lavie, 2012) that integrate, combine and deploy resource stocks. From this point of view, past strategy

research (*e.g.*, Day, 1994; Grant, 1996a, Grant & Baden-Fuller, 2004; Ray *et al.*, 2004; McKelvie & Davidsson, 2009; Anand *et al.*, 2012; Kor and Mesko, 2013; Ahearne *et al.*, 2014) highlights the importance of human capital (or employee and managerial capabilities), networking (or relationship) capabilities, organisational processes, tacit and explicit knowledge, and organisational routines.

In parallel to the extant literature and based on the qualitative data five capability categories were identified: (1) *human capital*, (2) *networking abilities*, (3) *business processes*, (4) *knowledge management skills*, and (5) *organisational routines*.

And the contents of these categories are:

Human capital: the skills, expertise, creativity, innovative thinking, pro-activity, collective learning, and know-how of employees,

Networking abilities: relationships established and maintained with external constituents such as customers, distributors, agents, suppliers, outsourcing partners, strategic alliances, and other collaborations,

Business processes: intranet and ERP software that support inter-functional coordination of activities, processes for acquiring supplies and other raw materials along with optimising logistics and warehousing activities [supply chain systems], and other IT systems that help information processing about customers and markets [CRM],

Knowledge management skills: collaborative platforms such as social software tools [blogs, wikis, and mash-ups] that enhance the open communication, and

Organisational routines: the series of repeatable or replicated actions, methods, tasks and functions [rules, procedures, conventions, technologies and strategies that were mostly codified in manuals] performed in the organisation by specific people at specific times.

To be clear, this section of the research neither investigates the embedded and complex relationships and interactions between different resource constructs nor examines their direct and/or indirect impacts on firm performance. Rather it aims to create a coherent resource and capability framework that addresses the first

objective of this study and will be used for hypothesis development and testing in the quantitative stage.

Table 5-2. Assessment of capability categories (generated from the interview data)

Term, word and/or sentence occurred in the qualitative data	Capability categories	Frequency of occurrence	Study referred
Quality of our personnel, skilled managers, superior decision makers, open-minded and innovative employees, well-educated and skilled personnel, creative staff, characteristics and attributes of top managers, our staff are always recruited from competitive firms or industries, all our employees are committed to learn, we care about the human resource quality of our employees, we recruit the most successful graduates of the best universities, pro-active decision making and problem solving skills of our managers.	*Human Capital*	48	[Itami & Roehl, 1987; Hall, 1992; Welbourne & Wright, 1997; Hitt *et al.*, 2001b; Hatch & Dyer, 2004; Khandekar & Sharma, 2005; Ambrosini *et al.*, 2007; Holcomb *et al.*, 2009; Coff & Kryscynski, 2011; Kor & Mesko, 2013; Ahearne et al., 2014]
Our strong and well-tied customer relations, we benefit a lot from social networking, building and maintaining robust relations with our suppliers enable us to reach scarce raw materials easily, fantastic customer relations, connections with the stakeholders, extensive networking relationships with our foreign partners provided us to access to valuable knowledge and information, establishing good relations with new alliances in foreign markets has vital importance for our growth strategy.	*Networking Capabilities*	26	[Hall, 1992; Kogut, 2000; Das & Teng, 2000; Dyer & Hatch, 2006; Tanriverdi & Lee, 2008; Gruber *et al.*, 2010; Mahmood *et al.*, 2011; Acquaah, 2012]
IT systems that integrate different departments, unique supply chain management enabled us to sustain competitive advantage, this success would not have been created without an efficient working IT system, hand terminals that provided pre-sellers sufficient customer information, transition from AS400 to SAP provided cost and speed advantages for the firm, risk management system decreased the percentage of risky credits adequately, our CRM system increased customer loyalty and satisfaction.	*Business Processes*	34	[Porter, 1991; Amit & Schoemaker, 1993; Zollo & Winter, 2002; Ray *et al.*, 2004; Anand *et al.*, 2012; Ray *et al.*, 2013]
Revealing the embedded tacit knowledge increased the creativity, we extensively use collaborative platforms to enhance knowledge sharing, it is very important to create environments which enhance communication across individuals, the use of social software affects innovativeness, web-enabled customer interaction provides valuable information.	*Knowledge Management Skills*	17	[Kogut & Zander, 1992; Grant, 1996b; Teece *et al.*, 1997; Fahy, 2000; Ambrosini *et al.*, 2007; Bogner & Bansal, 2007; Wang & Ahmed, 2007; Palacios *et al.*, 2009; Weigelt, 2013]
Organisational manuals help our people to understand norms and rules of the firm, high quality standards in manufacturing is achieved by operational routines, rules and procedures for accomplishing day-to-day work activities, organisational stability via repeatable operations, specific actions are determined, standards for operational efficiency.	*Organisational Routines*	13	[Day, 1994; Cohen *et al.*, 1996; Zollo & Winter, 2002; Becker, 2004; Pentland & Feldman, 2005; Salvato & Rerup, 2011; Anand *et al.*, 2012]

As mentioned before, the complex interaction between resources and capabilities that facilitates the configuration of resource bundles and achieves competitive

advantage was explained in case studies through presenting some sample narratives. However, for the purpose of categorising capabilities, table 5-2 provides the terms and words generated from the interviews that are deemed as capabilities in this research. Therefore, the second level codes that were assigned to the capabilities assessed are as follows:

<u>Capabilities</u>

Human capital   : CAP – HUMCap

Networking abilities   : CAP – NETW

Business processes   : CAP – BUS-Process

Knowledge management skills   : CAP – KNOWL

Organisational routines   : CAP – ORGRout
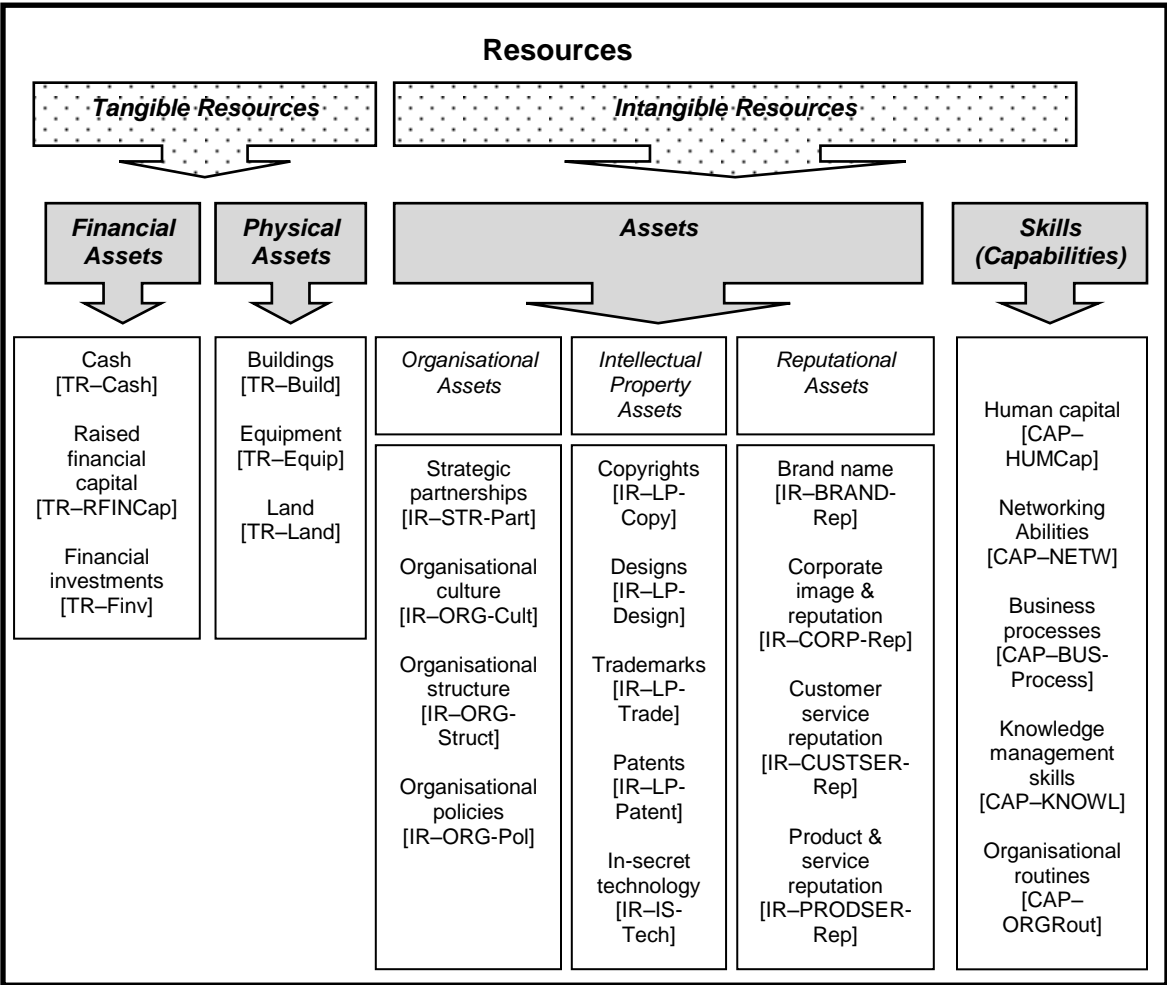
Figure 5-1. The conceptual model of the resource pool

So far, the resource and capability constructs that serve as the foundation and basis of the hypotheses and empirical tests to be conducted in this study was categorised. After the analysis of the qualitative findings along with the review of the RBV literature, a conceptual model of resource pool was created. The conceptual model of resource pool that was presented in figure 5-1 can be considered as a moderate modification of Galbreath and Galvin's (2006) framework of resources. Their model was particularly modified by adding new capability items such as networking capabilities, business processes, and knowledge management skills generated from the interview data. Resources are divided into two categories as tangible and intangible resources, and the intangible resources that are skills rather than assets were deemed as capabilities. More explanation about the resource pool, initial and second level codes, and the detailed definitions of resource constructs can be found in Appendix B.

The proposed conceptual model of the resource pool identifies the key resources and capabilities which demonstrate contribution to firm success and establishes a basis for empirical testing of this study. Obviously, this model does not capture all the resources mentioned in the literature or the ones that may bear in minds of the researchers. Although every resource or capability can be necessary to execute a specified market strategy, the RBV theorises that the relative contribution of each resource differs and the resources which play the major role in the attainment of the firm success are strategic in nature (Barney, 1991; Peteraf, 1993). Hence, the identification and categorisation of the resource and capability constructs based on the relevant literature and interview data, for the purpose of a precise empirical research has been a considerable challenge for the researcher. Despite the skeleton of the research being established by identifying the resource constructs, investigation of the complexity in resource and capability interaction which addresses the second objective of this study was functioned by multiple cases.

5.2.2. Within-case analyses and causal network models

Within-case analysis which includes detailed write-ups that are descriptive in nature makes researchers become familiar with each individual case (Lin, 2007). Yin (2003) suggests that when a qualitative study employs multiple cases, each must be analysed on its own before making comparisons and drawing conclusions

from a set of cases. Under the direction of specific research questions, a within-case analysis allows researchers to gather detailed information and draw conclusions about the research problem by using data displays such as extended texts, matrices, graphs, tabular displays, and networks (Miles & Huberman, 1994).

A variable-oriented approach that identifies relationships between well-defined concepts (Miles & Huberman, 1994) was adopted in this thesis. Hence, identifying and categorising the resource constructs was the leading fact. However, understanding resource orchestration (Sirmon *et al.*, 2011) in the creation of firm performance is the other objective of this research. For this reason, the within-case analyses along with the causal network models that contain four companies, Ülker, Albaraka-Türk, Estée Lauder, and PwC were carried out. In each case, an in-depth interview of the firm's business orientation, resource use, deployment and interaction, competitive advantage achievement, and firm performance was analysed. In this stage of the analysis, narratives were used in order to provide some real snapshots from the interviews and compel researcher to be less mechanistic and more coherent. After multiple readings of the interview questions and transcripts that contain the answers of the participants, the open-ended text and narratives were interpreted by a thematic analysis based on identifying recurrent words and emerging themes (Patton, 1990). Findings derived from inductive (thematic) analyses along with the development of individual causal network models of four companies.

A causal network helps to identify causal mechanisms and complex interactions between variables and provides a rich picture that explains "why variables are related, why they are rated differently, why some precede others, and which ones matter more" (Miles and Huberman, 1994, p. 160). In order to clearly display all kind of relationships between well-defined concepts along with the complex interactions, a causal network model for each case was generated.

Data coding process (detailed in Appendix C) enabled the researcher to work with well-defined concepts and categories in the other stages of the qualitative analysis. While the researcher was analysing the data and drawing conclusions in the case studies, the cause and effect relationships were investigated. And, this happened in the form of a concept-oriented approach. Obviously, causal relations were

identified based on the subjective evaluations of the researcher. However, while explaining the cause and effect relationships which occur in the phenomena, the researcher used only the concepts that were formerly defined and termed (that establish the resource categories) in the data coding process in order to ensure consistency about the definitions of subjective meanings throughout the analysis. So, no previously unidentified and not described concept in the data coding stage was used in the causal network analysis.

In the causal network models employed in this study, whilst dotted lines (- - -) showed the relationships between resources and capabilities, direct lines (—) showed the relationship between a resource/capability and firm performance and points (•) denoted the interactions of resources and capabilities. Direction of the relationships was shown by arrows and names of the resource and capabilities that were derived from the qualitative findings were shown in boxes with assigned numbers and letters (*e.g.*, 1b, 3c). For example, in a relational notation; (1e → 3b → 11 [PER–PROF]) taken from Ülker case where (1e) was assigned to indicate the previously defined concept of "ambition to develop a creative business", (3b) was assigned to indicate the concept of "vehicles and trucks for a country-wide distribution" and 11[PER–PROF] was assigned to indicate the concept of "profitability as a firm performance criterion", the notation attempted to mean that "ambition to develop a creative business led the owner to make investment on vehicles and trucks for a country-wide distribution which increased profitability of the firm". As another example, in a relational notation; (3a → 9a → 10a → 7c) taken from Estée Lauder case where (3a) was assigned to indicate the concept of "company policy", (9a) was assigned to indicate the concept of "digital, mobile and social media tools", (10a) was assigned to indicate the concept of "professional services know-how", and (7c) was assigned to indicate the concept of "brand loyalty", the notation attempted to mean that "through digital, mobile and social media tools that were used as a company policy, a professional services know-how created which led to brand loyalty among customers".

Causal network modelling is widely used in qualitative investigations because it brings out directional relations along with co-relational ones.

5.3. Case study # 1: ÜLKER

"Daddy, don't forget to bring Ülker home"… people of all ages have a happy memory associated with an Ülker brand product. A product from Ülker has sometimes been the sole witness to many of those happy moments.

Company Name	: Yıldız Holding
Trading Name	: Ülker (Yıldız Holding's "trademark" brand of food products)
Founder	: 1944 – Asım and Sabri Berksan
Ownership Structure	: 44.38% Yıldız Holding A.Ş., 21.44% Dynamic Growth Fund, 34.18% Others (including free float)
Turnover (2012)	: 1.327 million USD
Growth Rate (2012)	: 57% (Turnover growth)
Number of Employees	: 29500

Ülker is among the most well-known brand names in Turkey. The biscuit and chocolate manufacturing company was founded in 1944 by Asım and Sabri Berksan. Over time, the Ülker brand became so famous that the family changed its surname from Berksan to Ülker. The company currently manufactures 3.560 separate products and nearly 300 sub-brands in 41 separate categories. The product range comprises biscuits, chocolate, candy, chewing gum, liquid oil, milk and dairy products, carbonated beverages, coffee and baby food. Ülker has always been at the highest ranks on the 1000 largest companies list of Istanbul Chamber of Industry (ISO 1000) and it achieved a 57% turnover growth rate that amounted to 1.327 million USD in 2012. Ülker has become well-known in more than 85 countries because of its exports and the company has production facilities located in 6 foreign countries. These facts make Ülker the 12th largest food manufacturer in the world and a company preferred by global brands who wish to establish strategic partnerships in Turkey[1]. Information for this case study is based on three in-depth interviews conducted with the general manager, the group's human resources director and category brand manager. The causal network model of relationships between resources, capabilities and firm performance is shown in figure 5-2. Numbers and lower case letters in parentheses are used to denote the relationships between variables.

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[1] Corporate information was taken from the official website: www.ulker.com.tr
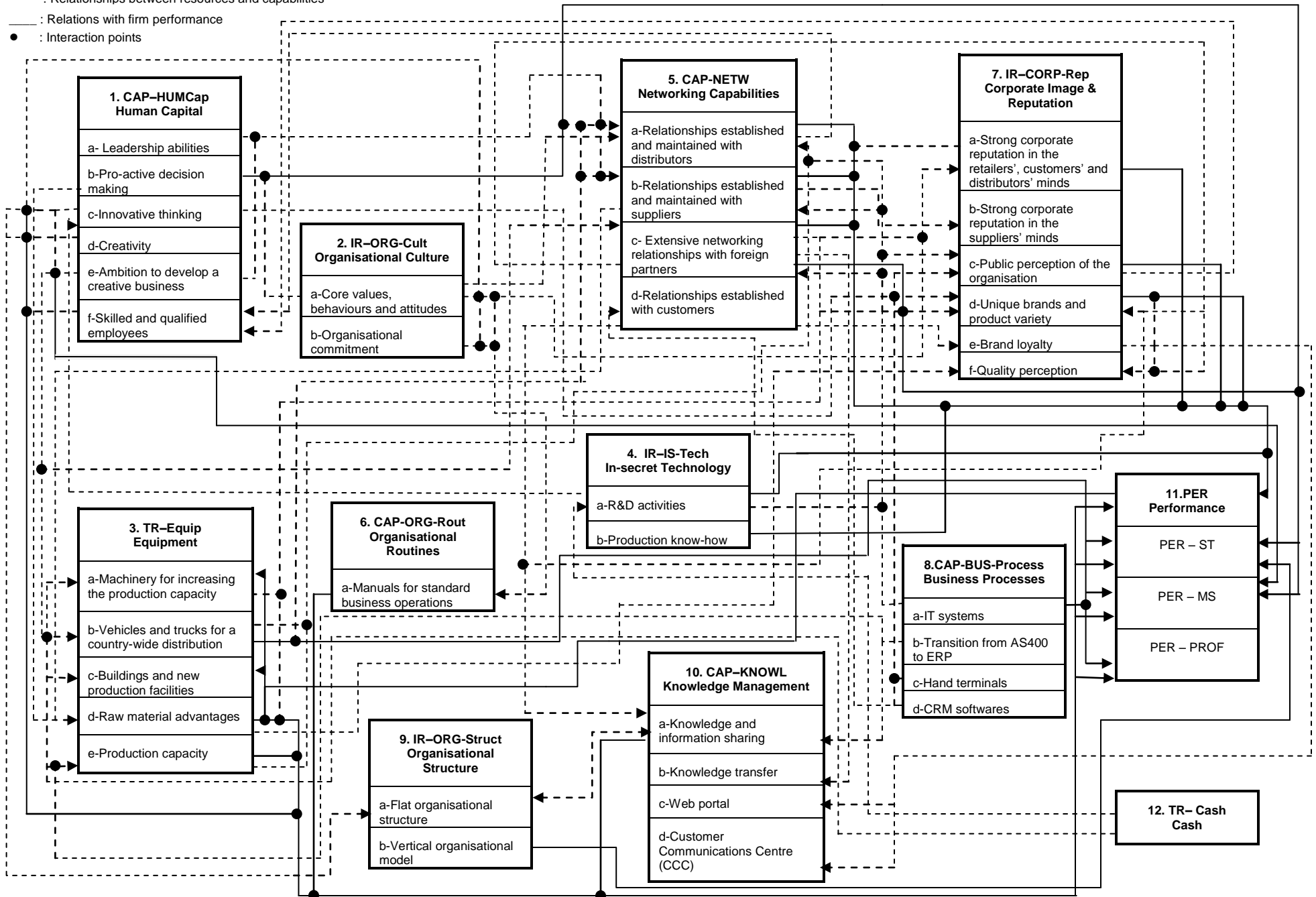
Figure 5-2. Causal network model of relationships between resources, capabilities, and firm performance for the case #1

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Background on the business

Ülker Food Manufacturing which was established as a family owned company prepares itself to celebrate its 70th anniversary in 2014. In fact, everything started with a small bakery in which three workers produced 200 kg of biscuits per day. In these years, the biscuits and chocolate market of Turkey was unsaturated and the demand for these products was increasing. The founder of the company knew that this huge market potential would enable him to create a successful and profitable business and fast and effective distribution system was the key success factor in food sector (1e → 3b → 11 [PER–PROF]). The general manager elaborates this situation:

> "Sabri Ülker noticed that an effective and unique operation strategy would bring the success. This kind of a distribution system would not only enable the company to appear on the shelves of the sales points with high penetration rates but also to increase its market share (1b → 11 [PER–MS, PER–ST]). For this reason, Ülker made a decision to deliver products country – wide without asking transportation fee from the sales points in 1955. The company established a system of touring salesman which was a kind of revolution in distribution strategy in Turkey (1c, 1e → 11 [PER–MS]). With this operation, the company also established strong ties with its distributors which have provided many advantages to the company in difficult economic times (1b → 5a → 11). This growing business compelled the firm to invest a new factory and machinery for the necessary capacity increase (11 → 3a, 3c). The system has been developed so far and in 2012, nearly 4000 trucks distribute the Ülker goods to 220.000 sales points every week (from kiosks to large supermarket chains) out of 250.000 retailers in Turkey (3b → 11 [PER–MS, PER–ST])".

The powerful distribution system was supported by the networking capabilities of Ülker that enabled the firm to establish strong relations with its customers, suppliers and distributors (5a, 5b → 3b). This proximity which was maintained over many years led to a loyal customer base and the Ülker distributors and retailers felt as if biscuit and chocolate can only be bought from Ülker (5a → 11).

Moreover, in economic turmoil where the customers faced with difficulty in paying their debts to the company, the founder of Ülker supported the customers financially (1b, 2a → 5a) without getting capital interest. Again, general manager of the company explains the rationale behind the founder's attitude:

> "... Our founder knew that close relationships with the retailers were very important for future success (5a → 11) because they were the ones that would sell and promote the products of the company. He always mentioned that the company and the sellers were in the same boat. If the boat starts to leak water, everyone in the boat would suffer

damage. For this reason, he has always been very pleasant and helpful to the retailers and this relationship has turned to a mutual form in the following years (7a → 5a). Ülker also established great relationships with its suppliers (sugar, wheat, milk and cacao providers), in early years of the company, payments were always made before the due dates which created a very strong and reliable corporate image for the company (5b → 7b). Moreover, these relationships enabled Ülker to reach scarce raw materials (especially, cacao) at lower prices and this position helped the company to sustain cost advantages against its competitors (5b → 3d → 11)".

In fact the strong and long-standing relationships with the external parties resulted from the founders' leadership styles and attitudes that were highly affected by their culturally and religiously conservative backgrounds (1a, 1e → 5a, 5b). Apart from the focus on work discipline and systematic business operations that were codified in manuals (6a), the founders always emphasised the importance of providing financial and non-financial advantages to customers for a successful business (5a, 5b → 11). Eventually, this way of doing business reflected to the organisational culture of the company (2a). A strong and high-performing organisational culture of the company has always dictated to its employees that Ülker must do business without compromising honesty and integrity. The general manager continues:

> "Obedience of the employees to the organisational culture and conducting business accordingly does not only solidify the positive image of the company among its stakeholders (2a → 7a), but it also enhances the commitment of the employees to the organisation (2a → 2b). We feel proud as long as relax while we are doing our job and this makes us work happy and effective in this organisation. Moreover, a positive corporate reputation always attracts the qualified job seekers in the market (7c → 1f)".

Organisational culture and innovation ability

Over the years, with the influence of the shared values, beliefs, expectations, rituals and the behaviours' of the founder, the company developed a strong organisational culture that provided a framework for organisational values, ethics, effectiveness, and efficiency. This unique organisational culture did not only help individuals understand the way things are done in the company but it also created a team spirit that increased the commitment and performance of the employees (2a → 2b → 6a → 11). The HR director explains the positive repercussions of the organisational culture:

> "... Our employees feel themselves as the members of a big family (2b). Although the importance of self-discipline to get things done correctly and timely on a consistent basis was frequently mentioned, maximum effort was shown in order to provide a relaxed and comfortable working atmosphere in the company. Everyone who works for this company lives and breathes the core values. No other company I have ever

worked in has placed that much emphasis on its culture and core values (2a). We believe that only a company which was comprised of happy and satisfied people can be creative and innovative, and this situation eventually makes contribution to firm success (2a → 1c, 1d → 11)".

Indeed, a high performance organisational culture was evident in Ülker (2a). Apart from representing the cohesiveness of the organisation (2a → 2b), this unique organisational culture formed a sound basis for the company's industrial, managerial, marketing and sales, advertising and customer relations activities (2a → 5a) which made Ülker more than just a brand name. Employees are always motivated to do better work and produce innovative systems and products (2a, 2b → 1c, 1d → 11). Consistent with the explanations of the interviewees, Ülker was the first cookie company in Turkey that employed conveyor belts in production (1d). Similarly, as a new packaging technology in food industry, cellophane-based packaging was firstly used by Ülker in 1979. According to the HR director:

"... Although organisational culture (2a) of Ülker was built around core values, challenging norms and preconceived notions about how business should be conducted and things should be done, creation of new ideas and development of new products were always fostered in the company (1c, 1d). This indulgent culture to new and innovative ideas is supported with a relatively flat organisational structure (2a, 2b → 1c, 1d → 9a) in order to ensure effective communication and enhance knowledge sharing (2a, 2b → 1c, 1d → 9a → 10a). As a result, most of the innovative products in the industry came from Ülker which helped the company sustain competitive advantage (2a, 2b → 1c, 1d → 11). For example, the first cookie with fig filling in the world was produced by the company under the brand name (7d) of Biskrem. This unique product that offered a different taste to consumers achieved rather high sales volumes especially in the US, Australia, Turkic Republics and Arabic Peninsula (1c →7d → 11)".

Along with the effects of organisational culture, innovation ability of the company was also influenced from the R&D efforts (4a → 1c) that trace back to 1974. The general manager states:

"The first R&D department of the company was established in 1974. As time goes by, most of the divisions either supported the R&D department or developed and created new projects themselves to keep the competitive position of the firm in the markets (4a → 11). In order to enhance the creativity and innovation ability of the organisation, the divisions were urged to work together and share their knowledge and expertise (10a → 9a → 1c, 1d). Especially, the R&D department of the IT division played a great role in developing new software and hardware (8a) that enabled the organisation to increase the efficiency of existing product range by adding new high quality products manufactured under hygienic conditions (8a → 7d). Moreover, with the support of the IT, R&D department developed environmentally friendly bio-degradable packaging

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and anti-bacterial film that protect the consumer and make the world a better place to live (8a → 4a → 7d)".

These investments (12) to the R&D and the developments of environmentally sound products did not only strengthen the positive image of the organisation (12 → 4a → 7d → 7c) but also helped the company to add its portfolio new customers who had environmental consciousness (7c → 11). The increasing number of customers and market share along with the strong distribution channel (3b) made the company to follow a vertical integration strategy which shifted the firm's policy from purchasing raw materials to producing raw materials and increasing the range of the product portfolio (3d).

Vertical integration strategy and concern for the quality

As a rudiment of the vertical integration strategy, the company started to expand its operations in different categories such as sugar and starch, vegetable and industrial oil, water, flour, milk and margarine. In fact, this strategic decision was the result of the determination to eliminate quality risks in raw materials (3d). But the excellent capacity of raw material production (3a) provided an ample opportunity to the firm for the execution of a diversification strategy (3d) which increased the number of the markets, customer segments and branded goods of the company (3a → 3d → 11 [PER–MS, PER–ST]). As a result of diversification strategy, a number of new categories such as baby food, dairy products, confectionery, cake, ice cream, carbonated drinks, fruit juice, desserts, chewing gum, and some cooking ingredients (*e.g.*, bouillon, baking powder, vanilla) were included to the product portfolio.

Ülker's vertical integration strategy can be perceived better with the establishment of PNS-Cerestar joint venture (5c). PNS was formed in 1993 as a joint venture with Cerestar which is a member of the Cargill Group (US) and Europe's largest starch producer. This was among the most important steps in the timeline of vertical integration strategy. In order to address the raw material needs of the group companies, PNS produced sugar, oils, fats, flour and starch as the ingredients that were used by most of the manufacturing firms (5c → 3d → 11). The packaging division that specialised in plastic film applications, paper and corrugated cardboard also played a crucial role in the integrated structure of the company.

Ülker has generally implemented the vertical integration strategy by establishing different types of strategic alliances such as joint venture, merger and acquisition. For example, Natura Food was formed with the acquisition of Swiss Schöller Turkey's ice cream division (5c). Similarly, partnerships with the French cake producer Harris and the Finnish stanol containing goods (that lower body cholesterol) producer Raisio were established. The partnerships created mutual benefits to the parties. Whilst Ülker and Hero AG of Switzerland's agreement enabled the Swiss company to enter the Turkish baby food market, Ülker increased its product range. Moreover, the agreement also included that Hero would have marketed some of Ülker's products in Swiss and Austrian markets (5c → 11 [PER–MS, PER–ST]).

The same strategy was used while establishing another partnership with Italian Barilla. The agreement was about joint production in Italy and distribution of Ülker products in Italy and Barilla products in Turkey. With these partnerships, Ülker utilised many benefits: considerable food production knowledge and experience was transferred from world class firms (5c → 10b), the product range and mix of the company increased (5c → 7d), local partnerships in new markets reduced costs of entry and allowed the organisation to enter difficult markets such as the EU and US where the competition was fierce and legal barriers were high in terms of hygiene, quality and packaging issues (5c → 3d → 11), and Ülker's corporate name along with its unique brands were highly recognised in the world markets (5c → 7a → 11). The category brand manager elaborates:

> "If you want to be a global player, you have to exist in key markets! For this reason, our most radical market entrance decision came for the UK which was probably the most difficult European food business market. Although we tried to enter the UK market with Ülker brand in the past years, we could not appear sufficiently on the British shelves. But since the UK was a prestigious market, we persistently followed aggressive strategies and acquired the local Lovell's brand which provided access to distribution channels and helped us to market other Ülker products in the UK (5c → 3d → 11 [PER–MS, PER–ST])".

The category brand manager adds how a similar strategy was implemented in the US market:

> "... The US market always caused concern on us because of its huge potential. Although we had a small market share in New York, the goods of the company were not available in the rest of the country. Entering to US would also open the doors of

other big markets such as Canada and Mexico. Hence, an agreement between Ülker and Kellogg's which included the distribution of Kellogg's products in Turkey and Turkic Republics and the use of Kellogg's distribution channels to market and sell Ülker products in the US was signed in 2005 (5c → 3a → 11 [PER–MS, PER–ST]). Later, the firms established a cereal production plant in Turkey in 2007".

Apart from broadening the appearance of the Ülker brand in different markets, vertical integration strategy along with an effective supply chain was also used to guarantee the quality of Ülker products (1b → 3d → 7f). The category brand manager explains the importance of quality issue in food business and how the firm achieved keeping quality via vertical integration strategy:

> "We sell food products and the quality and hygiene issues are vitally important in this sector especially for the brand loyalty (7f → 7e → 11). The Group has six different quality certifications: ISO 9001, ISO 9002, ISO 14001, OHSAS 18001 and HACCP plus BRC for exporting food products to the UK. But although, obtaining these significant quality certifications was a quality indicator, we knew that the real quality would come from the raw materials (3d → 7f). Therefore, we started to produce most of the raw materials used in our manufacturing ourselves. With this strategy, we were able to have a complete control on the quality of our raw materials. Moreover, production of raw materials provided notable cost advantages that helped the company to sell its products at lower costs and higher profits (3d → 11 [PER–PROF])".

Within the context of vertical integration strategy, the company increased its market share and sales turnover (5c → 11 [PER–MS, PER–ST]), and took noteworthy steps to guarantee the quality of its raw material and products (5c → 3d → 11 [PER–MS, PER–ST]). Besides, with the addition of new products, the company's offerings have been fully horizontally integrated and this variety in the product range provided great advantages to the distribution and sales force in terms of achieving high penetration rates in the sales points of the firm (5c → 7d → 11 [PER–ST]). Against horizontally integrated product strategy, the company's distribution channels are built on a vertical organisational model (9b) in which specialist distribution and marketing companies serve each channel with specific practices that may increase the sales turnover of the firm (9b → 11 [PER–ST]).

Distribution, sales force and the power of brand

Strong production capacity (3e, 3a → 11), raw material availability (3d → 11) and distribution ability (3b → 11) were frequently mentioned among the key success factors in food business. With this concern, Ülker made vast amount of investments to the manufacturing plants, machinery, and production lines as well as vehicles

and trucks to achieve large-scale production (12 → 3a, 3c, 3e → 11) and effective nation-wide distribution (12 → 3b → 11). Furthermore, the firm has manufacturing plants in Ukraine, Russia, Iran, Romania, Saudi Arabia, Egypt, Algeria, and Turkic Republics which strengthen the position of Ülker in different geographic markets (3a, 3c, 3e → 11 [PER–MS, PER–ST]). Ülker secures a 57% share of the Turkish biscuits and chocolate market even in the face of fierce competition from leading international firms such as Milka, Nestlé and Cadbury. The firm has the highest penetration rate among its competitors and the role of outstanding distribution (3b) in this achievement is evident. The category brand manager explains:

> "... Our production capacity (3e) is incomparable with the other firms in the market. For example, one of our manufacturing plants (3c) produces 1000 kilograms of biscuits and chocolate covered products daily and this amount corresponds to the weekly production capacity of our largest competitor (3c, 3e → 11). This power of production surely emerged from our specialist company Topkapi Machinery (4b) that builds and designs machinery and production lines as well as undertaking large-scale modifications and modernisation of the Group's existing plants via its extensive manufacturing and technology expertise (4b → 11). Moreover, the codes and manuals that were used by foremen, engineers, and blue-collar workers in production processes supported smoothly working system (5a → 1f → 3e → 11). However, a strong production does not create value without an effective distribution network (3e → 3b → 5a). That is why we established such a wide-ranging distribution system... Everything aside, only 520 temperature-controlled trucks (3b) which guarantee Ülker's uninterrupted cold-chain and ensure fresh and delicious milk to be on store shelves before dawn in the morning can be a good example to denote the concern showed by the company".

In accordance with the vertical integration strategy (5c), two logistics firms that belong to the company (3b) handle transportation needs of the Group plants, warehouses, and wholesale locations. The company's purpose built warehouses (3c) in Istanbul, Ankara and Izmir that make up the final links in this added-value distribution network (3c → 5c → 11). Although Ülker has the ability to distribute its products with high penetration, the firm is required to offer the best customer service during and after sales to be able to continue this success. In this respect, IT systems (8a) such as CRM tools (8d) and ERP systems (8b) that integrate the hand terminals of sales force (8c) to production, stock, order, and inventory divisions were widely used in the firm. The category brand manager emphasises the importance of IT in increasing the effectiveness of distribution ability of the firm (8a → 5a → 11) and establishing a more sophisticated customer database that enables the firm adopt customer-oriented strategies (8d → 7c, 7d → 11):

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"... The new IT system increased our distribution ability radically (8a → 11). With the transition from the old AS400 system to the new ERP system (8b), all processes existed in the manufacturing and distribution divisions were integrated and the flow of information between all divisions was facilitated (8b → 10a). Therefore, all divisions started to speak the same language simultaneously. This information sharing did not only support the optimal stock, inventory (8b → 3e), and production issues but it also cut the costs to which the company incurred because of the unnecessary interactions such as telephone talks, e-mailings and personal conversations (8b → 10a → 11 [PER–PROF]). Especially, with the hand terminal (8c) components of the ERP system the sales force of the company which consisted of nearly 4000 pre-sellers took orders much easier and offered the pre-ordered products at the proper time. I guess the effect of these IT systems on distribution ability of the firm and the effectiveness of the sales force was tremendous! (8a → 5a, 5b, 5c → 11)".

CRM tools used by the firm helped Ülker's sales force and customer-facing teams to establish close relationships with the customers and suit their future needs (8d → 5d). This close interaction yielded sufficient information about the product requests of the customers (8d → 5d → 10a) and the company used this valuable information to determine what kind of products should be added to its product range (10a → 7d). Customers are encouraged by Ülker to express their opinions either in the web portal (10c) or in the Customer Communications Centre (CCC) of the firm (10d) which resembles a library where the opinions of the customers were collected. Customers of Ülker associate their emotions of childhood, teen years and adulthood with the brand name and share their feelings and opinions about these relationships on any platform (7e → 10c, 10d → 10a). Therefore, effective CRM applications maintained customer loyalty (8d → 5d → 7e) and the emotional aspects of the mutual relationships that began in the early lives of the customers were developed. The general manager advocates the importance of brand loyalty for Ülker (7e → 11):

"Ülker's relationship with its customers is a story that spans many years (5d). This dynamic relationship created such an influence on the perception of our brand in the customers' mind that they sometimes acted as guardian angels of Ülker name (5d → 7e). I remember an example which can be found in the website of the company as well: a lady who was in a petrol station saw a wrong labelled package of Ülker chocolate. She viewed all shelves and found five products that had the wrong labelling, and then she immediately bought the products and brought them to the CCC. Before she left the products she wrote a note saying **I could not stand seeing Ülker products in that state**".

The role of brand loyalty (7e) and well-recognised brands (7d) in sustaining competitive advantage was frequently emphasised in the interviews (7e, 7d → 11). The category brand manager adds:

> "... Ownership of well-known brands is extremely important in our (food) business where hygiene and product reliability issues cause maximum concern on customers (7d → 11). A recent marketing research study indicated Ülker as the second most recognised brand (7c, 7e) in Turkey, in all categories".

Bearing in mind the advantages that can be gained via brand loyalty and ownership of well-recognised brands, the company continuously increased the number of premier brands in its portfolio (7e, 7d → 11). Godiva acquisition (5c), the world's foremost producer of super-premium chocolate products (7f), from the US-based Campbell's Soup Company in 2007 was among the most important steps of implementing this process. Apart from increasing number of unique brands in the product portfolio, Ülker also solidified its globalisation strategy with this acquisition that helped the firm in the course of reaching different markets in the world (5c → 7d, 7f → 11). In 2013, Ülker products became available in 120 countries including China, Mali, Djibuti and Trinidad and Tobago. The company still undertakes investments in order to maintain its dominant market share, increase consumer satisfaction, and improve product quality (12 → 3a, 3b, 3c → 11 [PER–MS, PER–ST]).

5.3.1. Summary of the case #1

Human capital that comprises leadership abilities, pro-active decision making, innovative thinking, creativity, ambition to develop a creative business along with the networking capabilities that include relationships established and maintained with distributors, suppliers, customers, foreign partners were seen as the key determinants of firm success in Ülker. Owners' attributes and humanist and paternalist leadership characteristics appear to be influential in the generation of predominant core values, attitudes, and behaviours that are the main components of the organisational culture. The company's organisational culture revolves around five main values: trust, honesty, decency, leadership, and innovation and potential employees are expected to possess certain characteristics that ensure them to fit these organisational values. Apart from the capability oriented properties, reputational intangible assets such as strong corporate reputation of the

organisation in the retailers', suppliers', customers', and distributors' minds, brand uniqueness and loyalty, and quality perception of the organisation were found as the other important sources of performance.

As reported in this case study, referring to the interviewee explanations, the integration of human capital and organisational culture especially accelerates the development of networking capabilities along with the creativity and innovation abilities of the firm. However, the researcher had some concerns in terms of the interaction effects of human capital and organisational culture on the possession and accumulation of other organisational resources.

As such, although organisational culture appeared to be among the most important resources in creating competitive advantage and increasing firm performance, the overmuch conservativeness and its heavily impact on recruitment and human resource practices, work values, and leadership styles may have a number of negative consequences for the firm such as creating inertia and adaptation problems to new business settings. Since the strong and firm culture dictates to employees how to do business and act in the organisation based on strict principals, the employees may not demonstrate their skills and qualities freely. Similarly, as the culture influences value systems dominantly, the HR executives tend to attract and select only people who share similar values. In line with this, when the composition of the employees of Ülker was analysed, a diverse workforce was not observed in the company. Interestingly, the researcher noted that most of the top level managers were transferred from other multinational firms that were the US and UK oriented. It seemed that these sudden and direct transfers increased the uneasiness among other managers who were expecting to be promoted for several years in the firm. A conversation with a mid-level manager in the canteen who works in the firm around 15 years reveals this situation:

> "... The new (X) group director came here by getting tons of transfer money. What is going to happen to my efforts? I have been waiting for a position there for the last 5 years but the new guy brought his team...What is the admiration for these people? This is not the first time and it all happens in every part of the organisation".

The researcher links this situation to the efforts of the firm to become a Western-oriented organisation. However, this HR policy had some negative repercussions on the market performance of the organisation in the past. In 2003, the firm

decided to launch a new cola product called Cola-Turka. Hence, most of the managers were transferred from Coca-Cola and Pepsi. The product that was launched with an advertisement in which Chevy Chase was playing achieved great success. And Cola-Turka has been the only cola brand in the whole cola history of the world which secured a second place following its launch among giant players Coca-Cola and Pepsi in the Turkish market. At the first instance, it seemed as a great success. However, after six months, the problems occurred. Manufacturing capacity of the plant was not able to address the excess demand of the market and the managers of the company had to make a choice between providing the product to large volume supermarkets or to relatively small grocery stores that have been working with Ülker for long years. The managers decided to provide the product to supermarket chains instead of groceries. But suddenly, the other cola giants increased their advertising and promotion budgets radically and grabbed the market share again. The researcher had a conversation about this issue in a distributor visit and the distributor explained:

> "... In those days, we could not find product to sell, it was horrible. The firm was sending all its production to supermarket chains. I think Yankee managers forgot us but they should have known that we were the ones who have always been together in the best and worst days of Ülker. The power of money would not outperform well-established long lasting relations".

It can be understood that the westernisation efforts of the firm resulted to a fail in this case. This example shows the importance of networking capabilities in Turkey once more. Therefore, as an important determinant of performance, networking capabilities contributed to firm success in three main areas: first, strong relationships with suppliers and foreign partners provide the firm to have raw material and cost advantages, and penetrate existing and/or different markets which lead to the increase in sales turnover, market share, and profitability; second, well-established relationships with the stakeholders positively influenced the perception of corporate image and reputation of the company which increased the number of brand loyal customers and attracted the potential qualified jobseekers; third, knowledge and information acquisition, transfer and sharing ability of the firm enhanced by the extensive networking capabilities that enabled the company to create unique brands, produce more innovative and creative products, address and solve the needs and complaints of customers better, offer

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superior customer services, and make thorough strategic decisions. Against these considerable contributions, inorganic growth of the network of the company (*i.e.*, through M&A's) can lead to some HR problems and the fast growing network can create hybrid cultures that do not fit into the existing culture and jeopardise it. Apart from acquiring new firms, the company also phased out a number of divisions and firms from its portfolio and these sellings may be linked to the mentioned HR and cultural problems.

The respondents were likely to present the company in the best possible manner and this situation made sometimes more difficult for the researcher to make an objective assessment of the organisation. Against the very rosy picture that was presented by the managers, company records showed that the annual turnover rate among employees was around 7%. This rate was increasing to 10% at lower managerial levels and even 12-13% among the employees who work in sales and manufacturing functions. Compared to the average turnover rate in food industry which is 6% (TurkStat, 2012), these figures were high. Additionally, according to the results of a job satisfaction survey that was conducted by an independent research institute in Ülker and some other firms from several industries, the overall satisfaction level in the company was lower than that of in other firms. So, different sources of evidence with regard to working atmosphere, job satisfaction and turnover rates among employees showed mixed results.

Obviously, these circumstances may become potential threats for the innovation and creative problem solving abilities of the firm in the following years. Moreover, organisational culture of the company developed organically in tandem with the vision of the founder and most of the strategic decisions were taken based on the past business attitudes and practices of the founder. But, the dynamic nature of the current business environment may require more effective and faster decision making processes. Otherwise, the company can lose lucrative opportunities in markets. Elaboration of the category brand manager's on transition from AS400 to SAP system may provide an insight about the long decision making process that occur in the company:

> "... Although it took five years to convince the board and other top management members to purchase and adapt the SAP system ...".

In fact, the influence of the vision of the founder and the family members was clearly observed in different settings in the organisation. In an informal discussion, a staff from education and training department said that the material of the education programme of the sales team was controlled by the owners of the firm. She stated:

> "... Owners of this firm want everything to be under their control. But, there are professionals in this firm. I cannot find a realistic reason behind controlling the education material of sales team by top management. Because some board members were too busy and they couldn't time to review the material, the programme was postponed for 6 weeks...".

In another example, the researcher observed in a department meeting that a top manager whose relations with the owners were tight talked during 23 minutes and after his talk, no conversation occurred and no other manager made a comment or evaluation but accepted everything he said.

Among tangible resources, machinery, vehicles, raw materials, and new production facilities were seen as the most significant antecedents of strong production capacity of the firm. However, although the managers whom interviewed stated that the firm was very strong in terms of tangible asset ownership, Cola-Turka case contradicted this with its manufacturing capacity problems.

Despite its recognised brands and strong corporate reputation, some of the customers in the market refrain buying the company's products because of its close relations with the AKP administration, but the category brand manager urges that:

> "... Actually, this does not cause any concern on us. This kind of a situation may exist in every market. Besides, based on the results of a market research, the loss of our market share due to this boycott is below 1%. No need to care! ...".

Lastly, a number of significant interrelationships between knowledge management capabilities and business processes are also evident in promoting fast and efficient nationwide distribution and R&D activities, creating manufacturing and distribution know-how, and providing superior service quality to customers after sales. Besides, the financial and new product development success of the firm is evident in the annual reports and the financials that were submitted to stock exchange of Istanbul. Hence, the present case indicates capabilities as the most important contributors of firm success. The next within-case analysis is Albaraka-Türk.

5.4. Case study # 2: ALBARAKA–TÜRK

"Innovation without relinquishing core values brings abundance".

Company Name   : Albaraka Türk Participation Bank A.Ş.
Trading Name   : Albaraka
Founder   : 1984 – Albaraka Banking Group (ABG)
Ownership Structure   : 54.06% Albaraka Banking Group, 7.84% Islamic Development
                        Bank, (IDB), 3.46% Alharty Family, 34.64% Others (including free
                        float)
Profit (2012)   : 112 million USD
Growth Rate (2012)   : 23.7%
Number of Employees   : 3000

Albaraka Banking Group (ABG) which is originally a Bahrain Joint Stock Company has been operating in financial products and services sector since 1978 with a network comprising of 796 branches in over 72 countries around the world, from Singapore to UK, from South Africa to Morocco, and from Australia to Kazakhstan. The Group which regulates its operations based on the principles of Islamic Shari'a especially shows a strong presence in Jordan, Tunisia, Sudan, Turkey, Bahrain, Egypt, Algeria, Pakistan, South Africa, Lebanon, Syria, Indonesia, Libya, Iraq and Saudi Arabia. The authorised capital of Albaraka Group is 1.5 billion USD, while total equity amounts to 1.8 billion USD.

Albaraka-Türk which is the first finance institution in the field of interest-free banking in Turkey was established in 1984 by Albaraka Banking Group, Islamic Development Bank (IDB), and a native Turkish industrial group[2]. It is the strongest bank within ABG and aims to be one of the leading interest-free banking institutions of the world. Information for this case study was collected from three in-depth interviews that were conducted with the general manager and two assistant general managers who were responsible from operations, and HR functions. Causal network model of Albaraka-Türk was shown in figure 5-3.

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[2] Corporate information was taken from the official global website: www.albaraka.com and the local website: www.albarakaturk.com.tr
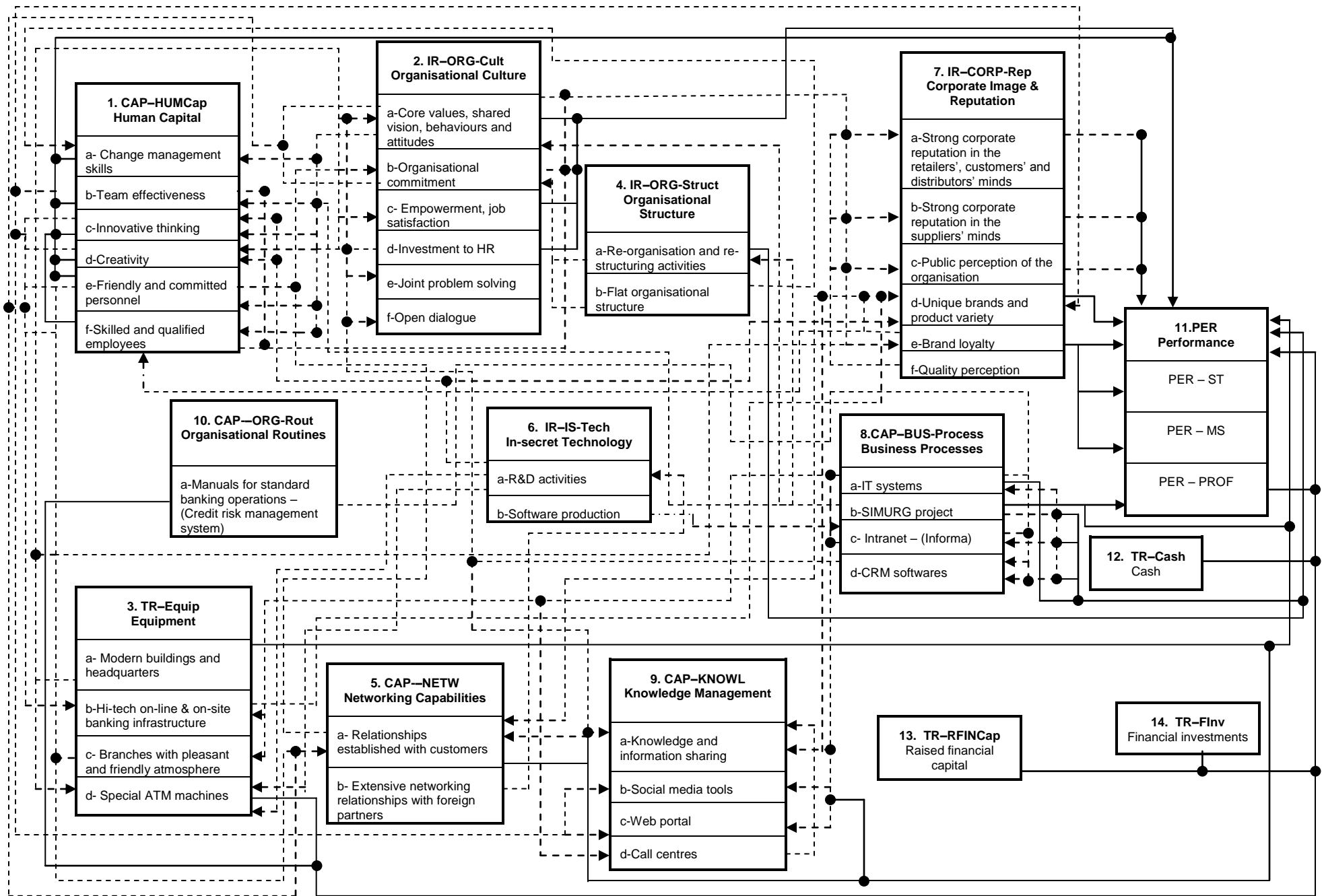
Figure 5-3. Causal network model of relationships between resources, capabilities, and firm performance for the case #2

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Background on the business

The Turkish banking industry performed quite successfully between 2009–2012 despite the effects of the global financial crisis in 2008. On current estimates, the assets of the Turkish banking industry increased 21% in 2012 (The Banks Association of Turkey, 2013). This robust growth was nourished partly by the rapid recovery of the world economy and mainly by the strong banking infrastructure of the country that was established after the local Turkish banking crisis occurred in 2001. Surprisingly, the interest-free banking segment even achieved a relatively better performance than traditional banking segment after the global financial crisis since Islamic finance was considered as a more secure alternative to conventional banking. There are four major players in the interest-free banking segment in Turkey: Bank Asya, Türkiye Finans, Kuwait-Türk and Albaraka-Türk.

The competition is fierce and the total market share of these four banks represents only 7% of the financial products and services market in Turkey. Among them, whilst Bank Asya has the highest market share with nearly 2%, the others possess similar market share figures (around 1.5% for each) and Albaraka-Türk falls into the third place. However, interest-free banking sector has a strong growth potential and it aims to increase its market share from 7% to 15% until 2015. All of the participation banks offer a full range of financial and banking services through different distribution channels such as physical branches, telephone banking, internet banking, ATM machines and the other electronic commerce initiatives.

Albaraka-Türk collects funds through current and participation accounts (which grant customers joint-profit gain instead of interest gain based on Islamic finance rules) in its 136 branches all over the country, 60 of which are in Istanbul, and in turn it circulates the funds into the economy via its banking activities that include individual and corporate financing, financial leasing and profit/loss sharing based on the projects that are authorised to provide financial services through interest-free banking. With the mission of adding value to its stakeholders, the bank aims to achieve a modest-aggressive growth rate of 15% in total assets for 2013.

Organisational culture, shared understanding, and customer relations

Starting from the early years of its establishment, Albaraka-Türk aimed to create a distinct organisational culture that includes core values and beliefs which help individuals understand the organisational function and expected behaviours. Bearing in mind the customer portfolio of the bank that consists of a large number of customers who consider bank interest as a religious prohibition and have a relatively conservative life-style, the organisation has always been very susceptible to its core values that project positive and proactive behaviours against the expectation of the customers (2a → 7e). The general manager of the bank states:

> "We need to harmonise the beliefs and faith of our customers with the banking operations (5a). They will continue to be our customers as long as they trust us (7e → 11). The most important thing for our customers is the sincerity that has always been among our core values. Stickiness to our core values enables us to offer friendly and accommodating services as well as provide utmost customer satisfaction through our products and services with respect to our customer-oriented banking approach which is crucial to organisational success (7e → 7d → 11)".

In 2009, Albaraka-Türk started a new corporate identity change and re-branding project called "rainbow" in order to renew itself for its stakeholders and provide better services to its customers (7f → 7a, 7b, 7c → 7d). Unique and conservative organisational culture was so important for the customer loyalty and corporate success (2a → 7e → 11) that the messages emitted during the new identity project was about keeping its interest-free principles and business philosophy strictly while changing other things. The assistant general manager (HR) elaborates this situation:

> "When the brand transformation project started in line with the Group's "one mission, one vision, one identity", there have been some rumouring and confusion among the customers with a concern that the bank would become just like the other deposit banks. Our identity and culture clearly define ourselves and provide clues about "the way we do things around here" (2a). Hence, we had to stress that we would persevere to provide the same quality of service with interest-free principles that our customers were accustomed to, just with a renewed appearance (2a → 7e). This was necessary not only for eliminating the discomfort of our customers but also for informing our skilled and high quality employees who work with a broad vision in good faith, diligence and team spirit (2a → 7e, 1f, 1b, 2b)".

With the corporate identity revamp project "rainbow", the bank aimed to renew its visual identity that includes change of the logo and re-design of the branches, adopt a unique and comprehensive business philosophy which strengthens the

customer orientation approach of the bank, and adapt itself to the needs of the changing and developing business world. Obviously, a strong brand provides several benefits to organisations (7d →11). In the light of this argument, successfully implemented re-branding projects may lead to positive outcomes such as increasing brand loyalty and the number of brand loyal customers (7e → 7d, 5a), attracting potential skilled job seekers (7e → 1f), strengthening corporate image and reputation (7e → 7a, 7b, 7c), and improving financial figures such as market share, profitability, and sales turnover (7e → 11 [PER–MS, PER–ST]). The assistant general manager (HR) continues:

> "... A new, modern and competitive look was a must for the bank since the organisation was looking obsolete. That was not only viable for the banking operations but also for the physical buildings, headquarters, branches *etc*. (3a, 3b, 3c). After the corporate identity revamp (including the building of new headquarters), job satisfaction and employee commitment were positively affected (7e, 3a → 1e, 2a, 2b, 2c). Financial performance has also increased. Although I am not able to assess the exact contribution of this project on performance, the positive effects of this new and dynamic image on financial figures are indisputable (7e, 3a → 11)".

In the process of a corporate identity revamp, maximum effort was shown to protect the core values along with the unique and conservative nature of the organisational culture. As a reflection of the Albaraka-Türk's organisational culture, a friendly and warm climate was seen both in the headquarters and branches. The general manager indicates that Albaraka-Türk's values revolve around:

> "… Sincerity, honesty, and integrity which are expressed throughout the organisation are indispensable assets for our success (2a → 11). Our customers expect personalised and cheerful service approach and we offer it ! Excellence in customer relations has always been among our strengths to sustain competitive advantage (5a → 11). Our committed personnel are willing to spend time to develop the relationships with the customers and keep them work with us (1e, 2b → 5a). Unlike the other banks, the reason of our customers' branch visits may just be to make a chat or have a cup of coffee. They want to feel themselves in a family environment and we provide this setting to them (1e, 3c → 5a → 11)".

Customer service capability of the organisation that is essential for the firm success was achieved by the high performance, excitement and motivation of achieving satisfactory business results of the committed and skilled employees (2a, 2b → 1e, 1f → 5a → 11). The bank has been very cautious in providing equal working conditions and career development opportunities to its staff. Moreover, Albaraka-Türk provides an extensive induction programme for new staff. The

induction programme introduces new employees to the culture and core values concurrently with making them aware of the history, vision and mission of the bank (2a). Hence, a shared vision along with team spirit that stands out Albaraka-Türk from other competitors would be created (2a → 1b → 11). The assistant general manager (HR) explains how the bank treats its employees by stressing the importance of the human capital of an organisation (2c, 2d → 11):

> "First of all, we guarantee equal employment opportunities to our staff by ensuring that decisions are based on performance and achievement (2c). We are conscious that the way we treat to our staff affects their commitment and performance (2c, 2d → 2b → 11). Therefore, the HR policy of the bank is always to be supportive to our staff in all respects. Skills and quality of the employees are sources of competitive advantage in this sector and because of that we make investment to our staff to develop their skills and abilities (2d → 1b, 1c, 1d, 1e, 1f → 11). For example, we have special agreements with a couple of universities that offer customised MBA and professional certificate programmes according to the needs of our staff… As a consequence of this approach, the bank has achieved to have a high-quality young and dynamic staff with high level of job satisfaction who were equipped with skills, and acted with a strong team spirit in the way of experiencing a unique position of advantage which is the most important aspect of the overall firm performance (2d → 2b, 2c → 1b, 1f → 11)".

Another initiative of the bank regarding the realisation of its vision to become the world's best interest-free participation bank is the SIMURG project. The SIMURG project that is the official name of the corporate transformation programme was launched in 2012 with the aim of grouping the detailed projects encompassing nearly all of the bank's internal and external units and processes (8b).

The SIMURG project contributes to the bank in several areas: (1) all projects will be collected in a pool and these projects will be conducted and coordinated by a separate division (Transformation Management Office –TMO). With this new system, not only efficiency and effectiveness will be ensured but also substantial cost-cutting will be achieved especially after discarding many other divisions (8b → 11 [PER–PROF]); (2) Since project teams and other TMO members were drawn from among the personnel of different units of the bank to carry out their specific tasks, a shared understanding (2a) and team effectiveness (1b) that are compatible with the bank's ultimate objectives will be established and a long term transformation towards a more modern, responsive and adaptive organisation will be warranted (8b → 2a, 1b → 1a → 11); (3) With the software content of the SIMURG, most of the business processes (*e.g.*, intranet and IT systems) and

knowledge management tools (*e.g.*, web portals and social media components) will be also integrated effectively (8b → 8a, 8c, 9b, 9c → 11). The assistant general manager (HR) elaborates the importance of this project for a better performing bank (8b → 11):

> "The programme which is a constellation of all projects of the bank is expected to run through to the end of 2015… As the real meaning of "Simurg", we will reborn from our own ashes. With the SIMURG project, we seek to achieve a long term organisational transformation through a linkage of changes that are individually and collectively compatible with the bank's ultimate objectives and the realisation of this project is vital for the future performance of the bank (8b → 11)... We believe that our properly defined core skills and competencies and our customer-focused service approach will reach to higher levels with this transformation programme".

The SIMURG project included a substantial re-organisation activity such as the set up of a new commercial marketing department to expand Albaraka-Türk's customer base in the SME segment, opening of four new corporate branches to serve customers in the corporate banking segment (4a). Moreover, five regional departments were also set up in order to support the new organisational structure of the bank. In line with the bank's strategy of pursuing growth in different segments, these re-organisation activities enable Albaraka-Türk to offer the same level of product and service quality to every customer segments (4a → 11). The final stage of the departmental re-organisation was the establishment of the new performance and career department that was in charge of the realisation of Albaraka-Türk's human resources vision (8b → 4a → 2b → 1e, 1f). While the transformation project was continuing, no resistance to change from the employees was observed (1a, 2b). The general manager elucidates this:

> "... Although we were expecting to have at least modest resistance from our employees, they have been so willing and supportive during the process. This situation really impressed me and made me think that the bank created some kind of a change management capability with the help of corporate culture (2a → 1a). We always respected to our employees and concerned them as a real source for sustaining competitive advantage since the establishment of the bank (2d, 1e, 1f → 11). Besides, we have encouraged them to develop their personal and technical skills, and made them feel as our partners rather than employees (2d → 2c). For this reason, we always refrained adapting a strict hierarchical structure to the bank (4b → 1a, 2b). I believe we are getting our human resources investments worth now..."

In order to measure the effectiveness of the transformation programme, key performance indicators were defined and standardised business processes were

used by branch personnel and an organisational unit was created specifically for strategy and performance management.

Information Technology (IT) as a core value

Albaraka-Türk considered information technology (IT) as a core value of the organisation and the importance of information systems is frequently mentioned in the bank (8a → 11). In line with this, most of the managers at the senior positions have a fundamental knowledge of information technology and an extensive understanding about its benefits to the organisations. The assistant general manager (operations) states the pivotal role of the IT in the bank's operations:

> "Information technology (IT) is among the most essential components of our business processes and part of the vibe of the organisation that is incontestably important for the realisation of the bank's vision (8a)".

Albaraka-Türk has many different IT applications that serve different stakeholders of the bank. The CRM function which was considered critical to establish and develop long-lasting relationships with the customers (5a), provides better customer services and increases joint problem solving opportunities (2e), and supports open dialogue (2f) along with the knowledge sharing ability of the bank (9a) was particularly directed by the IT system (8a → 8d → 5a, 2e, 2f, 9a → 11). This is summarised by the assistant general manager (operations):

> "… With the knowledge of being the key factor for the success of the bank, due diligence was always shown to the effective development, implementation, and use of information systems (8a → 11). Supported by the IT applications, our fabulous CRM system (8d) that was linked to the call centres (9d), branches (3b, 3c), and customers' on-line accounts tells us everything about our customers (8a → 3b, 3c, 9d → 9a)... I cannot imagine a customer who is in a hurry but unable to realise an on-line money transfer because of the problem that exist in our IT systems."

Success of the CRM comes from the other core components such as the intranet of Albaraka-Türk which provides a central knowledge base and communication channel (8c → 8d). The intranet – *informa* was developed in-house (6b → 8c) by the software engineers who work for the R&D department (6a) of the bank. The SIMURG transformation project also encompasses the upgrade of the intranet in order to integrate the CRM, alternative delivery channels, credit management, risk management, and funding management functions of the bank (8b → 8a, 8c, 8d → 11). Top management of the bank is aware that conservative banking methods and

classical financial products and services may not sustain competitive advantage for the next years in this dynamic sector. Hence, R&D department of the bank was established in the beginning of 2000s in order to boost the organisational creativity and increase number of the innovative financial products and services (6a →1c, 1d →7d).

Continuous development in the financial product and service innovation

Albaraka-Türk recognises that maintaining its competitive position in the sector requires continuous effort and innovation (6a →1c, 1d →7d). Hence, the bank employs a strategy that focuses on gathering information and understanding the customer needs and continuously developing innovative products and services to meet them. To address the innovation and continuous development needs of the bank, a number of applications were designed. For example, *Orange* was an in-house developed application which worked as an open electronic brainstorming session and aimed to foster the new and innovative ideas that can be turned to product and services later on (1c → 7d → 11). This programme has formed linkages with the web-portal and the social media tools that were used by customers and employees for knowledge and information sharing facilities that enhance the creative and innovative abilities of the bank enormously (1b, 1c → 9b, 9c → 9a → 7d). The general manager comments on the innovation ability of the bank:

> "There is so much change going on in the finance sector and the customer expectations… Innovation that is integrated with our culture has been a part of our life to survive (2a, 2d, 2f → 1c → 11). Innovative ideas from top to bottom are listened and discretionary time and budgets are allocated to unique and creative projects… Orange acted as a big funnel to capture new ideas from employees in all parts of the organisation and generated quite a bit innovative outcomes (1c, 1d, 1f → 7d). Among these innovative products, new credit cards that enable customers to make their payments in monthly instalments, new user friendly applications and menus in on-line banking, and unique flower names for the dividend payment methods can be listed (1c → 3b → 7d)".

Other than the new services and products mentioned by the general manager, perhaps the most radical, effective, and profitable innovation generated by the *Orange* application was the gold participation accounts that provide the opportunity to invest in gold and receive a profit share, and the specially designed hi-tech ATM machines that enable customers withdraw and/or deposit gold bullions to their

accounts (1c, 1d → 3d → 11). Apart from the daily wearing of gold as jewellery, Turkish people use gold for the gift purposes in weddings, deliveries of babies, and birthday celebrations as a cultural tradition. For this reason, there is a considerable amount of gold transaction in Turkey. The bank management decided to exploit this opportunity and offer gold transactions to its customers through its specially designed ATM machines that accept and sell 1, 2.5, 5, 10, 20, 50, 100 and 1000 gr. gold bullions. Design of the ATM machines with new screens and functions was the result of the effective working R&D department along with the creativity and innovation ability of the employees (6a → 3d → 11[PER–PROF]). With the provision of the fastest way of purchasing gold, the bank gained transaction fee from the customers that affected the financial figures of the table. Some technology know-how was also transferred from the foreign partners of the bank (5b → 6a → 3d).

The finance sector is a highly regulated sector by law and rules. It is also very risky in terms of collecting the credits. Therefore, many banks have created their internal regulations such as codified manuals that exist in other sectors (10a). Albaraka-Türk has its own credit risk management system that steers its employees in evaluating the credit recourses. The system helps the staff to decrease the risks of the use of credits by providing standard procedures that includes the evaluation of financial ratios, sector and company ratings, and other related accounting or financial measures. The system is completely integrated to the CRM (8d) and intranet (8c) systems for having better intelligence about the applicant (10a → 8d, 8c). The assistant general manager (operations) emphasises the importance of the credit risk management system:

> "… Apart from the convenience that the system provides to our employees, one of the most important problems for every bank, percentage of the dead loans substantially decreased from 5% to 3%. Obviously, that was a great success on the way increasing the profitability of the bank (10a → 11[PER–PROF])".

Strong financial ability was frequently mentioned among the most important determinant of success by both assistant general managers (12, 13, 14 → 11). The one responsible from the operations states:

> "… Cash is our most important raw material and product at the same time, it is like blood in our veins. Do you know any financial institution that can survive without considerable amount of cash? More cash means more credit or other financial product

to offer customers and more customers mean better financial performance (12 → 11[PER–PROF, PER–MS, PER–ST])... Other financial instruments such as stocks, securities, treasury bonds, company shares *etc.* in our portfolio strengthen the capital structure of the bank (13, 14 → 11)".

As a dynamic bank in the interest-free participation bank segment, Albaraka-Türk continues to implement its medium and long term strategic plans in line with the vision of the organisation. It is conscious of the consequences of omitting the requisite organisational developments that are mandatory for the survival of the bank.

5.4.1. Summary of the case study #2

Although the contextual analysis of interview material identified several resources and capabilities to be sources of sustained competitive advantage at Albaraka-Türk, human capital, organisational culture and business processes were noted as the key performance drivers. Especially, organisational culture played a very important role to drive the elements of human capital such as change management skills, team effectiveness, innovative thinking, creativity, friendly and committed personnel, and skilled and qualified employees that ultimately affect firm performance by interacting with business process, in-secret technology, and knowledge management elements.

Among human capital elements, the innovative thinking and creativity's integration with R&D and software production (in-secret technology) abilities yielded unique services such as ATM machines that realise gold transactions.

As observed in the previous case (Ülker), the influence of organisational culture which is considered as a taken-for-granted organisational reality accreted through decisions made over time and events in corporate history (Wilkins & Ouchi, 1983; Barney, 1986a) seemed very prevalent in Albaraka-Türk as well. Culture of the firm that is associated with the various types of embodied and embedded values and norms played significant roles especially in the development of human capital and knowledge creation and control processes of the bank.

However, it should be noted that culture is rather less susceptible to change and hard to alter in the short term (Wilkins & Ouchi, 1983). Namely, traditional and firm organisational culture of the bank as today's the most critical element (or the core

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capability) of firm performance may become a core rigidity (Leonard-Barton, 1992) for innovativeness, organisational renewal or initiation of other capabilities in the fast changing business settings. According to the top managers whom interviewed, the organisational change project started with no resistance from its employees and this tranquillity continued throughout the implementation phase as well. The managers who complimented the willingness of the staff in the implementation of the project emphasised that change did not comprise the core values but the obsoleteness. Yet, from time to time, the researcher observed different reactions from the employees about this change project. In a lunch time, a customer representative explained his feelings:

> "… Well, do you think that anyone asked us about this change thing? Absolutely no! All of a sudden, a direction regarding the change project came from the headquarters and it was imposed on us and we obeyed. Do we have other change other than accepting? This is the whole story. We wouldn't expect from top management to ask everything to us, anyway they do not ask, but they could give some clue about the future of people at least".

The staff did not seem completely against the project but they had some concerns about the way they were informed about it. But instead of expressing their feelings, they accepted without questioning. In fact, this was consistent with the obedience culture of the employees in the organisation. As mentioned above, this situation may influence innovative thinking and creative skills of the employees since they accept everything and do nothing but their own work.

Moreover, the bank was found the latest initiator of this kind of a project among other interest-free banks in the industry when searched. Although the reason of late initiation was explained by the general manager with the long and detailed project preparation efforts of the bank, some employees link this to the frugal nature of the bank associated with its firm culture. Besides, in the informal discussions, the researcher discerned that some of the staff had concerns about the future of the core values of the organisation after change. A mid-level manager explained his thoughts about the existing core values and future of them:

> "… Yeah, core values of every firm are same: honesty, integrity and blah blah...I am not sure whether the films do what they say. I believe that core values of the bank are formatted in line with the ideal universal ethical standards. But, this society is not always compliant with these standards. The general interest of people in this country is their own personal advantages rather than the general interest of the society. And

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> the bank shapes its values according to the interest of its customers! Do we really question the business of our customers before we finance them? Yes, but very superficial. So, what if a customer uses the finance which was obtained from us in selling or importing alcoholic stuff or in weapon trade? We know this but everyone in the organisation overlooks".

The bank operates according to the Islamic finance rules which prohibit financial institutions provide credits to firms that are in the unethical and religiously banned business areas such as alcohol, pork meat, weapon *etc.* But some of the staff emphasised that more attention should be paid to these issues for the sake of honesty and integrity rather than finding indirect methods to increase credit volume and profits. So, this modernisation project should not jeopardise the core values.

However, the positive effects of the conservative organisational culture were especially evident in the customer relations side of the bank. In his six branch visits, the researcher observed that some customers who visited the branches where a very friendly atmosphere occurs just to have a cup of coffee and a chat with the customer representatives about politics, sports and magazine other than finance. The researcher asked the customers to explain the reasons of choosing this bank several times. The answers revealed that there was a trust and relationship based business between the bank and customers. A customer explained:

> "… I am not here because of the services that the bank offers me. I consider this place as a quiet office. Moreover my belief brings me here and as long as they (staff of the bank) do not let me down, I will work with Albaraka-Türk".

So far, the current and potential effects of the overmuch conservative organisational culture that was observed as the most important and dominant intangible resource on the resource possession of the bank were examined.

The positive effects and the role of human capital as a determinant of performance were also mentioned by the interviewees. Especially innovative and creative skills of the staff came to the fore. Apart from innovativeness and creativity, the role of knowledge management elements *(e.g.*, social media tools, web portals and call centres) which help to reveal and share embedded information and knowledge sources of the organisation on the way of enhancing the innovative and creative skills of the employees were frequently mentioned in the interviews. To some extent, this role of knowledge management in revealing and fostering the new

ideas in the organisation through in-house developed softwares like *Orange* was observed. After a thorough review of the company documents and annual reports the researcher found that the bank generated average five or six new financial products and/or instruments every year. This number was quite low compared to other banks in the industry. The banking industry reports indicate that at an average of twenty-five to thirty new products and/or instruments were generated annually by the banks in Turkey (minor and modified products are not included). So, against the efforts of the bank and widespread use of knowledge management tools, innovative and new product development performance of the bank was much lower than expected. When this issue was asked to the staff other than top managers, they implied that the knowledge management tools were controlled by the bank with the concern that something shared in virtual system may contradict with the policies and values of the bank. A desk officer stated:

> "… You should not expect too much from this Orange system... I am not sure whether everything shared here can be seen by others".

Besides, the religious references of the organisation such as refraining from interest may have limited the number of new products and instruments. Although the policy of doing banking based on the Islamic principles which is included among its core values can create a special and loyal customer base, it can also limit the growth potential of the bank since its business principles may not address the interest and needs of every customer. Indeed, despite the ambitious growth objective of the bank which is a growth rate of 15% annually, it only achieved 13% in 2013, but according to the industry reports, annual growth potential of the interest-free banking is around 20%. From this perspective, it seemed that the bank could not achieve a growth rate that was parallel to that of the whole industry.

Lastly, business processes such as IT systems and the intranet (*informa*) are used for fostering improvements within the relationships between human capital, in-secret technology and knowledge management skills of the organisation. Credit and risk management systems supported with an effective IT infrastructure decreased the rate of dead loan from 5% to 3%. Yet, the system also prolonged response times of the staff to the credit applicants due to the extra risk evaluation modules. The banking industry report of Turkey indicates that credit applications

are responded within three days generally. But the response times for credit applications took six to seven working days in Albaraka-Türk which led to customer dissatisfaction occasionally. In line with this argument, the customer complaint records indicated that nearly 40% of customer complaints were credit related complaints.

Even though they were not recognised as the most critical success factors, tangible assets (*e.g.*, modern buildings and branches, and hi-tech banking infrastructure) that were mentioned in the Albaraka-Türk case appeared to be more related to firm performance than in the other case studies. This result can be related to the nature of the business that is executed in the organisation. Moreover, due to the ongoing change management project of the bank, a high amount of investment on tangible resources was clearly observed by the researcher. The next case analyses the complex resource and capability relationships of a consulting firm, PwC.

5.5. Case study # 3: PRICEWATERHOUSE COOPERS (PwC)

"Building relationships – creating value".

Company Name	: Başaran Nas Yeminli Mali Müşavirlik A.Ş.
Trading Name	: PricewaterhouseCoopers
Founder	: 1981 – PwC Global
Ownership Structure	: 100% PwC Global
Number of Employees	: 1350

PricewaterhouseCoopers (PwC) which is originally a British Company and headquartered in London has been operating in assurance, tax and advisory services sector with a network of firms in 158 countries with more than 180,000 people. Although the firm was formed in 1998 by a merger between Coopers & Lybrand and Price Waterhouse, histories of both firms date back to 1850s. The world's largest professional services firm measured by 2012 revenues (31.5 billion USD) has started to act in Turkey in 1981 and it continues to provide high quality of services to firms with 5 offices (in Istanbul [2], Ankara, Bursa, and Izmir) and 1350 employees. PwC firms provided services to 422 companies in the Fortune Global 500 and 439 in the FT Global 500.

The firm's business operation areas that were classified into three main categories are diverse: tax and financial advisory, family business services, corporate responsibility and governance, business ethics, strategy and growth, due diligence, human resources, sustainability and climate change, actuarial consulting, global CEO surveys, and legal advisory[3]. Information for this case study was collected from three in-depth interviews that were conducted with a senior partner and two partners who were responsible from tax and audit consulting services. Causal network model of PwC was shown in figure 5-4.

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[3] Corporate information was taken from the official global website: www.pwc.com and the local website: www.pwc.com.tr
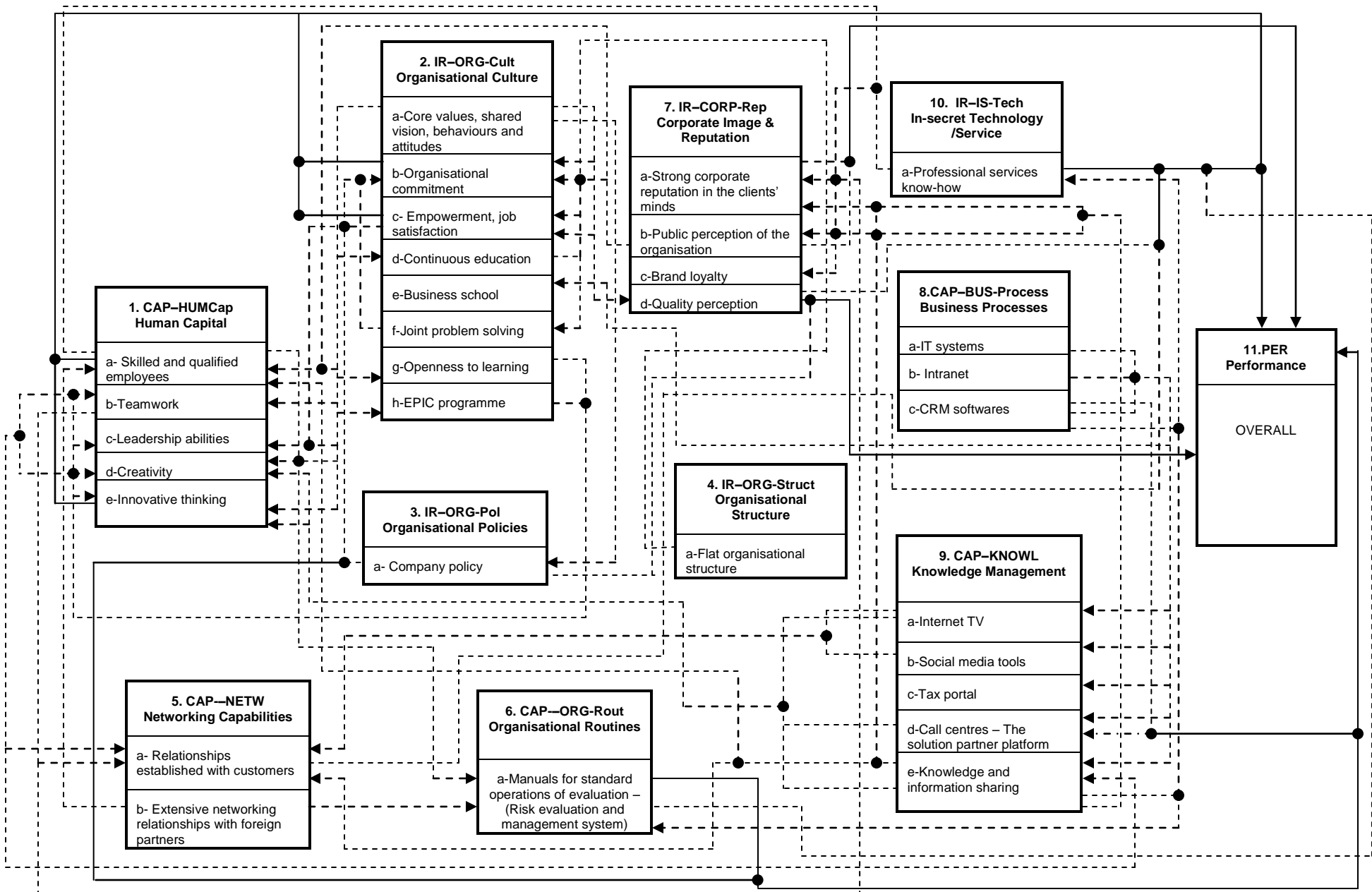
Figure 5-4. Causal network model of relationships between resources, capabilities, and firm performance for the case #3

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Background on the business

The development level of the consulting industry in Turkey has always operated beneath its real potential. The immaturity of this sector has resulted from two problems: dominance of the small sized companies that could not provide sufficient professional services to the clients which has created a negative perception about the sector among the client companies, and lack of the legal commercial system that may require firms to obey the standard international accounting and financial reporting systems. As time went by, the number of weak and unprofessional consulting firms substantially decreased (according to some internet statistics[4] number of the firms in consulting sector in Turkey dropped to 1500 from 3500 between 2008–2013, however these statistics may not be reliable) in Turkey.

In line with the high macro economic growth rates and the increasing achievements of the Turkish firms in local and international markets, many firms needed to obtain professional services from outsiders especially after 2000s. As companies grow overseas, they face a complex patchwork of standards and varying political, tax and regulatory systems. Most of the firms in Turkey utilise tax and audit advisory services when required. Hence, the effect of the first aforementioned problem that hinders the growth potential of the professional services market of Turkey lessened and number of the well-known "serious professional service providing firms" started to increase.

In fact, among these firms, "the big four" consulting specialists PwC, KPMG, Deloitte Touche Tohmatsu, and Ernst & Young are the early entrants of the Turkish market. Moreover, the new Turkish Commercial Code which has come into effect as of 1 July 2012, charges all capital stock companies with independent audit liability. Additionally, it has been ruled that the Council of Ministers will determine the other companies that will be subject to independent audit as well. Such a situation obviously will create positive consequences for the future of the sector. PwC in Turkey enjoys an annual satisfactory growth rate of 25-30% in terms of its profits and every year it aims to employ at least 250-300 new graduates from the universities. Top management of the firm also has a target of opening new offices

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[4] http://vgm.sanayi.gov.tr/Files/Documents/anahtar_eylul_2012-10092012131127.pdf

and contact bureaus in different cities of the country. Therefore, the professional services market in Turkey is quite lucrative and has a high growth potential but a reliable brand and name seems as a must to make business.

Talented people as the primary asset

As a pre-eminent professional services provider, PwC helps its clients tackle complex and complicated business problems and aims to enhance their ability to build value, manage risk and improve performance. In the very competitive and dynamic business environment, the company has to offer services that match the needs and requirements of the clients. The company generally provides services to its customers on a continuing basis. Over time, needs of the clients may change or evolve and this situation compels PwC to make thorough evaluations about the changes or even evolve PwC as well. Each client's problem may require a different solution and this kind of a unique service can only be provided by an organisation that has a special know-how of problem solving and talented individuals (10a, 1a → 11). The senior partner states the role of talented individuals in PwC's success:

> "… Recruiting exceptionally talented people has always been our first priority (1a) since PwC's primary assets are its people. Our business is very structured and should be conducted within the framework of applicable professional standards, laws, and regulations together with PwC policies, routines (6a), and standards (1a → 6a → 11). However, the problems that our clients face may emerge in different forms and only versatile, and talented people (1a) can offer the best solutions. In these cases, creative solutions (1d) at the firm-level within the framework of standard applications can be necessary… A compatible mix of structured PwC systematic and creative approaches of the talented staff addresses the problem (1a → 1d → 6a → 11)".

Quality of the staff was nourished by the HR applications of the firm. In line with the culture of the firm (2a) that consists excellence (1a), teamwork (1b), and leadership (1c), personnel development of the employees were strongly encouraged starting from their early careers (2a → 1a, 1b, 1c). For example, the early career development programme, Early PwC International Challenge (EPIC) (2h) brings opportunities to the employees at the junior levels to develop their language skills, enjoy the taste of exotic cultures or experience life and see how businesses operate in a different country within the global network of PwC (5b → 1a). With this programme, PwC encourages its employees to work with a challenging variety of clients and build lasting professional and personal relationships. The senior partner

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explains the relationship between organisational culture, quality of employees and education:

> "… Our organisational culture dictates to us excellence in delivering what we promise and adding value beyond the expectations (2a → 7d) and we believe that excellence can only be achieved through innovation, agility and skilled people who are open to learning (2a → 2d, 2g, 2h → 1a, 1e → 11). Recruiting enough good people is a big challenge for us because there are simply not enough new skilled graduates at our standards. Therefore, apart from attracting talented people by using our corporate reputation (7b → 1a) and offering a high standard of life for the future to work and stay with us (7b → 2b), we have to provide our people the opportunity to learn, grow, and succeed on their own terms as well (2d, 2g, 2h → 1b, 1c, 1d, 1e)".

Top management also suggests that the education opportunities provided by PwC to its people regardless of where they are in their careers enhance the commitment of employees to the organisation (2d → 2b). In parallel to this, organisational commitment was nourished by a flat management structure, along with an absence of internal clashes and politics (4a → 2b). The policy of the organisation about giving employees flexibility to work in a way that suits their life style can also be consider as another factor that increases the commitment level of the employees (3a → 2b). The partner of audit services elucidates:

> "…Since our employees are empowered (2c), they have a sense of ownership in the business (2c → 2b). In our working system, each person has a specific part of the business and is responsible for managing it which means they are not controlled strictly (4a) and they have freedom to make decisions (1c). We believe that this kind of treatment helps people develop their leadership and joint problem solving skills as well as increase their commitment (4a → 2c, 2f → 2b, 1c). Leadership (1c) demands courage, vision and integrity that are already in our culture (2a) and we want our employees inspire leadership. However, effective leadership does not mean working alone and it can only exist with teamwork (1b)… Our experiences always showed that the best solutions come from working together with colleagues and clients which is also a good way of maintaining lasting relations with clients and creating an impressive image on them (1b → 5a, 7a)".

Therefore, hierarchical relations were completely dismissed but flexibility, professionalism and quality were encouraged. This kind of culture and climate inevitably resulted in a high level of job satisfaction, strong commitment and a very low rate of employee turnover (turnover rate drops to less than 1% at the middle and late stages of the career paths) that enable people focus on making PwC more efficient and effective in the marketplace (2a → 2b, 2c → 11).

Education in every aspect of the business

Considering PwC's high quality strategy, continuous education (2d) was highly used in every aspect of its business. As aforementioned above, the first aim was to develop the skills of the employees and increase their commitment to the firm (2d → 1a, 2b, 2c). Moreover, by using several technology and social media tools (9a) such as internet TV (9b) and web portals (9c), the firm aims to reach all society as well as its clients (9a, 9b → 5a). PwC widely and effectively uses internet TV to inform the whole society about the commercial and tax laws, legal changes, corporate governance principles and other business related issues. The partner of tax services states this service of PwC as:

> "… Actually, we regard this as being our social responsibility rather than educating people. We like sharing our knowledge and the internet TV (9a) provides sufficient information to everyone. Besides, with the solution partner platform that is integrated to our call centre (9d), we try to offer solutions to our clients about strategy and risk assurance (1b, 1d → 5a). This application does not only get us closer to our clients but also increases the flow of information from the firms to us regarding their organisational problems (1b, 1d → 9e). The more problems that are available, the better and more creative (1d) and innovative (1e) solutions we offer (9a, 9d, 9e → 1d, 1e)… Because of this service, PwC received a **Strong Positive** rating – the highest possible rating given in Gartner's *MarketScope for Global Enterprise Governance, Risk Management and Compliance Consulting Services* report in 2011 (9e → 7a, 7b)".

The firm adopts the lifelong learning concept and implements the concept via a variety of activities. The internet TV (9a), on-line business school (2e) and tax portal (9c) of the firm aim to enhance financial literacy and better prepare especially young people to make responsible decision, be productive citizens and contribute to a healthier economy by providing programmes and on-line lectures on popular topics such as the accounting standards, commercial laws, evaluation and feasibility methods, human resource practices, other managerial practices to increase the effectiveness and efficiency of firms *etc.* Each business process component (8) such as the IT systems including intranet and CRM applications played an important role by providing infrastructural support to the knowledge management capabilities (9) of the firm (8a, 8b, 8c → 9a, 9b, 9c, 9d, 9e, 2e). Strong emphasis on education had some repercussions such as, sharing knowledge and information inside and outside of the organisation which is also required to put the transparency into practice (9a, 9b, 9c, 9d → 9e), adopting a customer-focused strategy in the market (8c → 9d → 11), establishing

relationships with customers (9e → 5a), maintaining positive image of the organisation (9e → 7a, 7b), and increasing skills and qualities of the staff (9e → 1a → 11).

Business ethics, assurance and quality

Ethics and customer value perceptions appear to be highly appreciated at PwC because of the nature of its business. Ethical conduct is considered among the most important components of the policy of the company (3a) which is based on the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants. The company has a number of strict policies emerged from the heart of its culture (2a → 3a) such as adoption of ethical and transparency rules at maximum concern, having prescribed processes to safeguard independence, providing regular training and education to its employees and customers. Organisational policies along with the culture are concerned as the driving forces for successful operations (2a → 3a → 11). The partner of audit elucidates:

> "... An assurance firm like PwC cannot exist in this industry if it is not associated with trust, integrity and honesty (7a, 7b → 11) ... According to the findings of a study that was carried out by us, clients seek at least eight competencies when choosing a consulting and assurance company, namely, strong corporate reputation (7a), recognised brand (7b), trust (7a), experience (7b), people (1a), high quality in services (7d), best practice (know-how) (10a), and compliance with legal and statutory requirements (7a). We take pride in the fact that PwC possesses all these competencies and our high quality services add value by helping to improve transparency, trust and consistency of business processes (7d → 11). Because of these exclusivities, our clients keep working with us for long years (7a, 7b, 7d, 1a, 10a → 7c)".

Each PwC firm is exclusively responsible for delivering high quality services (7d) to its clients and compliance of the services with certain standards including independence, ethics and business conduct, assurance, advisory and tax risk management, governance, anti-bribery and data protection and privacy were controlled with the special quality assurance system of PwC (7d → 11). The territory Senior Partner of each PwC firm reviews operations of the firm and signs an annual compliance with certain standards. These confirmations are also reviewed by others who are independent from the PwC firm in question. Quality reviews are considerable tools to support transparency and consistency and

ensure that the services are delivered to high standards (3a → 7d → 11). In fact, quality was not only guaranteed by the high standards of PwC that exist as an organisational policy but also with the unique services based on the special know-how that the firm possess. The partner of audit explains the special services that the company provides its clients:

> "... In PwC, everything is done without compromising quality (7d). Beyond this, the firm offers several unique services as a result of an extensive knowledge and global network (5b) which provided so many diverse issues to us that were accumulated in a long period of time (10a). Perhaps, the sufficient blend of the high quality policy and the ability of unique services offering is the best term that can explain the success of the firm (7d, 5b → 10a → 11)... Financial due diligence service of PwC which is considered as the best practice in the world can be an example of a unique service (10a). All business parties (as buyers or sellers) involved in a merger or acquisition process need to ensure each other that the financial information they hold is accurate that prevents paying too much or receiving too little. PwC has a unique methodology for evaluating the real value of any kind of assets no matter they are tangible or intangible in nature (10a)".

The financial due diligence service of PwC (10a) intends to remedy the disparity that may exist between the information held by the buyer and seller about the target in any deal by analysing all kinds of financial, commercial, operational and strategic issues that underlie the deal. Apart from this very well-known asset evaluation methodology of PwC, another unique service, credit risk management system (6a) as a manual that may help banks to assess their risk exposures effectively is widely used in finance sector. Both services were the result of the special knowledge (know-how) that the firm possess (8c, 9e → 6a, 10a). The partner of audit emphasises the importance of intellectual property assets in creating competitive advantage (6a, 10a → 11):

> "With the unique services that were emerged from the strategic know-how that had support from the global network of the firm, we have always been one step ahead of the competitors (5b → 6a, 10a → 11)... We think that we are doing a great job and doing the best... However, the culture of the firm that dictates us integrity and modesty stops us having inflated opinions about ourselves (6a)".

As expectations of the business community and its role in the development of society grows, the professional service needs of firms increase. With this knowledge, PwC evaluates on a continuing basis whether the services it offers have a perfect match with the requirements of its clients. By doing so, the

organisation does not stay relevant to its clients but it also works to guarantee its marketplace success in the years ahead.

5.5.1. Summary of the case study #3

As can be seen from figure 5-4 and from narratives on the company, quality and skills along with the teamwork, creative, innovative and leadership abilities of employees appear to be important drivers of business orientation and firm activities. Hence, there seems to be a strong emphasis on human capital that fit in with PwC's organisational culture that includes core values of the firm, shared vision, empowerment, continuous education, joint problem solving and openness to learning. A flat organisational structure ensured quick decision making and convenient information dissemination that promoted interfunctional coordination.

Therefore, under this structure, employees performed consistently well by offering required solutions and services to clients in dynamic environments. As a company policy that comes out the heart of the culture of the organisation, education practices were continuously used to help passionate employees develop their skills to the utmost level that enable them to develop and deliver unique services at the highest standards. Moreover, continuous education methods of PwC regarding the commercial and tax laws, legal changes, corporate governance principles and other business related issues also got the firm closer to its clients and maintain its relations with them.

The interactions of the human capital and organisational culture elements that established professional know-how pioneered to the delivery of unique services at the highest quality and culmination of the creation of reputational asset elements (*e.g.*, strong corporate reputation in the clients' minds, public perception of the organisation, brand loyalty, and quality perception) of the organisation which were recognised as the direct antecedents of firm performance. Especially, unique services such as credit risk management system and due diligence appear to act as precursors to promoting brand loyalty and high quality perception of PwC.

Referring to the interview results, competitive advantage is sustained mainly through the quality of human resources and unique services know-how regarding valuation and education. However, the recruitment of the best staff does not mean

the engagement of the most qualified people suited for a position. Besides, a manager stated in an informal discussion about the difficulty of finding enough qualified people in Turkey:

> "...What we do is sometimes very complicated and it requires analytical skills. Additionally, great communication skills to convince people as well as to understand them are very important in our business because our customers are extremely quick to recognise empty promises... So, under these circumstances we really need to hire high quality staff but unfortunately there is a shortage of qualified human resource in this country nearly in every industry. Moreover, the first years of a new staff is extremely challenging in this firm because of heavy workload. I remember my first years as a new university graduate in which I suffered a lot! I do not know how many Saturdays and Sundays I have spent in the office in interim balance sheet periods of firms".

In parallel to the explanations of the manager, after a search of the corporate announcements' archival, the researcher discerned that the turnover rate of the new graduates who started to work in PwC was around 15% (the figure was also confirmed by the HR department). Most of these new graduates left the firm within one year after they started. However, as the employment period increases, the turnover rate radically decreases to 2-3% in the firm. This picture presents that the recruitment of appropriate human resource can be a considerable problem for PwC in Turkey in the following years. PwC salary survey shows that salaries of the consultants in the industry is higher compared to other industries in Turkey and hiring the best consultants may require to offer even higher salaries than the current rates in the future. In this context, the firm should be cautious about the negative consequences of these conditions on profitability and competitive advantage in the coming years.

A strong emphasis was given to the education related issues in PwC. Education for the staff, the customers and whole society as a social responsibility was frequently mentioned by the interviewees. Especially, the researcher had an impression that top managers seemed flattering the originality, quality and content of the education provided to junior consultants. As a support to this, in a meeting of business consulting section, one consultant complained about the systematic framework that each consultant must obey throughout the consulting process:

> "...Our service provision is too traditional. And the legacy of these traditional models of service provision restricts us to have a deeper understanding about the needs of the customers and provide customised solutions. I think our approach to the problems

should be more complex than asking simply 'what can I do for you? And how can we do more of it?'. A more co-design approach that includes the voice of customers, service providers (the firm) and professionals (the consultants) at the same time is a need. So, the question that we are asking should be 'what kind of co-design we need? And how this co-design can be implemented within its specific context to achieve better results?' I believe it is time to have a deeper interaction with the customers instead of imposing our standard models, frameworks and solutions to them".

Rules and guidelines of the education and training that were given to consultants by the education department seemed too strict and inflexible to the researcher. More flexible and diverse guidelines for the treatment of customers in the context of differing firms and industries may lead to a higher consultant satisfaction as well as customer satisfaction that can be a source of advantage for the firm. With respect to the education that was provided to the customers, a virtual environment was utilised. Two administrative staff were in charge of uploading the updated education material and knowledge for the customers and other users of the internet TV.

Apart from the top manager interviews, meetings have been another primary source of evidence for the researcher in PwC. Nearly every meeting in which the researcher participated, information, data and knowledge have been the primary interest of the staff and customers, simply because of the nature of business that PwC conducts. Knowledge was seen as the key enabler for PwC to achieve its mission. Although the interviewees mentioned the strategic importance of knowledge for the firm, the researcher asked some technical questions about this knowledge issue to the knowledge management executive. He explained:

> "...We get information and knowledge from customers, from governments, from independent research firms, from our headquarters, from society, from here, from there... So, basically we have to deal with large amounts of varying information and knowledge that come from internal sources as well as from the third parties. One problem is storage and the other problem is the delivery of this mixed-kind of knowledge in form of intelligent knowledge at a speedy and economic way. This is just like performing a juggling act that requires sophisticated IT systems and effective knowledge management techniques. Information that is inaccessible when needed is like having no information at all".

A contextual analysis of interview data revealed that the process of producing and delivering innovative and unique services was accelerated by the business processes such as the IT systems, intranet and CRM softwares and knowledge management tools (*e.g.*, Internet TV, social media elements, tax portal, and call

centres). Whilst business processes were providing an essential infrastructural support and maintaining an effective information flow to increase the performance of knowledge management capability of the firm, knowledge management tools play significant roles such as actualising educational aims of the organisation, providing feedback from the clients that are greatly valued, and nurturing the innovative and creative abilities of human capital by boosting information dissemination that are associated directly with overall firm success.

Despite the significant role of knowledge which is a massive issue with PwC in creating firm performance and competitive advantage, IT systems of the company seemed quite obsolete and the website and other interactive portals and social media elements that were used to store and transfer that knowledge worked slow and ineffective when attempted to use. This may be either related with the deficiency in tangible asset ownership (*e.g.*, financial instruments) or investment priorities of the firm. However, some staff related this issue with the relatively poor Internet infrastructure of the country. An on-line customer complaint letter that belongs to a Dutch expatriate who was coming to Turkey indicated that the on-line country-specific tax calculation menu did not work properly when tried several times.

Although the interview results of top managers generally focused on the roles of human capital, organisational culture and knowledge along with the IT process issues to sustain competitive advantage, the researcher recognises the importance of reputational assets of the firm in the creation of firm performance. As such, an industry report that was published by PwC (2012) indicates that audit and tax services compose nearly 85% share of the whole consulting services in the country and every consulting firm in the market must prepare the financial sheets based on the IFRS (International Financial Reporting System) standards and calculate tax amounts in accordance with the country's laws. From this point of view, basically every firm provides the same sort of service in the industry. In an informal discussion, a junior manager said:

> "...In fact, apart from the evaluation methods such as due diligence, technically, what
> we do is not that different from what the others do".

However, there are some gaps and ambiguous areas in the financial rules and regulations of Turkey which enabled many firms to conduct unethical operations and even fraud. In the past, the firms that have embarked in this kind of illegal activities generally utilised from small to medium sized local audit firms. Now, the penalties for this kind of illegal activities are severe in the country.

There is a perception in Turkey that western-oriented firms do their business in a more honest way. Moreover, bearing in mind "consume like a Westerner in order to have a better and modern life" sort of a consumption pattern of people, working with a developed country firm in this area may be a source of prestigious business activity for many firms in the country. PwC is a well-known and recognised brand in Turkey and the honest way of doing business concerns of Turkish firms supported with the desire of working with a western-oriented firm can be the motivation for the firms to select PwC. After a customer meeting, a manager of a PwC customer firm answered the question of the researcher about the selection criterion of her firm:

> "...Our shareholders and top management make this decision but they especially warn us to work with western-oriented firms rather than locals even we have to pay hell of a lot money. To some extent, I can understand them. Their concerns are about the penalties that include high amounts of money and jail. I think, PwC is a good choice to secure my bosses!".

Service quality of the firm can also make some differences when its highly skilled professional team was considered. The decision of selecting PwC as the audit partner of important Turkish firms (*e.g.*, Is Bankasi, Sisecam, Tupras, TEB) that give utmost concern to professionalism may be an evidence on this. Estée Lauder–Turkey is the final within-case analysis.

5.6. Case study # 4: ESTÈE LAUDER–TURKEY

"There are no homely women, only careless women".

Company Name   : ELCA Cosmetics Ltd. Şti.
Trading Name   : Estée Lauder
Founder   : 1946 – Mrs. Estée Lauder, 1988 – Entrance to Turkey
Ownership Structure   : 100% Estée Lauder, Inc.
Growth Rate (2012)   : 12% (Turkey)
Number of Employees   : 260 (Turkey)

Estée Lauder which is originally an American Company and headquartered in New York was founded in 1946 by Mrs. Estée Lauder with four products and an unshakeable belief: "that every woman can be beautiful". The company that has gained a worldwide reputation for elegance, luxury, and superior quality has been producing and marketing skincare, make-up, fragrance, and hair care products since with a network of firms in 135 countries with more than 22,000 people. With a brand portfolio that includes quite well-known brands such as Estée Lauder, Aveda, American Beauty, Kiton, Tom Ford, Clinique, Coach, Smashbox, Bobbi Brown, Aramis, Donna Karan, Tommy Hilfiger, and Ermenegildo Zegna, the company offers more than 9000 high quality products to satisfy its demanding customers. The company first appeared in the Turkish market after a distribution agreement signed with a local cosmetics company Vépa in 1988 and the operations of the company continued for nearly 20 years in this form. But the lucrative and fast growing Turkish market brought forth the firm establish its affiliated company ELCA Limited in Istanbul in July, 2006[5]. Information for this case study was collected from two in-depth interviews that were conducted with the CEO and general manager of the company. Causal network model of Estée Lauder – Turkey was shown in figure 5-5.

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[5] Corporate information was taken from the official global website: www.esteelauder.com and the local website: www.esteelauder.com.tr
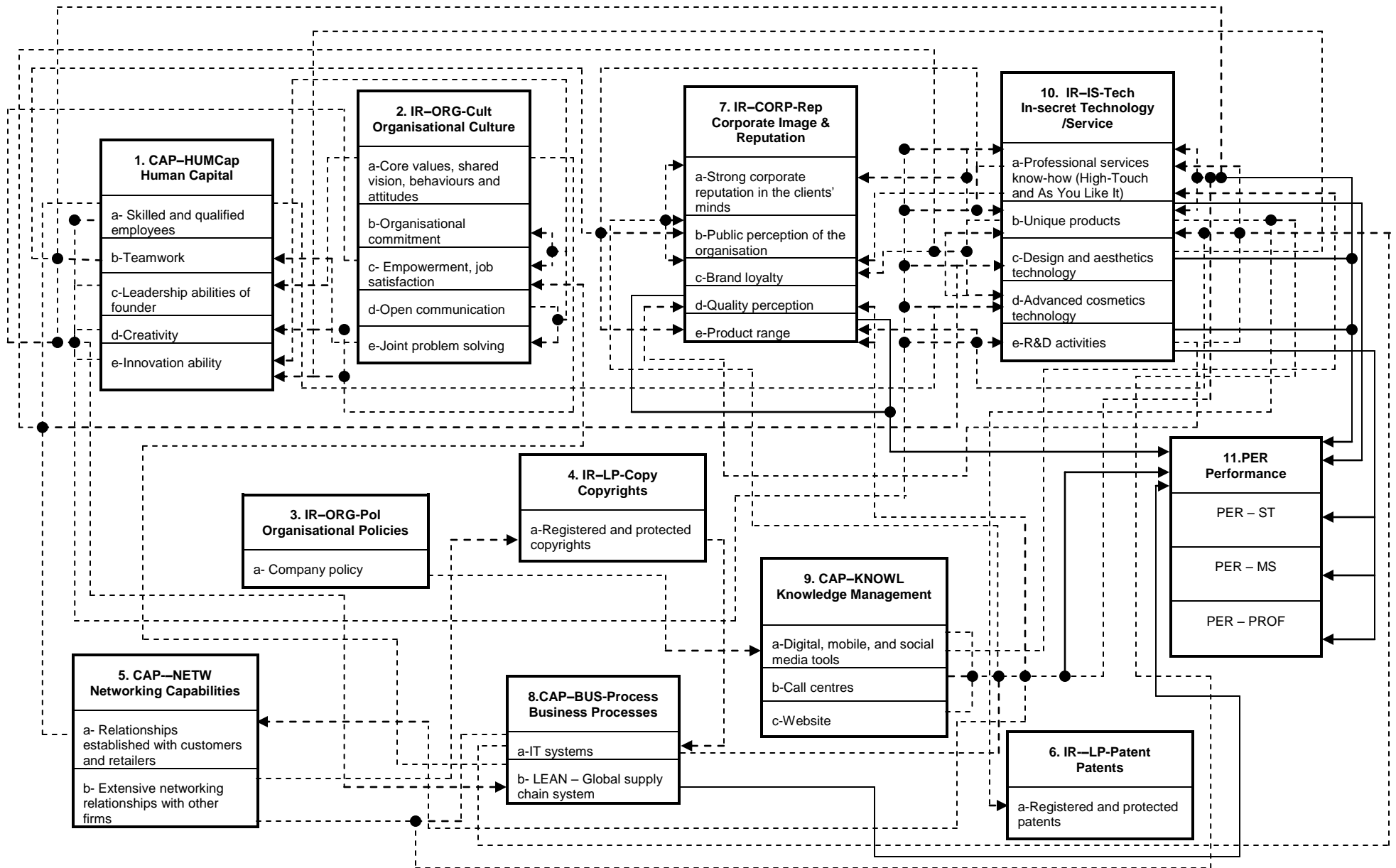
Figure 5-5. Causal network model of relationships between resources, capabilities, and firm performance for the case #4

Background on the business

Cosmetics that include luxurious fragrance, make-up and especially personal care products constitute a relatively new product range for the Turkish consumers. This is mainly because of the protected Turkish economy until 1980s that imposed limitations in producing and importing cosmetics and personal care products. After the economic transition period which allowed the country to have a well-functioning private sector, most of the major multi-national cosmetics and personal care products companies such as Avon, Nivea, Procter & Gamble, Henkel, Colgate Palmolive and Unilever have entered the Turkish market through joint ventures and licensing agreements. In addition to this, entrance of some other new well-recognised brands (*e.g.*, L'Oréal, Estée Lauder, Merck, Dow Corning) that address all market segments from luxury to low-priced cosmetics products to the Turkish market between 2000–2012 years increased the level of competition. Moreover, several strong local manufacturers such as Evyap, Eczacibasi, Aromel and Hunca Cosmetics made substantial amount of investments and achieved large production capacities starting from 1990s.

In conjunction with the easy importing procedures, growing interest of the young Turkish population in Western lifestyles and increasing marketing and advertising expenditures from manufacturers, the potential of Turkish cosmetics market reached to nearly 4 billion USD in 2012, according to the official statistics published by the Turkish Ministry of Health. Ministry of Health statistics also show that nearly 180,000 cosmetics products exist in the local market but only 45,000 of them were manufactured by domestic firms (Ministry of Health, 2013). Therefore, 80% of the cosmetics products sold are imported. This market composition pushed Turkish companies to improve their offer and raise their standards, particularly, they could not compete with the prestigious international brands that offer products at superior quality and address the upscale market segment. However, export figures of the Turkish cosmetics and personal care products achieved a remarkable increase (*e.g.*, from 61 million USD in 2000 to 920 million USD in 2012) due to the recent modernisation and technological improvements that enabled firms produce innovative goods such as bath and shower products that include milk, honey or cherries (TurkStat, 2013). In such a business environment, based on the

operational performance achieved with its Turkish representative, Vepa Cosmetics, Estée Lauder decided to increase its investments in Turkey and opened its own offices in 2006.

A creativity-driven company

Since its foundation year 1946, creativity (1d) and innovation (1e) have been the leading drivers of the business at Estée Lauder. As stated in its vision and mission statement, throughout the years, the company provided customers with innovative cosmetic products and services of the highest quality by dreaming up many beauty-industry firsts which enabled the firm outperform rivals and stand a formidable global competitor (1d, 1e → 10a, 10b → 11). The heritage of innovation and creativity comes from the imaginative and entrepreneurial talents of the founder and deep family values that form a sound basis for the culture of the organisation (2a → 1c → 1d, 1e). The company has a strong reputation for developing inspirational products as well as providing customised services (10a, 10b → 7a) to the consumers. The CEO elaborates this feature of the organisation:

> "Estée Lauder launches around 500 to 600 new products annually, compared to 100 to 150 introduced by competitors (7e → 11). We always try to build a diverse range of products in order to provide retailers with variation and depth. 180,000 products constitute a really big range! (7e). Hence, wherever you go in this world you can come up at least one Estée Lauder product. This strength emerges from the entrepreneurial abilities of our employees and our distribution ability as well as the design, aesthetics and other technical abilities (*e.g.*, technology) of our company (1a, 5a, 10c → 11). The optimal mixture of these abilities does not only enable the firm to design products and services that creates brand loyalty (1a, 5a, 10c → 10b, 10d → 7c) by capturing the imagination of consumers but it also takes the industry to new directions and expansions".

Through advanced cosmetics technology invented by its inspirational engineers and designers (1a → 10d), Estée Lauder offered numerous unique products (10b) to its customers. As a result of extensive research efforts and stringent product evaluation capability (10e), among the flagship brands of the Estée Lauder Inc., Clinique recently launched three powerhouse serums that provide measurable results for treating hyperpigmentation, sun damage and its resulting lines and wrinkles, and the look of enlarged pores (10e → 7e, 10b). For the first time, a prestige cosmetics brand offered that kind of a serum that rivals leading pharmaceutical firms (10b → 11). Another blockbuster product resulted from the

technological breakthrough is the advanced Estée Lauder night repair solution which is patented until 2017 (10d → 10b → 6a). Apart from dermatological innovations for skin concerns, the firm offered unique hair care products under Aveda brand. Dimensions of innovation regarding the products enhanced with the design technology (10c → 1d, 1e) of the company. Estée Lauder invests heavily in the R&D (10e) department of its business, focusing on designs and aesthetics (4a). The firm realises all sort of design developments internally (1a) rather than outsource. According to the general manager of the firm:

> "... R&D department of the company gives us a marvellous competitive edge (10e → 11). All kinds of technological issues related to product formulation to design and packaging were handled internally. We make business in a very competitive and susceptible market and compete purely on quality (7d → 11). We have no luxury of having infinite trust to the outsiders in every aspect of the business and releasing the products through the door unless they look perfect. As long as we have confidence in the product, we can sit back and let the product talk!".

The general manager states that most companies would not have this advantage in the market (1a, 1d, 1e → 10a, 10b, 10c, 10d, 10e → 11). The strong R&D department consisting of qualified employees who were embellished with creative and innovative skills does not only guarantee the quality (1a, 1d, 1e → 10e → 7d) but also enables the company penetrate the market better than any competitor ever would by creating cost advantages (1a, 1d, 1e → 10e → 11 [PER–MS, PER–ST, PER–PROF]). In Estée Lauder, the dimensions of innovation and creativity are not bounded to its products. The company also offers new concepts in shopping resulting from the creative and innovative tradition embedded into its culture (2a → 1d, 1e → 10a).

The inspired new concept in shopping service, *As You Like It* invites consumers to engage and interact in a creative and welcoming in-store environment by breaking down all barriers in the world (10a → 7e, 10b). By using high technology, the company provides an innovative, dynamic and engaging shopping experience to consumers (10e → 10a, 10b). Being the first cosmetics brand that uses the Apple iPad in-store (5b) and offering the copyrighted (4a) Clinique Apple iPad Skin Care Diagnostic application software, the company enables consumers identify their skin care concerns and receive personalised skin care recommendations using a 90-second computer-guided skin care analysis (5b → 4a → 8a → 10b). Having

processed nearly 180,000 product combinations, the software provides a printed receipt that lists the custom-fit product recommendations to the customers. With another unique service, *High-Touch* the company overcomes the mechanistic service approach by making consultants available for a one-on-one consultation and providing expert advice for the consumers (10a). With the support of information and knowledge sharing tools (*e.g.*, digital, mobile and social media tools, websites, and call centres), *High-Touch* is a powerful combination of the Estée Lauder products and personalised services that create priceless value leading to firm success (9a, 9b, 9c → 10a, 10b → 11). In the digital age, the company connects with its consumers on-line via e-commerce, social networking and other interactive tools (9a, 9b, 9c). The general manager details the relationship between unique services and knowledge management elements of the firm:

> "... Our services are also highly differentiated in terms of content and outlook just like our products. Apart from our innovative skills and professional services know-how, these services definitely require a strong IT structure and an extensive networking relationship with other firms (*e.g.*, Apple Inc.) (5b, 8a → 10b)… As a company policy and marketing strategy, we attempt to integrate digital, mobile and social media into our professional services that allow consumers to connect with the brand and obtain sufficient information and feedback from them (3a → 9a → 10a → 7c)… Information and feedback from our customers are vitally important for us on the way of increasing quality in every piece of our business (9a, 9b, 9c → 7d, 10a, 10b →11)".

As mentioned above, the IT and knowledge management skills were extensively and effectively used by the company to provide personalised services, obtain feedback, and strengthen the connection with consumers that pioneer to the increase in brand loyalty and corporate image of the organisation (8a, 9a, 9b, 9c → 7a, 7b, 7c).

A recent service offered in the Estée Lauder brand's website (9c) is that visitors can experiment with the latest colours and get a virtual makeover by uploading their photo and using the make-up widget on the screen.

Market orientation and operational excellence

Against its leadership position in the global cosmetics industry, in the knowledge that the dynamic and competitive environment may abruptly change consumer habits and expectations, Estée Lauder communicates frequently with its

customers, including end customers (*e.g.*, 25 to 40 year old career women that consists the primary target market), wholesalers, and retailers as the most important information providers. The general manager elaborates:

> "... We operate in nearly every country in the world and deal with millions of consumers with different expectations and tastes. Obviously, this situation necessitates an attentive market segmentation and product development strategy. In order to understand what consumers demand and formulate adequate strategies, apart from analysing several trends, we try to obtain substantial information from them through different channels (9a, 9b, 9c → 7b, 7e). Consumers usually tell exactly what they like and don't like... We get in touch with them... We keep a log of all e-mails and respond them promptly. Therefore, while we were trying to address their expectations, we establish and maintain our relationships as well (9a, 9b, 9c → 5a)".

As consumers' preferences and shopping habits have evolved, the company used its creative skills to address this situation. Information and knowledge on consumers and other market dynamics (*e.g.*, competitors, economic indicators) were communicated across the organisation and nobody left outside the loop. This participative decision making policy that was supported by open communication did not only yield positive organisational outcomes such as empowerment, job satisfaction and organisational commitment (2d → 2e → 2b, 2c) but also maximised teamwork (2d → 2e → 1b). The general manager emphasises a sense of a team environment:

> "... Our industry looks like a Bollywood movie which covers fashion, media, celebrity, scandal, hype *etc*. For this reason, no one can be all sort of static in the company! Everyone in this company feels this and backs up each other with a team spirit (1b). People are encouraged to talk in periodical meetings... Bearing in mind that every country and/or segment may have different needs, we have to work in a team environment (1b) and consult to our employees in every part of the world. In order to develop alternative brands, products, and distribution channels worldwide, we use think-tanks! BeautyBank is a good example of this approach which yielded the launch of different innovative aromatic products for different markets (*e.g.*, organic ingredients for Germany vs. lasting intensive aromas for Turkey and Brazil) (1b, 1e → 7b, 7e)".

Estée Lauder focuses on the development of products tailored to the specific needs of different segments. Apart from the think-tanks that were established in numerous countries it also opens "innovation centres" (*e.g.*, Asian innovation centre, Shanghai, China). According to the general manager, number of this kind of innovation and creativity based centres that were nurtured with global information will increase and these centres will be among the most important contributors to firm success (8a → 9a, 9b, 9c → 11).

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Another place where creativity and innovation was used in the organisation is the Global Supply Chain that serves as the basis for operational excellence and continuous improvement (1d, 1e → 8b). Estée Lauder's Global Supply Chain which aims to identify ways for the firm to improve efficiencies and productivity by empowering employees at its facilities has started the journey towards becoming a LEAN enterprise. LEAN enterprise refers to a company that aims to increase its operational efficiency, eliminate waste and promote continuous improvement[6]. In the LEAN project, all employees are encouraged to take the initiative to find new tactics to improve their daily business activities (8b → 2c → 1d, 1e → 10b). The general manager explains how the company attempts to achieve operational efficiency:

> "... We believe that emergence of good ideas are not limited to a group of people, department or a function and that innovation is empowering (2c → 1e). Good ideas may come from anyone who works in any part of the organisation. With this expectation, we have started the project called LEAN that aims to increase operational efficiency of the company by using innovative solutions and ideas that come from our employees… Thus, enhanced levels of employee engagement, enablement and empowerment yielded fantastic ideas in eliminating waste and increasing the efficient use of natural resources and other materials, promoting the management of processes effectively at facilities around the world and becoming a more dynamic and agile organisation in the global marketplace (2b, 2c → 1e → 8b → 11)".

He continues:

> "… May be more importantly, organisational commitment as a result of high levels of engagement and empowerment increased along with the productivity".

Therefore, with the combination of innovative and customised products, unique High-Touch services, strategic vision and operating excellence, Estée Lauder strengthens its leadership position in the global marketplace and achieve satisfactory financial results for its shareholders (1d, 1e, 8b, 10a, 10b → 11). As frequently mentioned by the owners, employees strive to create a company that Mrs. Estée Lauder would be proud.

5.6.1. Summary of the case study #4

Estée Lauder's background in manufacturing, design, and retail, along with its innovativeness, creativity, and empowered and committed employees appear in no small way to influence the ways in which Estée Lauder operates as a leading firm

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[6] http://www.elcompanies.com/Pages/LEANing-Towards-Operational-Excellence.aspx

in the cosmetics industry. Unsurprisingly, skills and qualities of employees were seen as the most dominant factors that make the company a pure product and service innovator. As an innovator firm, Estée Lauder has been able to launch four to five times more products than competitors. A huge product range that includes many prestigious brands associated with quality and created loyalty is aligned to current lifestyles, cultural expectations and fashion. In order to promote firm growth, a wide range of unique products supported with the professional services that address the needs of global marketplace was regarded as a considerable ingredient. In accordance with this objective, the company recruited and retained passionate individuals who display creative skills and who can work in a team environment. Innovative and creative potential is maximised by the integration of in-secret know-how that includes design, aesthetics and advanced cosmetics technology and organisational culture that provided an entertaining environment and supported engagement along with empowerment. Therefore, a combination of the elements of human capital, organisational culture, and in-secret technology and services is viewed vital for firm success.

Top management of the firm was consisted of foreign expatriates. For this reason, their explanations with respect to performance creation process of the firm may have skewed to global base evaluations rather than local concerns. For example, despite many resources (*e.g.*, innovativeness, hi-tech manufacturing and R&D) that were mentioned in the interviews, it was observed that Estée Lauder Turkey was operating on a pure marketing and sales basis as a foreign subsidiary. Under these conditions, more country-specific resource and capability evaluations can be useful to understand the determinants of performance within the context of Turkish business environment. Moreover, because of the small size of the firm in Turkey, number of top managers was limited. In this situation, the researcher needed to look for other sources of evidence and observation notes from the meetings along with the discussions conducted with the sales executives of the firm in department stores provided valuable information to the researcher in this context.

According to the notes of the researcher that were taken in three different meetings, nearly 90% of the issues mentioned was about how to increase sales and when to launch a new product (manufactured in other countries, there is no

manufacturing operation of the firm in Turkey). So, the role of some resources that were mentioned in the interviews such as organisational culture, hi-tech manufacturing, R&D, and innovation ability in the context of performance creation in Estée Lauder Turkey should be treated cautiously. Notwithstanding, innovation can be in different forms other than product innovation such as innovation in service provision or in marketing and sales. Hence, innovative implementations in marketing and sales may create good results for the firm in Turkey. Although the role of a strong brand cannot be overlooked in this industry, several discussions that were conducted with the sales executive ladies revealed that management of a brand can create better results in firm performance more than a static brand name itself. In a department store visit, a sales executive lady elaborated:

> "... Oh yes, brand is very important, it is the initiatory step to attract the customers and bring them here. But, look around our competitors are here as well, L'Oreal has Giorgio Armani, Ralph Lauren and Cacharel, P&G has Hugo Boss, Max Factor and Lacoste, and others have this and that... Every player in this industry has its own well-known brands. The customers are already surrounded by brands as well as us. In this situation can you say that all the customers come here just for 'our' brands? This can be a very naive thought. Two things are more important than brand name: the first is, timing for a new product launch and the price advantage along with the promotions associated, and the second one is, the service provided by sales executives like me. Now you tell me the difference between my product Aramis and my competitor's product Giorgio Armani in terms of packaging, design, and brand name!"

Her explanations brought the importance of an effective brand management and service quality in sustaining advantage more to the fore. Whilst effective branding and marketing decisions were made by managers, a high quality of services was provided by sales executives. In both cases, highly skilled and qualified staff was a must for achieving successful results. So, the effect of human capital and marketing capabilities driven by managers on performance was seen here once more.

Referring to the interview results, the researcher asked the sales executive the role of innovative software and IT based applications in the customer service provision process. She explained:

> "... In Turkey, customers do not usually prefer using this kind of tools unlike in the US for some reasons. One reason is that since cost the of a sales executive who can conduct make-up, skin test and offer other personal care solutions is much lower in this country compared to Europe and the US. Our customers feel like having a real customised service in our stands. Through appointments, we conduct free make-up on

their faces and skin tests. Think about the difference between a standard internet application and a fully customised personal service provided by a professionally trained sales executive. Would you prefer the first one? Once my customer told me that the *High-Touch* application was too mechanistic and dull. Moreover, how many people upload these applications to their iPhones? I am not sure if so many people go to the Internet and find the best personal solution for them. Even if they found they come here and check with us whether it is the right solution form them or not...Well, we have no luxurious of confining our customers in a software completely. May be in the future...".

So, from this perspective, technology and IT seemed to have a lesser effect on firm performance compared to its effects on manufacturing, design and aesthetics related issues. But the researcher observed that the firm had a very effectively working CRM function that was integrated with customer complaints services in the web-site through the IT systems. Customer complaint logs included feedbacks like "WOW! the response was so quick, many thanks you have sorted everything out or you have a customer for life".

The role of networking capabilities was clearly seen in the Estée Lauder case where relationships always provided additional advantages for the firm. A product manager explained:

"... In order to assemble a stand or even a small desk in a department store chain, we have to offer considerable amount of money. The Turkish market for our brands that address to upper or niche level segments is very small. My product category portfolio's[7] sales turnover for 2012 was totally USD 10 million in the whole Turkish market and we made only USD 1 million profit. In this situation, we need to be very sensitive for our costs. Apart from costs, 'high-wired' relationships have vital importance to be able to find a suitable place for your products in high street department stores or shopping malls. Namely, making a premium payment to a popular shopping mall does not guarantee you a good place, you also need to have strong contacts with the owners of shopping malls or even with the local authorities. You cannot imagine how difficult to obtain a workplace licence for a nice location in a popular shopping mall in Istanbul."

The product manager also stated that despite recruiting expatriates from different nationalities in top management positions, the firm always work with local nationals at the operational level where high skills of communication and networking required.

Another driver of performance concerns market and customer orientation along with the operational excellence achieved in the firm. Estée Lauder focuses on

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[7] The product portfolio included DKNY, Estée Lauder, Jo Malone, MichaelKors, Origins and Tommy Hilfiger

several points such as market segmentation via target markets, marketing communications (*e.g.*, branding, PR), and relationship management or networking (*e.g.*, with suppliers, distributors, retailers). All these activities that aim to boost sales were stimulated by the knowledge management elements of the company (*e.g.*, digital, mobile and social media tools, call centres, and websites) that were highly nourished by the business processes (*e.g.*, IT systems). While the activities to boost sales were continuing, innovative solutions created by employees under the LEAN approach also increased operational efficiency leading to cost effectiveness and eventually to increased profitability.

5.7. Chapter summary

In this chapter, the implementation of the qualitative research that includes four case studies was presented with all details. Qualitative data analysis which took place over a five-month period (September, 2012–February, 2013) started with data coding, continued with within-case analysis and cross-case analysis (that will be presented in the next chapter) and lastly, culminated in building causal network. According to the answers of the interviewees, the researcher grouped resources into three central categories that were consistent with the previous RBV literature: tangible resources, intangible resources and capabilities. Then, the identified central resource categories were divided into sub-categories in order to have a clearer picture and better understanding about the interactions and links between different resources and capabilities that lead to firm success presented in the causal network analysis.

The interviews generated tangible resources as cash, financial investments, raised financial capital, production equipment, raw materials, manufacturing facilities, machinery, physical buildings, real estate and land. Hence, tangible resources were classified into two main categories: (1) financial assets, (2) physical assets. As to intangible resources, organisational culture and policies, unique brands, high-tech manufacturing, corporate image and reputation, product and service quality, strategic partnerships, patents and copyrights were regularly mentioned in the interviews, and accordingly, three main intangible resource categories were identified: (1) organisational assets, (2) intellectual property assets, and (3) reputational assets. The interviews also highlighted the importance of human

capital (or employee and managerial capabilities), networking (or relationship) capabilities, organisational processes, tacit and explicit knowledge, and organisational routines as the capabilities.

In parallel to the extant literature, in the scripts, the respondents especially mentioned the importance of human resource (both for the employees and managers) quality, relationships built and maintained with customers, suppliers and distributors, and the systems which refer to the business processes (*e.g.*, IT and supply chain systems) as the key mechanisms to achieve congruence between the firms' resources and dynamic environmental conditions. Moreover, the significance of revealing the tacit knowledge, establishing strategic partnerships, and possessing organisational routines were frequently emphasised in the interviews. Therefore, a coherent resource and capability framework that addresses the first objective of this study and was used for hypothesis development and testing in the quantitative stage was created.

Investigation of the complexity in resource and capability interaction which addresses the second objective of this study was carried out by multiple cases. For this reason, the within-case analyses along with the causal network models that contain four companies, Ülker, Albaraka-Türk, PwC and Estée Lauder were conducted. In each case, an in-depth interview of the firm's business orientation, resource use, deployment and interaction, competitive advantage achievement, and firm performance was analysed. Results of the qualitative analysis revealed very complex and complicated interactions between resource categories and capabilities. Direct and indirect relations between almost all categories were found. However, human capital and networking capabilities seemed to be the most influential strategic initiatives and the most important determinants on firm performance.

Although different resource and capability elements and their relative importance on firm performance were analysed in Chapter VI, referring to his observations, informal discussions and document analysis along with manager interviews, the researcher noticed some dimensional differences in terms of organisational culture and climate, HR policy and practices, CEO/leader/top manager characteristics, market and entrepreneurial orientations, and physical infrastructure between the

firms investigated. These dimensional differences that can influence the resource possessions and accumulations of the firms were presented in table 5-3. When these dimensional differences were analysed, some differences between the first two (Ülker and Albaraka-Türk that are more local and national-based firms) and the latter two (PwC and Estée Lauder that are more international foreign subsidiaries). Nature of the organisational culture was seen quite different in the first two and the latter two firms.

Whilst the first two had conservative type of culture that dictates accepting all values, top management ideas, and way of doing business mostly, the latter two had more democratic and adhocratic types of culture that provide more space and freedom to employees for open discussion. In terms of recruitment and HR policies, the latter two followed more sophisticated and skill-based recruitment policies whilst the first two adopted a recruitment policy that gives priority to candidates who fit organisational culture perfectly. Despite having imperfect information, in Ülker and Albaraka-Türk higher salaries were offered to employees compared to PwC and Estée Lauder at the same levels. Against the salary difference which is in favour of Ülker and Albaraka-Türk, a higher level of job satisfaction was observed in PwC and Estée Lauder. However, no significant difference was noted in terms of turnover rates between the first and the latter two firms.

A more top to bottom hierarchy and formal relations between the staff along with a stricter control of organisation, were observed (as an influence of the conservative organisational culture) in the first two firms. Conversely, a coaching and mentoring type of managerial approach along with a more flat organisational structure with open offices were evident in the foreign subsidiaries. With respect to market orientation, a more competitor-oriented approach was leading to the strategic decisions of Ülker and Albaraka-Türk, whilst a fully customer-oriented approach was adopted by the latter two. Innovation ability was considered among the most important determinants of success in all organisations, but the new product performance levels differed. However, since industry differences may affect the new product requirements of the firms, no adequate comment can be done in this regard.

Table 5-3. Dimensional differences between the firms investigated

	ÜLKER	Albaraka-Türk	PwC	Estée Lauder
Organisational culture & climate	Conservative culture with limited religious effects which creates a sense of ownership among the staff. Energetic climate leads to high performance focused employees with shared vision.	Overmuch conservative culture with religious effects (to some extent obedient) that dictates all values without compromising. Challenging status quo. Serious organisational climate may turn working atmosphere to a dull environment.	Democratic culture which lead to open sharing of information and freedom to act for effective communication and open dialogue.	Adhocratic culture that provides freedom to staff. Fun and relaxed climate, open door policy that supports debates, discussion and developmental processes.
HR policy & practices	Attractive compensations for passionate, enthusiastic, talented, and extravert young people. Headhunting is widely used for top senior positions. Individual and team performance rewards and bonuses. Formal training was provided. Generally moderate turnover rate but high turnover rates can be observed in sales team.	Priority to potential employees who fit within the culture. Verbally congratulating employees and provide bonuses to employees if they offered innovative ideas. Formal training was provided. Low turnover rate.	The best graduates from top universities. Always thinking, career driven young people with the ability to solve problems, confront issues and find solutions. Outside transfer is very limited. The firm provides bonuses and profit sharing to its employees. Informal and job skills training was provided. Moderate turnover rate	Versatile recruitment processes to hire creative and on-the-edge employees. The HR practices focus on morale and satisfaction issues, bonuses are provided to employees. Informal and job skills training was provided. Low turnover rate.
CEO/leader/top manager characteristics	Ambitious and growth oriented CEO and board members. Efforts for transition from strictly owner controlled firm to a more professional controlled firm. Still some hierarchy in organisational structure.	Non-aggressive growth oriented top management. More hierarchical relations between the staff and managers. Relatively higher top to bottom hierarchy in organisational structure.	Aggressive growth oriented top management. More coaching and mentoring type of managerial approach. Relatively flat organisational structure with open offices.	Aggressive growth oriented top management. More coaching and mentoring type of managerial approach. Flat organisational structure with open offices.
Market orientation	Competitor oriented. Holds regular strategic meetings in order to discuss about the actions of the competitors and evaluates competitors' capabilities, strengths, and weaknesses.	Competitor oriented. Aware of competitors and determine its actions accordingly.	Not-competitor oriented. Fully customer oriented. Aware of the actions of the competitors but do not worry about them.	More customer oriented than competitor oriented. Regards their organisation as being ahead of the market.
Entrepreneurial orientation	Innovativeness was seen as a competitive edge and all stakeholders were encouraged to contribute the firm's innovation skills.	Introduces new financial products and services regularly, though, does not consider itself as a massive innovator.	Limited innovation depending on the nature of its business. Some innovative skills in business model development and process management issues.	Very active in new product development. Product range is four times better than average in the industry. Leads creative thinking rather than following.
Infrastructure situation	Quite high-manufacturing technology and strong IT infrastructure. High investment to tangible assets.	Massive investment to IT infrastructure and physical buildings.	Modest investment to tangible assets. Needs more sophisticated IT infrastructure.	Massive investment to IT infrastructure.

Physical infrastructure that includes offices, buildings, computers *etc.* was in a better condition in the first two firms. This can either be a result of the new identity projects associated with a modernised physical infrastructure or a more strategic agility and flexibility requirements of Ülker and Albaraka-Türk (in a sense, more emerging market type of firms) which operate in harsher business environments (compared to PwC and Estée Lauder) that compel the firms to have a very strong IT infrastructure. These issues will be elaborated in the last chapter of the thesis.

Table 5-4. Some fuzzy areas in the causal networks

	Fuzzy areas	**How this could be supported by other sources of evidence**
ÜLKER	The roles and effects of organisational routines, structure and in-secret technology were ambiguous.	Handbooks with regard to routine issues might need a deeper investigation. Historical changes in the organisational structure e may be found in the last 15-20 year annual reports. Some observations and informal chats in a manufacturing facility of the firm (at the operational level) might be useful.
Albaraka -TÜRK	The effect of organisational routines and the role of reputational resources and also the importance of cash related assets were not understood completely.	Routine applications of the bank such as credit risk management system, call centre applications, and even dress codes might be better investigated. More discussions with the customers might be conducted in branch visits. Short discussions with the branch managers who offer credits to customers might provide valuable information.
PwC	Apart from the code of conduct, other effects of the organisational policies on performance were not thoroughly understood. The role of the business processes was uncertain.	More information about the political issues in the organisation might be obtained from junior level staff. Another meeting with the IT and knowledge management executive might be organised.
Estée Lauder	No issue with regard to the roles/effects of routine issues were found. Knowledge management capability effects need better understanding.	A more detailed documentation search with regard to firm policy issues and standard applications against employees and customers might be beneficial. A discussion with a technical staff might provide better insights.

Lastly, some points should be mentioned with respect to qualitative investigation that was conducted in the thesis. In some firms (*e.g.*, Ülker and Albaraka-Türk), the researcher found better opportunities to access the data because of his previous personal relations. The first two firms were national-based and their headquarters were in Turkey. Besides, number of the top managers for potential interviews was higher in these firms. Both situations may result to slightly imbalanced evaluations of the cases depending on the amount of the data in hand. Interview results were considered as the primary sources of evidence. Hence, although the researcher

attempted to balance the interview data with the other sources of evidence (*e.g.*, observations and documentation), some skewness in favour of interview results may occur in the subjective evaluations of cases.

Limitations as a result of imbalanced amount of data may have reflections on causal networks as well. For example, the effects and roles of company policies and organisational structure in performance creation may not be understood thoroughly in the PwC and Estée Lauder cases since data limitation left these areas fuzzy in their causal networks. These fuzzy areas are presented in table 5-4.

As outlined in the preceding chapters, the hypotheses of this study that aim to verify the relative contribution of each category are developed based on the integration of qualitative findings and the parent RBV literature. Hence, the next chapter explains the hypothesis development process of the thesis in conjunction with an inductive cross-case analysis that makes comparisons in relation to findings of the case studies along with the previous RBV literature.

CHAPTER VI

DEVELOPING THE HYPOTHESES

6.1. Introduction

In this chapter, qualitative findings that were elaborated by utilising a cross-case analysis of four case studies were integrated with the existing literature and linked to a number of research hypotheses that will be tested in the quantitative part of the thesis. The chapter starts with a brief introduction of cross-case analysis and continues with the implementation of the method. Then, qualitative findings supported by the existing literature leads to the development of a number of hypotheses to be tested empirically in Chapter VII. Lastly, the chapter ends with a framework of the established hypotheses.

6.2. Cross-case analysis and research hypotheses

Cross-case analysis is a comparative display of all cases in a sample, "using variables estimated to be the most influential in accounting for the outcome variables" (Miles & Huberman, 1994, p. 228). By using this process, the findings of individual cases can be compared and sorted into categories sharing similarities. As the amount of information increases during data collection, a large number of variables that appear to be either connected or random may reveal in cross-case analysis. Interactions between these variables can create even more complex issues that require several tactics for generating meanings such as "clustering, making contrast/comparisons, noting relations between variables, finding intervening variables, and building a logical chain of evidence" (Miles & Huberman, 1994, p. 247). Thus, cross-case analysis shows the findings of the case studies in a more systematic and comparative way and derive conclusions rather than just focusing on artificial impressions of individual cases (Lin, 2007).

Key findings across cases that include interrelationships between resource and capability constructs were discussed below within the context of the conceptual model of the resource pool previously derived from the qualitative data. In explaining and comparing the findings of four case studies, tables that display elements of the resource and capability constructs were used in order to increase

insights and clarify parameters of phenomena under investigation. The cross-case analysis of this study starts with the analysis of tangible resource elements that were seldom mentioned as sources of competitive advantage in all cases.

6.2.1. Tangible resources

On the basis of the present within-case analyses, tangible resources were generally not viewed as sources of competitive advantage. In fact, this finding is consistent with the RBV's main prescription which suggests that tangible resources can be readily obtained in the factor markets or can be easily copied by competitors (Amit & Schoemaker, 1993; Barney, 2001a). In three cases (Ülker, Albaraka-Türk and PwC), a number of tangible resource elements were considered as important contributors to firm performance.

Table 6-1. Tangible resources mentioned in the case studies

Tangible resource elements (TR)	ÜLKER	Albaraka-Türk	PwC	Estée Lauder
Cash	√	√	N/A	N/A
Raised financial capital	N/A	√	N/A	N/A
Financial investments	N/A	√	N/A	N/A
Buildings	½	½	√	N/A
Equipment	√	½	N/A	½
Land	N/A	N/A	N/A	N/A

√   *: Significant contribution to firm performance*

½   *: Limited contribution to firm performance*

N/A   *: Not available – not mentioned in the interviews as a contributor*

For example, in Ülker as the leading food manufacturer, among tangible resource categories, equipment (TR – Equip) that includes machinery, vehicles and trucks, buildings and production facilities, and raw materials along with cash (TR – Cash) were mentioned as contributors of performance (see table 6-1). Since Ülker was a manufacturing firm and its power was coming from its strong production capacity and distribution system, most of the tangible resources were used to take necessary actions to realise these strengths of the company.

However, tangible resources have been influential on firm performance as long as they have interacted and were supported by other intangible resources and capabilities. For example, the firm established strong relations with the customers,

suppliers and distributors through its networking capabilities (CAP – NETW) which enabled Ülker to sell more products to customers and purchase raw materials at lower costs than its competitors. Hence, buildings (TR – Build) and other equipments (TR – Equip) that facilitate manufacturing and distribution power of the firm were operationalised by networking capabilities. Moreover, the product range that included many innovative products and the idea of unique distribution system of touring salesman were the yields of skilled employees as the most important element of human capital (CAP – HUMCap).

As another example, cash and finance related assets were seen as significant contributors to firm success in Albaraka-Türk. Although, cash and finance related assets (TR – Cash, TR – RFINCap, TR – Finv) can be deemed as the main products of a bank, the factors that enable a bank differentiate itself from competitors and provide above-normal economic benefits lay beyond these tangible assets (*e.g.*, service quality, brand loyalty, strong customer relations) since cash and finance related assets can be somehow obtained in the factor markets by other banks.

Therefore, the economic benefits of those resources will likely accrue to all banks that offer normal rather than superior returns. Similarly, the tangible resources (*e.g.*, vehicles, trucks, machinery, raw materials, plants) that were mentioned in Ülker case can not only be obtained in factor markets by any number of competing firms but they can also be easily imitated by competitors. Based on these arguments that match up the main prescriptions of the resource-based approach, against tangible resources that are leveraged by firms in order to compete in the market, resources other than tangible ones will be more important contributors of firm success (Barney, 2001a; Galbreath & Galvin, 2008). With regard to the other case, Estée Lauder, none of the tangible resources that exist in the resource framework of this study were stated as significant determinants of firm success.

6.2.2. Intangible resources

Intangible resources that are in the central proposition of the RBV in contributing to firm success were much more frequently mentioned than the tangibles in all case studies (see table 6-2). Interview results stated organisational culture (IR – ORG-

Cult) among the most vital intangible assets for a firm's performance since it defines and underpins the values and behaviours of the firm.

Table 6-2. Intangible resources mentioned in the case studies

Intangible resource elements (IR)	*ÜLKER*	*Albaraka-Türk*	*PwC*	*Estée Lauder*
Strategic partnerships	√	√	½	½
Organisational culture	√	√	√	√
Organisational structure	½	½	√	½
Organisational policies	½	½	√	√
Copyrights	√	N/A	½	√
Designs	N/A	N/A	N/A	√
Trademarks	√	½	½	√
Patents	½	N/A	N/A	√
In-secret technology/service know-how	½	½	√	√
Brand name	√	½	√	√
Corporate image/reputation	√	√	√	√
Customer service reputation	√	√	√	√
Product/service reputation	√	√	√	√

√   *: Significant contribution to firm performance*

½   *: Limited contribution to firm performance*

N/A   *: Not available – not mentioned in the interviews as a contributor*

The dynamic intersection of firm values and behaviours in turn created such an environment in which teamwork, creativity and innovativeness were boosted as well as the share of knowledge and information was promoted in all cases. Consistent with the findings of Itami and Roehl (1987) who draw attention to the power of organisational culture in determining the firm's performance by shaping "the spoken and unspoken norms and rules that employees follow and turn into action", in two cases of Albaraka-Türk and PwC, a direct relationship between organisational culture and firm performance was found. Besides, organisational culture is such a unique resource that can be difficult for competitors to replicate since it possesses the conditions of asset specificity and time compression diseconomies (Dierickx & Cool, 1989; Armstrong & Shimizu, 2007).

Hence, organisational culture was indeed found an important determinant of firm performance. The positive impacts of an effective organisational structure (IR – ORG-Struct) on firm performance were also observed in the Ülker, Albaraka-Türk,

and PwC cases. In these cases, flat and unhierarchical organisational structures enabled the companies have open and flexible communication channels along with the joint and fast decision making processes and served as the basis for synergistic development of service and product innovations across many departments, and even divisions, which cannot be easily imitated by competitors.

Among intangible assets, organisational policies (IR – ORG-Pol) that were especially associated with the human resource management policies (HRM) which aimed to retain and develop the skills and qualities as well as the job satisfaction levels of employees through various HR applications (*i.e.*, training, compensation, recognition programmes, empowerment, performance appraisal systems) seemed to be sources of competitive advantage that lead to higher financial and operational performance in PwC and Estée Lauder. In accordance with the suggestions of the RBV scholars (*e.g.*, Huselid, 1995; Becker & Huselid, 2006; Coff & Kryscynski, 2011), HRM associated organisational policies of these firms appeared to be characterised by path dependency and specificity which created a source of economic benefit that was difficult to be duplicated by rivals.

Lastly, strategic partnerships (IR – STR-Part) in different forms of contractual agreements have provided many opportunities to Ülker and Albaraka-Türk to expand their market shares and increase sales turnover and profitability. Moreover, both firms realised know-how transfers and prevented rivals from replicating the economic benefits derived from such agreements through these contracts that were legally binding and enforceable. So, generally organisational assets which have the ability of affording resource position barriers (that are the so-called VRIN/VRIO characteristics described in the literature review chapter) and can resist the duplication efforts of rivals were reported as sources of competitive advantage in this study. The elements of intellectual property assets such as copyrights (IR – LP-Copy), patents (IR – LP-Patent), registered designs (IR – LP-Design), and trademarks (IR – LP-Trade) that provide legal protection to firms were considered as other important contributors to firm performance in the interviews even if they were not regarded as much as the organisational assets.

Because of the nature of their business in which design and new product development processes were exclusively used, the findings of Ülker and Estée

Lauder interviews indicated intellectual property assets as legal protectors that preserve the economic benefits of the firms from being eroded and cannot be duplicated by competitors as stated by some RBV authors (*e.g.*, Schroeder *et al.*, 2002; Chari & David, 2012). Besides, as a performance figure, registered designs and copyrights were correlated to the sales turnovers of the firms.

In-secret technology (IR – IS-Tech) for the manufacturing firms (or service know-how for the services firms) was another form of intellectual property asset that had direct effects on firm performance in three cases, Albaraka-Türk, PwC, and Estée Lauder. While Albaraka-Türk and PwC were offering context-specific services to their customers, Estée Lauder developed and employed a sophisticated technology for innovative product and design purposes.

These intangible assets that were used by aforementioned firms to create unique strategies and particular business models became socially complex and causally ambiguous resources over time that were difficult to be duplicated for rivals and cannot be purchased in the factor markets. A similar and good example to the creation of competitive advantage through this kind of an in-secret technology ownership is "the cross-docking system of retail giant Wal-Mart" (Galbreath, 2004, p. 121). In the early years of Wal-Mart, whilst supply chain system of the firm contained commodity-type of information technologies that can be obtained easily in the factor markets, the system underwent such a complex customisation over years that none of the competitors could afford to imitate it.

As to the last category of the intangible asset framework, the impact of reputational assets comprised of brand name (IR – BRAND-Rep), corporate image/reputation (IR – CORP-Rep), customer service reputation (IR – CUSTSER-Rep), product/service reputation (IR – PRODSER-Rep) on firm performance was strongly emphasised in all cases no matter type of the industry in which the firm operates. According to the results of the interviews, reputational assets, positively influenced impressions, perceptions, and beliefs of the customers, suppliers, competitors and other stakeholders by providing a good deal of information about firms.

Because reputational assets inform consumers and other stakeholders about the trustworthiness, credibility, and quality of the firm, they give occasion to the

valuable repercussions on firm performance such as maintaining long-lasting relationships with customers and suppliers, creating brand loyalty, and attracting new customers that, in turn, lead firms to achieve superior financial performance (Roberts & Dowling, 2002; Rindova *et al.*, 2010).

Although reputation is not legally protected by property rights, may not be acknowledged as a path-dependent asset which is characterised by specificity and social complexity, and create a resource position barrier, Porter (1980) argues that competitors can be deterred from entering markets through a strong reputation and erosion of firm performance can be protected. In order to capture attention about the unique nature of reputational assets, Dierickx and Cool (1989) stress the non-tradable and economic benefits provision features of reputation. Indeed, reputational assets cannot be "instantaneously" bought but rather are built over time (Dierickx & Cool, 1989). In parallel to this, Rindova *et al.* (2010) state that reputation characterises an asset mass that is built over time and "its level accumulated within a given specific organisational field" (p. 616).

Although M&A activities may enable a firm to gain reputational assets, Arikan (2002) suggests that the ability of M&A activities to deliver an expected resource benefit is difficult to achieve. Especially, brand (IR – BRAND-Rep) was pointed out as the most unique and inimitable one among the elements of reputational assets in the case of Estée Lauder by the general manager of the company who states:

> "There will always be thousands of perfumes in this market, but there will only be one Donna Karan or Aramis…"

Given their unique nature that stems from social complexity, causal ambiguity, path-dependency, and asset specificity, intangible resources that offer economic benefits to firms which cannot be easily acquired and replicated seemed to have a higher impact on firm success than tangible assets. Therefore, based on the qualitative findings that were supported by the extant RBV literature, this study offers the following hypothesis:

> H_1: Intangible resources will make a larger contribution to firm performance than that of tangible resources.

6.2.3. Capabilities

The main difference between intangible resources and capabilities is that capabilities represent intangible resource categories that constitute what the firm "does" as opposed to "what it has" (Hall, 1992; Teece *et al.*, 1997; Helfat & Winter, 2011). Following this logic, human capital (CAP – HUMCap), networking abilities (CAP – NETW), business processes (CAP – BUS-Process), knowledge management skills (CAP – KNOWL), and organisational routines (CAP – ORGRout) as the capability categories that have the capacity to transform static tangible and intangible resources into dynamic mechanisms and sources of firm performance were evident across all cases (see table 6-3).

Table 6-3. Capabilities mentioned in the case studies

Capability elements (CAP)	*ÜLKER*	*Albaraka-Türk*	*PwC*	*Estée Lauder*
Human capital	√	√	√	√
Networking capabilities	√	√	√	√
Knowledge management skills	√	½	½	√
Business processes	√	√	√	√
Organisational routines	½	√	√	N/A

√   *: Significant contribution to firm performance*

½   *: Limited contribution to firm performance*

N/A   *: Not available – not mentioned in the interviews as a contributor*

The impact of capabilities on firm performance that were detected in the interviews is analysed based on the perspectives of Teece (2007) and Helfat *et al.* (2007) which classify capabilities as dynamic and operational (non-dynamic) capabilities. Based on the definition of Teece (2007), whilst operational capabilities help sustain "a firm's technical fitness and enable firms to perform their day-to-day operations efficiently, dynamic capabilities help sustain a firm's evolutionary fitness by enabling the creation, extension, and modification of its resource base, thereby creating long-run competitive success" (p. 1324). However, in addition to this, Protogerou *et al.* (2012, p. 617) argue that "some capabilities can be either operational or dynamic at the same time and they both reflect the firm's capacity to perform a particular activity or function".

Moreover, capabilities can transform static resources into dynamic sources and mechanisms which lead firm performance through a number of functions such as coordination/integration, learning, and reconfiguration (Eisenhardt & Martin, 2000; Teece, 2007; Helfat *et al.*, 2007). Hence, each category of capabilities was analysed within this context. Having the capability classification of Teece (2007) and Helfat *et al.* (2007) along with the aforementioned functions as a guide and following the findings of interviews, organisational routines and business processes were recognised as operational capabilities whilst human capital and networking abilities were identified as dynamic capabilities.

Table 6-4. Mapping the identified capabilities to the recognised core functions

Resource manipulating functions of capabilities in the academic literature	Capability elements (CAP) identified in this study	Categorisation and core functions of the identified capabilities
	Human capital	Dynamic – (A, B, C)
A. Coordination/integration	Networking capabilities	Dynamic – (A, B, C)
B. Learning	Knowledge management skills	Dynamic & Operational – (B, C)
C. Reconfiguration	Business processes	Operational – (A, C)
	Organisational routines	Operational – (A, B)

As to knowledge management skills, they either played operational or dynamic capability roles at the same time. Table 6-4 presents capabilities identified in this study with the core functions of capabilities recognised in the academic literature.

6.2.3.1. Human capital

Human capital (CAP – HUMCap) that comprises the skills, expertise, creativity, innovative thinking, pro-activity, collective learning, and know-how of employees and managers seemed to be the most influential as well as vital capability for firm performance. Many studies in the RBV literature (*e.g.*, Hall, 1993; Hatch & Dyer, 2004; Moliterno & Wiersema, 2007; Coff & Kryscynski, 2011; Kor & Mesko, 2013; Ahearne *et al.*, 2014) linked human capital based advantages to the isolating mechanisms, firm specificity, social complexity and causal ambiguity with the suggestion that human capital derives its strategic importance from idiosyncratic individual differences and unique HR applications that the firms implement to attract, retain, and motivate their employees.

According to Coff and Kryscynski (2011), human capital possesses the feature of firm specificity "since there is no market to bid up the price of human assets and skills" (p. 1431). Besides, "human assets and skills can be more valuable to the current firm than to rivals" (Coff & Kryscynski, 2011, p. 1431) and this situation may limit the mobility of employees to other firm in which skills are less valuable. In addition to this, complex combinations of general skills of employees (*e.g.*, leadership, creativity, pro-activity) may increase firm specificity of human capital by adding extra idiosyncratic particulars to assets and skills. This complexity does not only increase the level of firm specificity but also makes human skills very difficult to copy.

Human assets or skills may be embedded in highly complex social systems as well as in individuals. For example, tacit knowledge embedded in the mind of an employee can only be valuable in a specific firm, department or project. Hence, the socially complex system hinders the replication of human assets or skills and "the value of a single human capital may be drastically reduced if plucked out of the particular complex social system" (Coff & Kryscynski, 2011, p. 1431). All these features and complexities of human capital obviously make it a very strategic resource that carries the so-called VRIN/VRIO characteristics.

The findings of case studies justified the dynamic capability nature of human capital that addresses all core functions of dynamic capabilities that are *coordination/integration*, *learning*, and *reconfiguration* (Eisenhardt & Martin, 2000; Teece, 2007). The coordination and integration function that is "the firm's ability to assess the value of existing resources and integrate them to shape new capabilities" (Amit & Schoemaker, 1993, p. 38) was evident across the cases. For example, the leadership abilities and ambition to develop a creative business of top management made PwC adopt an HR strategy that aims to recruit the best graduates of the best universities of every country in which they operate. For this reason, the firm established a strong network with the famous recruitment firms as well as developing the functionality of its HR department substantially. By integrating highly talented employees to the firm, the quality and skills of its human capital so much increased over time that all professional services know-how was created by these employees. Hence, *coordination* and *integration* function of the

human capital capability within PwC resulted in new value enhancing combinations that cannot be easily replicated in the audit and consulting market.

Learning enables "organisations to explore and learn new ways while at the same time exploit what they have already learned" (March, 1991, p. 74) and the importance of human capital in the activation of *learning* function was clearly observed in the cases. Teece *et al.* (1997, p. 515) delineate learning "as a very important process which through experimentation and repetition leads to the better and quicker resolution of specific problems and at the same time enables firms to identify new production opportunities". Obviously, learning starts from the individuals and spreads into the whole organisation. At this point, insights of the experienced and expertised employees are "shared within the organisation's context and they become institutionalised as organisation artefacts" (Protogerou *et al.*, 2012, p. 619). The strategic planning committee of Albaraka-Türk which is consisted of a number of experienced people with strong econometric and finance backgrounds have foreseen the global finance crisis of 2008 one year before and impressed top management to decrease the exposures of the bank in some Gulf region countries in 2007. With some precautions, the bank avoided the problem of risky credits.

Perhaps the most important function of a capability is the propensity to create, extend and reconfigure the resource base of a firm (Eisenhardt & Martin, 2000; Helfat *et al.*, 2007). Teece (2007) suggests that a change in the configuration of resource base can only be achieved through market-oriented and timely strategic managerial decisions that continuously scan the capabilities landscape and environmental changes. For example, the founder and top management of Ülker made a strategic decision about following the vertical integration strategy that enabled the firm to overcome the problem of supplier dependency by producing rare raw material itself. The vertical integration strategy did not only consist of production of the raw materials that were used in the manufacturing process of the goods but also the packaging material. Then, the firm acquired a number of packaging firms and among one of them (Polinas Inc.) became the largest and most profitable BOPP (Biaxially Oriented Poly Propylene) film producer in Europe over time. These strategic managerial decisions that completely changed and

reconfigured the resource base of Ülker enabled the firm to move rapidly new directions and lucrative markets, produce new and innovative products which lead to superior returns.

Itami and Roehl (1987) consider skills and know-how of employees as the main driver of a firm's performance since all decisions regarding how, where, and when a firm will deploy its resources are made by employees. Coff (1999) also emphasises the importance of employee know-how as the most essential capability that generates competitive advantage. Most recently, Kor and Mesko (2013) suggest that managerial human and social capital can build, integrate, and reconfigure organisational resources and competencies through strategic and critical resource allocation decisions. Therefore, human capital as a dynamic capability is held to be among the most important sources of firm performance.

6.2.3.2. Networking capabilities

Networking capabilities (CAP – NETW) that refer to the ability to build and maintain relationships external to the firm is also linked to the generation of firm performance (Dyer & Hatch, 2006; Acquaah, 2012; Weigelt, 2013). Consistent with the suggestions of Dyer and Hatch (2006), all firms in the cases effectively built and maintained complex relationships with customers, suppliers, and distributors in order to drive business success.

Networking capabilities provided immense benefits to the firms such as transfer of specialised knowledge (know-how), promoting customer and brand loyalty, reaching to scarce resources and closed markets, and boosting the learning ability of the firm. Just like human capital, networking capabilities also fulfilled all core functions of a dynamic capability. For example, Ülker's awesome manufacturing capacity and extensive distribution network that enabled firm to sustain competitive advantage in foreign markets as well as Turkey was completely *coordinated* through the strong relationships built and maintained with its suppliers and distributors.

Moreover, the resource flow of the firm was influenced and *reconfigured* by contractual agreements (*e.g.*, M&A's and joint ventures) which directed the firm to enter new business sectors such as information and communication technologies

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to complement the vertical integration. These relationships that are facilitated with knowledge management skills such as digital and mobile social media tools, and call centres also constitute a socially complex and unique interchange of valuable information between firms and external parties and nourish the knowledge generating, knowledge sharing and *learning* ability of the firm.

Learning ability which emerged from close working relationships with customers, suppliers, and distributors affords a firm access to new ideas and innovations that can lead to advantages over competitors (Kogut, 2000; Lavie, 2012). Indeed, the networking capabilities of Albaraka-Türk and Estée Lauder created strategic knowledge and information about the needs of their customers as well as revealing the tacit knowledge embedded somewhere between the firms, and the customers and distributors. As a result, whilst Albaraka-Türk offered gold serving ATM machines, Estée Lauder launched innovative skincare products through its flagship brand Clinique. As suggested by Dierickx and Cool (1989), relationships represent a capability which is built through historical and path-dependent trajectories, different to be observed by rivals, and cannot simply be traded on open. Hence, these idiosyncrasies create a formidable barrier for replication and make networking capabilities essential to a firm's success.

6.2.3.3. Knowledge management capabilities

Knowledge management capabilities (CAP – KNOWL) are the strategic initiatives (*e.g.*, social relations of employees, mobile and digital social media tools, websites and call centres) that activate the creation, transfer, interpretation and integration of explicit and tacit knowledge (Nonaka, 1994; Davenport & Prusak, 2000; Bogner & Bansal, 2007; Chung & Jackson, 2013). Knowledge creation is achieved through the internal and external activities in the firms. As explained above, although networking as an external activity plays a significant role in the creation of knowledge, knowledge management capabilities foster transfer and utilisation of explicit and tacit knowledge as well as creation of knowledge.

Chung and Jackson (2013, p. 443) suggest that "firm performance depends on the creation and movement of information and knowledge through social networks that include people". The nature of the interconnected relations that occur in social

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networks is difficult to explain and let alone rivals to understand (Dierickx & Cool, 1989). As noted by Sirmon *et al.* (2007), resource bundling actions that take place entirely within organisations, can be sources of causal ambiguity for competitors.

However, knowledge is not only created through social networks but also revealed and transferred by a number of knowledge management initiatives such as collaborative platforms in the organisations. The collaborative platforms boost the creation and sharing of knowledge substantially. For example, Estée Lauder brought its firm members with similar interests from all over the world together via an on-line informal network to share knowledge and best practise on particular subject areas of their work. Similarly, Ülker established a digital platform called "*I have an idea*" in which all employees can participate and share their ideas regarding new product and services along with the suggestions for the operational effectiveness of the firm. The platform was designed so user friendly and enjoyable that every employee used it and shared his/her idea without hesitation. As a consequence, a number of helpful and innovative ideas emerged from this application.

In the context of the case studies, through creation, transfer and utilisation of unobservable tacit knowledge that is critical for sustaining competitive advantage, the firms developed the ability to do generative and adaptive *learning* as well as the ability which leads to the development of dynamic capability of innovativeness. Albaraka-Türk's *Orange* which was an in-house developed knowledge management tool enabled customers and employees to have electronic brainstorming sessions by linking the web-portal and other social media tools. As a result, a number of innovative ideas such as credit cards offering customers to make their payments in monthly instalments, user friendly menus in on-line banking and unique flower names for the dividend payment methods. Apart from addressing the learning function, knowledge management capabilities combined and changed all knowledge bases of the firms. Hence, within the context of interaction of knowledge management capabilities with other resources (*e.g.*, know-how) and capabilities (*e.g.*, networking and human capital), a considerable part of the resource base of the firms was *reconfigured*.

Although the main function of the knowledge management capabilities was about the creation of long-run competitive success, they also helped firms to perform their day-to-day operations efficiently. For example, while the call centres of Ülker and Estée Lauder were obtaining valuable information from the customers, they were also handling the customer problems and complaints as well as getting orders "24-hour, 7-days a week" in order to support the daily operational activities of the companies and address the singular purpose of any firm which is to create satisfied customers. Therefore, knowledge management capabilities either played operational or dynamic capability roles at the same time. Bearing in mind that most of the knowledge management tools such as call centres may be industry standard (however, their function can be strategic), the difference that cannot be easily duplicated by rivals emerges from the quality and skills of the call centre employees who were specially trained for building relationships with the customers and solving their problems. Hence, the idiosyncratic nature of building and maintaining relationships along with the style of communicating or problem solving over the phone or on-line leads to the specificity of skills to individual firms. For example, Estée Lauder has overcome the mechanistic and monotonous customer services problem through its unique on-line personalised service *High-Touch* which provides one-on-one consultation (from virtual make-up to skincare) to its customers by highly trained expert consultants with the support of digital, mobile and social media tools. This service did not only help its marketing team to promote the company in cosmetics sector but it also established genuine relationships with the customers.

In this situation, the complex interaction between human capital (CAP – HUMCap) and the knowledge management skills (CAP – KNOWL) of the organisations should not be overlooked. Moreover, the interconnected relations between networking capabilities (CAP – NETW) and knowledge management capabilities (CAP – KNOWL) are evident across all cases. These interactions show that capabilities are surrounded by various kinds of relationships that connect and establish the firm's idiosyncratic bundles of resources. Given their aforementioned roles and features, knowledge management capabilities are likely to be among the most critically important sources of firm performance.

6.2.3.4. Business processes

Consistent with resource-based theory, business processes (CAP – BUS-Process) that were identified in the case studies have had significant effects on firm performance. Ray *et al.* (2004) describe business processes as "the actions that firms engage in to accomplish some business purpose or objective" (p. 24). An examination of the RBV literature (*e.g.*, Porter, 1985; Ray *et al.*, 2004; Sirmon *et al.*, 2008; Weigelt, 2013) and interviews with managers in cases led to the identification of business processes that are associated with the systems (*e.g.*, intranet, EDI, and ERP) which support inter-functional coordination of activities for acquiring supplies and other raw materials along with optimising logistics and warehousing activities (*e.g.*, supply chain systems), and other IT-based activities that help information processing about customers and markets (*e.g.*, CRM). Ray *et al.* (2004, p. 26) state that "resources are exploited through business processes".

Porter (1991) regards business processes as the building blocks of corporate strategy that leads firms to competitive advantage. Although human capital was considered as the most influential capability on firm performance in the RBV literature (*e.g.*, Itami & Roehl, 1987; Coff, 1999; Ambrosini *et al.*, 2007; Kor & Mesko, 2013), human capital skill sets have constraints in bundling and deploying resources. Sirmon *et al.* (2008) elaborate this point as "an organisation's best salespeople cannot call on two clients simultaneously, its most efficient machinery cannot be tooled for two simultaneous production runs, and financial assets cannot be continuously divided without the loss of effectiveness" (p. 922).

However, the complex interaction of sophisticated IT systems with human capital skills may lead to noteworthy improvements in the organisational performance (Ray *et al.*, 2013). In this sense, *coordination/integration* effects of the IT systems in leveraging the valuable assets and skills can be observed. Ray *et al.* (2013) suggest that IT systems provide valuable electronic brokerage and integration services to firms. For example, the intranet – *informa* of Albaraka-Türk, the sophisticated in-house developed software which combines the customer intelligence and credit, risk, and funding management functions of the bank increased the decision making ability of employees and customer services quality of the bank substantially and had indirect effects on the organisational

performance. Similarly, new hand terminals that were customised according to the needs of the sales force and sequence of the sales processes of Ülker increased the effectiveness of the sales force and distribution ability which had positive outcomes on financial performance figures.

Other than their indirect effects, business processes can affect firm performance directly. Supply chain refers to a number of "value adding relations of partially discrete, yet inter-reliant, units that cooperatively transform raw materials into finished products through sequential, parallel, and/or network structures" (Hult *et al.*, 2007, p. 1035). As a business process, an effective supply chain system enables a firm to transmit its raw materials, finished goods, and services in a seamless way (Hult *et al.*, 2007; Barney, 2012). Supply chain management is implemented through specific IT skills and ERP softwares that are produced by the firms like SAP and Oracle and integrates the whole business functions in the most effective and optimised manner. As a consequence, the firms that embark on supply chain management find substantial improvements in production costs and order fulfilment cycling times (the length of time between taking an order and delivery of the needed product to the customer) that are directly linked to firm performance (Ray *et al.*, 2004; Hult *et al.*, 2007). Estée Lauder's Global Supply Chain system LEAN can be a good example to illustrate how an ERP can provide operational excellence and continuous improvement in different processes of a firm. Having adapted the LEAN software that combines all processes of the organisation in a sophisticated manner, the company gained considerable results to eliminate waste, increase the efficient use of scarce raw materials, and promote effective process management at facilities all around the world.

According to Ray *et al.* (2013), ERP systems do not only help firms to integrate their production related functions but they also "enable firms to replicate and propagate administrative innovations *(e.g.*, organisational resources) and deploy their brand and customer base – relational capital – across a wide variety of markets" (p. 1128) by providing enterprise-wide platforms (*e.g.*, B2B). Hence, ERP systems *reconfigure* the resource base of firms by deploying and extending valuable organisational and relational resources broadly through a number of tools and infrastructures.

In the case study of Ülker, the value of strategic supply chain management was reflected in how the firm has used its supply chain as a competitive weapon to gain advantages over rivals in food industry. In 2003, the company acquired an ERP system from SAP to renew its AS400 operating system. ERP integrated most of the business functions such as purchasing, production, sales and distribution, accounting and customer relations. When the firm has taken an order, the system informed suppliers about the transaction for the optimisation of raw material logistics and inventory purposes, production division for programming the manufacturing capacity, sales and distribution division for on-time delivery and availability of stocks, accounting division for financial adjustments (*e.g.*, raw material purchasing and invoice), and customer relations division about the customer satisfaction and order fulfilment.

The ERP system was also combined with the other sophisticated IT systems such as hand terminals, call centres, and CRM platforms through extensive customisations over time. As a result, the firm was able to distribute 3900 products to 220.000 sales points (no other competitor is able to penetrate market with this kind of a product portfolio) every day at a lower cost and higher customer satisfaction compared to its rivals. These consequences were consistent with the suggestion of Barney (2012, p. 4) stating that "purchasing, and supply chain management, can, at least in some settings, be sources of sustained competitive advantage for a firm". An ERP system can be acquired in factor markets by other competitors as well and this prevents a supply chain management system be considered as a dynamic capability that addresses the strategic resources criteria of Barney (1991) and asset stock accumulation ideas of Dierickx and Cool (1989). However, Barney (2012, p. 4) states that "home grown purchasing and supply chain management capabilities — that is, capabilities built organically, within the boundaries of a firm — are more likely to be sources of advantage".

In accordance with this argument, first, Ülker's supply chain management system has seen extensive customisation over time. Second, integration of other IT related systems (hand terminals, call centres, and CRM platforms) made the whole system more complex than other supply chains. Third, managerial IT knowledge of the firm — that is, the ability of well-trained IT and line managers of the firm that determine

the strategic use of IT — added tacit attributes along with the path dependency and firm specificity features to the supply chain management system. Hence, all these specialties reduced the speed at which other firms have been able to imitate it. Given the explanations about the relationship between business processes and firm performance, it is likely to conclude that business processes are among the determinants of firm success.

6.2.3.5. Organisational routines

Organisational routines (CAP – ORGRout) are defined as "executable capabilities for repeated performance in some context that has been learned by an organisation" (Cohen *et al.*, 1996, p. 663). In line with this definition, Eisenhardt and Martin (2000, p. 1106) identify routines as "complex and analytic processes that extensively rely on existing knowledge, linear execution, and repetition to produce predictable outcomes at different organisational levels". In the RBV literature, routines have long been regarded as the primary rules which guide firms about the execution of work and transformation of inputs into outputs (*e.g.*, March, 1991; Day, 1994; Pentland & Feldman, 2005; Salvato & Rerup, 2011; Dionysiou & Tsoukas, 2013). This role puts routines in a situation where they deal with the power and conflict related organisational issues.

Hence, understanding the internal dynamics of an organisation's routines makes it possible to learn more about the organisation, observe the operation of power dynamics, and foresee the potential conflicts that are likely to emerge (Pentland & Feldman, 2005). Pentland and Feldman (2005) highlight the function of an organisational routine as "a resolution to conflict". Indeed, stability and consistency in organisations are critical in achieving efficient manufacturing processes that conform existing quality standards, decreasing the need for real-time cognition, and coordinating day-to-day operations effectively (Salvato & Rerup, 2011; Anand *et al.*, 2012).

However, the contributions of routines are not limited to manufacturing related business functions. Some theorists (*e.g.*, Zollo & Winter, 2002; Ray *et al.*, 2004; Salvato & Rerup, 2011) emphasise the other important contribution of routines which is the execution of codified procedures (such as the standard procedures for

the fulfilment of customer orders, creation and execution of marketing campaigns, and launch or development of new products) that serves as a driving force of the firm's whole organisational productivity.

In three case studies (Ülker, Albaraka-Türk, and PwC), organisational routines were mentioned as contributors of firm performance. Although their relative importance seemed to be less compared to the other capabilities, they played critical roles to increase organisational performance. For example, the credit risk management system of Albaraka-Türk that comprises the standard procedures of risk evaluation did not only facilitate the decision making process of employees for the credit applications but it also decreased the percentage of dead loans from 5% to 3% as a reflection of financial performance. Moreover, integration of the system to the CRM and intranet resulted to a much better intelligence capability to the bank. Therefore, credit risk management system that acts as an organisational routine executed a *coordination/ integration* function.

Although routines may be codified in explicit forms (*i.e.*, manuals), Galbreath (2004, p. 127) states that "routines largely become knowledge-based flows embedded within the firm which are carried out tacitly by individuals and across teams". Hence, routines facilitate the *learning* in the organisations about "what the firm does and how it does" through being transmitted to firm's culture and employees (Zollo & Winter, 2002). Routines that are developed internally through learning by doing over time can be firm-specific and are likely to be imperfectly understood by rivals. A number of RBV researchers (*e.g.*, Day, 1994; Zollo & Winter, 2002; Ray *et al.*, 2004) regard routines among the most critically important source of firm success. As mentioned above, capabilities are predominantly viewed as the most influential and critical determinant of a firm's performance (Teece *et al.*, 1997; Teece, 2007; Sirmon *et al.*, 2008; Barney *et al.*, 2011; Protogerou *et al.*, 2012; Kor & Mesko, 2013) because "they are highly tacit in nature, inextricably embedded in organisational experience, learning and practice" (Galbreath, 2004, p. 127).

Furthermore, they reflect substantial time compression diseconomies, and are the most socially complex and causally ambiguous skills that are necessary for the development and use of the firm's other tangible and intangible resources (Itami &

Roehl, 1987; Dierickx & Cool, 1989; Teece, 2007; Helfat & Winter, 2011). The possession of these complex features and mechanisms make them the most difficult resources to duplicate (Hall, 1992, 1993; Michalisin *et al.*, 1997; Helfat & Winter, 2011; Maritan & Peteraf, 2011). In this sense, the RBV considers capabilities as the greatest single contributor to firm performance with respect to the firm's overall resource pool. Thus, given the proceeding discussions the following two hypotheses are offered:

> H_2: Capabilities will make a larger contribution to firm performance than that of tangible resources.

and,

> H_3: Capabilities will make a larger contribution to firm performance than that of intangible resources.

Hypotheses that have been posited so far, mainly explored distinct associations between capabilities and tangible and intangible resources (Galbreath, 2004). But, capabilities are predominantly viewed as the most important skills that underpin the development and deployment of both tangible and intangible resources in resource-based theory (Teece *et al.*, 1997; Helfat & Peteraf, 2003; Ambrosini & Bowman, 2009). Based on this view, it is hypothesised that:

> H_4: Capabilities will make a larger contribution to firm performance than the combined contributions of tangible and intangible resources.

Hypotheses of this study were derived from the qualitative investigation along with the extant literature and reflect the general propositions of resource-based theory. In order to verify the relative contributions of tangible and intangible resources and capabilities, their statistical significance in association with performance should be analysed. In this sense, this study employs a quantitative approach that is presented in Chapter VII.

6.3. Chapter summary

In conjunction with the cross-case analysis, four hypotheses that aim to verify the relative contribution of each category were developed in this chapter.
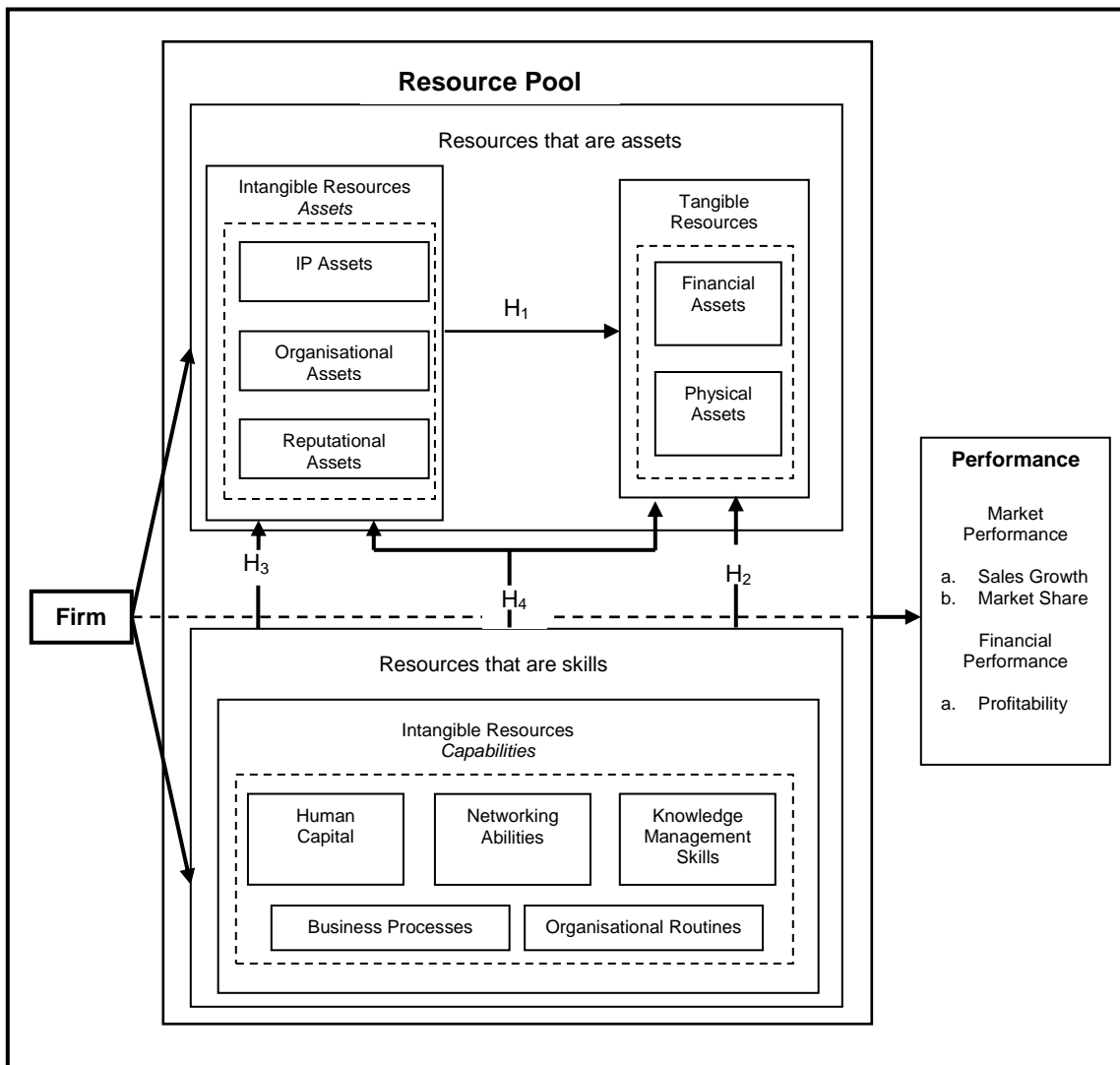
Figure 6-1. Hypotheses framework

Briefly, the hypotheses suggest that whilst tangible resources make the least contribution to firm performance, capabilities make the largest. The framework of established hypotheses is depicted in figure 6-1.

The arrows represent the hypotheses that were derived from the qualitative findings and the RBV literature. The next chapter continues with the quantitative investigation that addresses the last objective of this thesis which is to test the above hypotheses empirically for verification and generalisation purposes.

CHAPTER VII

QUANTITATIVE INVESTIGATION

7.1. Introduction

This chapter presents the implementation of the quantitative research which consists the second phase of the mixed-methods research design employed in this study and aims to test the established hypotheses empirically. The chapter begins by describing the procedure that includes the quantitative research design, sampling methodology, and measurement instrument that was used for the collection of quantitative data. Explanation of the measurement instrument is followed by the validity and reliability issues that include non-response bias along with the convergent and discriminant validity of questionnaire. Next, details of the pilot study conducted and statistical procedures adopted and implemented are given. Lastly, the chapter ends with the results of the statistical analysis.

7.2. Procedure

The primary objective of this phase of the thesis is to assess the relative impact of different resources and capabilities on firm performance within the Turkish business context through a number of research hypotheses that were developed on the basis of qualitative research and theory. Testing the posited hypotheses empirically also helps the researcher to verify and generalise the findings of the qualitative study that was conducted previously. In order to achieve this, a cross-sectional survey research design is used because attitudinal data from large populations can be easily collected, quantified and statistically analysed (Scandura & Williams, 2000). However, the survey should be conducted on a sample which was selected thoroughly and logically to be able to obtain accurate and representative findings (Remenyi *et al.*, 1998; Saunders *et al.*, 2007). The section below explains the method of sample selection that was employed in this thesis.

7.2.1. Sampling methodology

Sampling strategy of any research should be consistent with the aims and objectives of the study. As mentioned before, the unit of analysis in this study is the firm-level resources and capabilities. The primary aim of this study is to investigate

the association of resource types and capabilities with firm performance in different contexts, and verify and generalise the findings in any kind of industry (both manufacturing and services) rather than a specific industry or sector. Furthermore, Fahy (2002, p. 61) states that "the RBV is concerned more with resource-based advantages than monopoly power or specific industries within which resources may be applied". Accordingly, the sampling frame of this study comprised only profit-making firms operating in free markets and excluded firms or industries that were particularly regulated, protected or controlled by government (*i.e.*, public administration and community service organisations). Apart from using classification of business types as a parameter to develop an adequate sample, firm size in terms of employee number was also considered to ensure a minimum operating structure (Galbreath & Galvin, 2006). Generally, large firms have a greater likelihood of a more professional operating structure (Ray *et al.*, 2004; Hill *et al.*, 2012). More specifically, some researchers (*e.g.*, Spanos & Lioukas, 2001; Galbreath & Galvin, 2006) suggest that firms which employ less than 50 people are not likely to be able to answer questions relating to the relationship between resource and capability constructs and firm performance.

Finally, in order to overcome the problem of having biased firm performance results that may emerge from relying on only one single year performance figures (Rouse & Daellenbach, 1999; Fahy, 2002; Galbreath & Galvin, 2006, 2008) and to proximate the sustainability of firm performance (Hall, 1992; Powell & Dent-Micallef, 1997), average of the last three years' (2010–2012) performance evaluations is used (Spanos & Lioukas, 2001). This situation necessitates only the inclusion of the firms into the sample that had been in business for at least three years (Fahy, 2002; Hamann *et al.*, 2013). Therefore, selection of the sample frame of this study is based on three parameters: Only firms (1) with 50 or more employees, (2) operating in manufacturing and services industries, and (3) that had been in business for at least three years.

7.2.1.1. Sample size

The sample was selected from the database of Istanbul Chamber of Industry (ISO) that announced the largest 1,000 firms of Turkey (ISO-1000) from different sectors annually. This sample which was designed for multiple research purposes was the

best available and relevant sample that could be obtained in Turkey. Moreover, availability of detailed updated databases with respect to Turkey as an emerging market was lacking and this database also included the valid names and e-mails of senior-level executives along with the contact addresses of these firms. Although the sampling method chosen seems to be convenient sampling that has sometimes been criticised about its inadequacy to represent entire population and creation of biased samples (*e.g.*, Saunders *et al.*, 2007), this sample comprises nearly all prominent firms other than SMEs competing in a variety of industries that can be investigated.

Obviously, SMEs are not in the scope of this thesis since they often do not have a professional operating and management structure that can identify resource/capability-performance relationship (Caloghirou *et al.*, 2004). Besides, the average workforce and turnover of the Turkish SMEs are much smaller than the SMEs in the EU or in most other OECD countries (Ministry of Industry and Trade, 2011). Against the high representative power of the sample, three parameters of the sample frame identified were adopted and the sample was stratified accordingly to be able to reach a more representative sample. Hence, 8 firms that have less than 50 employees, 37 firms that operate in other than manufacturing and services industries (*i.e.*, public administration and community services controlled by the government), and 4 firms that had been in business less than three years were excluded from the target sample. A final sample which consists of 951 firms in total was used to administer the questionnaire.

7.2.1.2. Informant selection

Consistent with the qualitative investigation of the study, the CEO or an equivalent top manager who deal with strategy issues and have adequate knowledge to assess the firm's resource base and authority to answer the questions is chosen as the key informant (Hambrick, 1987; Hall, 1992; Hambrick & Cannella, 2004; McKelvie & Davidsson, 2009; Gruber *et al.*, 2010). Because the unit of analysis in this study is at the firm level, a single informant was used and the questionnaire was mailed to only one executive from each firm. Besides, the use of a knowledgeable single informant is a valid approach in strategy research (*e.g.*, Aaker, 1989; Spanos & Lioukas, 2001; Fahy, 2002) and the bias introduced by a

single informant is likely to be negligible compared to multiple informant responses that may provide a variety of information on the issue (Saunders *et al.*, 2007).

7.2.2. Measurement instrument

A self-administrated survey questionnaire that consists of four construct categories that are tangible resource, intangible resource, capability, and firm performance constructs along with an additional control variables category was used as the measurement instrument (see Appendix D).

Many studies within the field of strategic management have used secondary data sources such as PIMS, COMPUSTAT, CRSP, FTC and Euromonitor to measure unobservable constructs of firm-level effects on firm performance but they were extremely limited in their ability to study resources at the individual level (Molloy *et al.*, 2011; Hill *et al.*, 2012). Within this context, the use of survey questionnaires became an alternative approach to capture data on intangible resource constructs in strategy research. Besides, some researchers (*e.g.*, McGahan, 1999; Crook *et al.*, 2008) acknowledge the survey-based questionnaire approach as the most appropriate method to gather data to be able to address strategy research questions. Thus, a simple, to the point and easy to read questionnaire which consists 4 pages with the items that do not exceed medium-length (16–24 words) was prepared (Scandura & Williams, 2000; Saunders *et al.*, 2007). Instead of designing a completely new measurement instrument, a questionnaire generated by Galbreath and Galvin (2008) which moderately addresses the measurement of the resources identified in the study was employed. Similar questionnaires were also used in strategy research by various researchers (*e.g.*, Short *et al.*, 2009; Wang *et al.*, 2009), reliably. However, the questionnaire needed to be modified by the results of the qualitative investigation of the research. For this reason, some items of the existing questionnaire were dropped and a number of new items were added.

Therefore, this study employed a new version of the Galbreath and Galvin's (2008) resource-performance questionnaire which was mainly developed based on the studies of Carmeli and Tishler (2004), Fahy (2002), Spanos and Lioukas (2001), and Hall (1992) and modified by the qualitative findings of the study. Since the

original questionnaire was established by Galbreath and Galvin (2008) in the English language, it was translated into Turkish by a bilingual associate. Besides, a back translation was completed to check any discrepancy in addition to potential translation errors (Sekaran, 1992; Saunders *et al*., 2007). Prior to the conduct of a pilot study, a current general manager and a couple of business professionals were contacted to assess clarity and relevance of the questionnaire and no particular problem was reported.

The questionnaire was consisted of a total number of 45 questions: 27 questions to measure the effects of resources including both tangibles and intangibles, and capabilities, 12 questions to control the effects of industry structure factors, 3 questions to measure market and financial performance, and 2 questions for the demographics (age and size). And the last question aimed to categorise the primary business activity of the firms. The items of the questionnaire and their theoretical sources were mentioned below.

7.2.2.1. Resource and capability items

Tangible resources were measured by the items such as cash earned from operations, financial investments *(e.g.* stocks, bonds, equity positions in other companies), land, raw materials (in stock), physical structures, and raised capital as shown in table 7-1.

Table 7-1. Tangible resource items

Tangible resource items	Source
✓ Cash (on hand/at bank) earned from operations	Fahy (2002)
✓ Raised financial capital (*e.g.*, secured bank loans, issuance of shares or bonds, *etc.*)	Galbreath & Galvin (2008)
✓ Financial investments (*e.g.*, financial instruments, company shares, equity positions in other companies, *etc.*)	New item
✓ Physical equipment and other physical assets (*e.g.*, machinery, tools, vehicles, *etc.*)	Fahy (2002)
✓ Raw materials (in stock)	New item
✓ Buildings and other physical structures (*e.g.*, factories, offices, warehouses, stores, showrooms, *etc.*)	New item
✓ Land, including its location	Galbreath & Galvin (2008)

Following theoretical and conceptual precedent along with the findings of the qualitative study, intangible resource items include company reputation, organisational culture, customer service reputation, legally protected copyrights, designs and patents, human resource management policies, organisation structure, product/service reputation, and trademarks as shown in table 7-2.

Table 7-2. Intangible resource items

Intangible resource items	Source
✓ Contracts and partnerships (*e.g.*, joint ventures, mergers and acquisitions, agency, franchising, distribution, and/or licensing agreements, *etc.*)	Hall (1992), Arikan (2002), Galbreath & Galvin (2008)
✓ The shared values, beliefs, attitudes and behaviours of employees and managers of the firm (*i.e.*, firm culture)	Barney (1986a), Welbourne & Wright (1997)
✓ The operating and reporting structure of the firm	Spanos & Lioukas (2001), Russo & Harrison (2005)
✓ Employee recruitment, compensation, reward, and training policies (*i.e.*, human resource management policies)	Welbourne & Wright (1997), Becker & Huselid (2006)
✓ Legally-protected designs	Hall (1992), Fahy (2002)
✓ Legally-protected trademarks	Hall (1992), Galbreath & Galvin (2008)
✓ Legally-protected patents	Hall (1992), Fahy (2002)
✓ Legally-protected copyrights	Hall (1992)
✓ Proprietary/held-in-secret technology (*e.g.*, customised software, specialised manufacturing technology, software developed in-house, *etc.*)	Schroeder *et al.* (2002)
✓ Customer service reputation	New item
✓ Brand name reputation	Hall (1992)
✓ Company reputation	Hall (1992)
✓ Product/service reputation	Hall (1992)

Capability items that include human capital (skills of both managers and employees), networking abilities (relationships that were established and maintained with external constituents), business processes (*e.g.*, IT systems, ERP, supply chain, and logistics systems), knowledge management skills (knowledge sharing through collaborative platforms, social software, blogs, wikis), and organisational routines (rules, procedures, conventions, technologies and strategies codified in manuals) were presented in table 7-3. Having seen the resource items of the questionnaire, the following section explains the performance items that were used in this study.

Table 7-3. Capability items

Capability items	Source
✓ The skills, expertise and decision making abilities of managers	Fahy (2002)
✓ The overall skills, creativity, innovativeness and know-how of employees	New item
✓ Knowledge management and sharing skills (*e.g.*, collaborative platforms, social software, blogs, wikis)	New item
✓ Relationships that employees and managers have established and maintained with external constituents (*e.g.*, customers, distributors, agents, suppliers, outsourcing partners, government *etc.*) for the firm's benefit	Welbourne & Wright (1997), Spanos & Lioukas (2001), Fahy (2002)
✓ Organisational routines (*e.g.*, rules, procedures, conventions, technologies and strategies that were mostly codified in manuals)	New item
✓ Operational processes that support the whole organisational units and help information processing about customers and markets (*e.g.*, IT systems, call centres, CRM)	Schroeder *et al.* (2002)
✓ ERP, supply chain, and logistics systems	New item

7.2.2.2. Performance items

Firm performance constructs were adapted from the scale of Spanos and Lioukas (2001) that includes market share, sales growth and profitability items. The choice of performance measurement items can be associated with the central strategic concern of the RBV which is "the deployment of resources to earn profits exceeding the cost of deploying those resources" (Galbreath, 2004, p. 143). Apart from profitability, several RBV researchers (*e.g.*, Miller & Shamsie, 1996; Welbourne & Wright, 1997; Powell & Dent-Micallef, 1997; Spanos & Lioukas, 2001; Nath *et al.*, 2010; Chari & David, 2012) suggest that market share and sales growth are jointly determined by firm resources and profitability along with market-based measures should be considered when studying firm performance. Hence, although profitability is at the centre of the theoretical domain of the RBV, this study treats firm performance as a multi-dimensional rather than a single construct and expresses an interest in investigating the relationship between resources and market-based performance as well. Respondents were asked to indicate their firms' performance compared to competitors for the previous three year period (2010–2012) in order to "proximate a notion of sustained performance and to

mitigate against temporal fluctuations" (Galbreath & Galvin, 2008, p. 113). Performance items were depicted in table 7-4.

Table 7-4. Performance items

Performance items	Source
✓ Profitability	Spanos & Lioukas (2001)
✓ Sales growth	Powell & Dent-Micallef (1997), Spanos & Lioukas (2001)
✓ Market share	Powell & Dent-Micallef (1997), Spanos & Lioukas (2001)

Finally, control variables of the study were mentioned below.

7.2.2.3. Control variables

A number of common variables were found to affect organisational performance in strategy research. Many RBV studies (*e.g.*, Welbourne & Wright, 1997; Brush *et al.*, 2012; He *et al.*, 2013; Bridoux *et al.*, 2013) revealed that firms which have been in business for longer periods of time and have been larger in size created more business value and performance. Therefore, firm age and size which were considered as common control variables in strategic management literature were also included in this study.

Although the RBV considers the internal, idiosyncratic resources as the most important determinants of firm performance, it does not exclude the effects of industry structure on performance completely (Wernerfelt, 1984; Barney, 1991; Porter, 1991; Peteraf, 1993; McGahan & Porter, 1997; Peteraf & Barney, 2003; Acquaah, 2012; He *et al.*, 2013). Indeed, Porter (1991, p. 98) argues that "industry occupies an inherently central role, either direct and/or indirect in determining the sustainability of strategic positioning and hence of performance. In other words, industry forces affect the sustainability of above average performance against bargaining and against direct and indirect competition".

In this respect, Porter (1980, 1985) described the five industry structure forces framework (see Appendix E) including competitive rivalry, the threat of new entrants and substitute products, and the bargaining power of suppliers and

customers that determines the performance potential of firms competing in a given industry. Each of the forces determine prices, costs and investment requirements, and it is the combined strength of the five forces that drive long-term profitability and hence, industry attractiveness (Galbreath & Galvin, 2008). According to Narver and Slater (1990, p. 24), "the unobservable variables of industry structure must be controlled for when analysing a firm's market and financial performance".

Table 7-5. Control variables

Control variable items	Source
✓ Our firm has been in business for ___ years (AGE)	Wellbourne & Wright (1997)
✓ Our firm has: _____ full time employees (SIZE)	Brush *et al.* (2012), Bridoux *et al.* (2013)
✓ In our industry, the degree to which competitors are roughly equal in size and power is (RIVALRY)	Galbreath & Galvin (2008)
✓ Overall market growth in our industry is (RIVALRY)	Narver & Slater (1990)
✓ The number of competitors vying for customers in our industry is (RIVALRY)	Galbreath & Galvin (2008)
✓ The fixed cost structure required to compete in our industry is (RIVALRY)	Galbreath & Galvin (2008)
✓ The intensity with which competitors jockey for a better position in the industry is (RIVALRY)	Galbreath & Galvin (2008)
✓ In our industry, the degree to which only a few competitors dominate the market (RIVALRY)	Narver & Slater (1990)
✓ The extent to which price competition is used regularly in our industry is (RIVALRY)	Galbreath & Galvin (2008)
✓ The degree to which competitors in our industry offer clearly differentiated products/services (RIVALRY)	Spanos & Lioukas (2001)
✓ How easy is it for new firms to enter and compete in your industry	Narver & Slater (1990), Spanos & Lioukas (2001)
✓ To what degree is your industry threatened by substitute products/services	Spanos & Lioukas (2001)
✓ What level of bargaining power (*i.e.*, ability to negotiate lower prices) do you have over your suppliers	Narver & Slater (1990), Spanos & Lioukas (2001)
✓ What level of bargaining power (*i.e.*, ability to negotiate lower prices) do customers have over your firm	Narver & Slater (1990), Spanos & Lioukas (2001)

Given that the specific nature of this study focuses on a wide range of industries, to remove whatever affect it might have on firm performance, industry effects are systematically controlled by choosing Porter's (1980) five forces industry structure factors as control variables. Therefore, whilst firm age and size were controlled by a couple of demographics questions, industry effects were systematically

controlled by the items that were derived and adapted from the Porter's (1980) five forces framework. So, 12 questions regarding the industry structure factors were included in the measurement instrument. Table 7-5 displays these items.

7.2.2.4. Scale

A standard Likert-type scale which was extensively employed in the RBV research (Newbert, 2007, 2008; Nath *et al.*, 2010) was used to measure various resource and performance constructs. Resource and capability items were listed randomly in the survey and top executives were asked to indicate the relative impact of each factor in contributing to their overall performance.

Responses were recorded on a five-point Likert-type scale, with anchors of "comparatively no impact (0)" and "comparatively high impact (4)". Similarly, control variables (Porter's five forces questions) other than age and size were measured through five-point Likert scales. A seven-point scale which can provide a wider elaboration of performance responses in the market place was used to measure firm performance instead of a five-point scale (Scandura & Williams, 2000; Saunders *et al.*, 2007). Respondents were asked to evaluate their firms' performance relative to close competitors with anchors of "more slowly growth (1-2)", "about the same growth (3-4-5)" and "much faster growth (6-7)" for sales turnover. Similarly, "a smaller market share growth", "about the same market share growth" and "a larger market share growth" for market share, and "less profitable", "about equally profitable", and "more profitable" for profitability measurements were used (Spanos & Lioukas, 2001).

This study employs perceived measures to assess performance which means that subjective measures were used instead of objective measures. Perception-based performance measurement is common in strategy research (*e.g.*, Hall, 1992, 1993; Miller & Shamsie, 1996; Carmeli, 2001; Spanos & Lioukas, 2001; Hatch & Dyer, 2004; Vorhies *et al.*, 2009). Several researchers (*e.g.*, Dess & Robinson, 1984; Venkatraman & Ramanujam, 1986; Slater, 1995; Spanos & Lioukas, 2001) suggest that even if information is obtained by subjective measures in a sample survey research, the results are often very accurate since the measurement instrument is specifically designed to address the research questions.

However, the common use of subjective measures does not support the idea that subjective measures are more reliable than objective measures (Dess & Robinson, 1984; Venkatraman & Ramanujam, 1987). Besides, subjective measures should not be deemed as convenient substitutes for objective measures of a firm's financial performance. Dess and Robinson (1984) found a strong correlation between objective and subjective measures of performance indicators such as ROA and sales growth. They suggest that "where accurate objective measures of performance are available, their use is strongly supported and encouraged, however, if the accurate objective measures are unavailable, then subjective perceptual measures especially, from top management teams, can be considered" (p. 270).

In Turkey, only the firms that were quoted to Istanbul Stock Exchange (BIST-100) have the responsibility of disclosing their financial information to public, periodically. But, since the sample of this study was composed of the privately owned firms and most of the firms did not have the liability and willingness to reveal their financial figures, unavailability of objective performance measures created a necessity for the researcher to use the subjective perceptual measures in the study.

7.3. Administration of survey

The two-phased survey administration and data collection process took nearly four months (over the months of March and June, 2013). In the first phase, the measurement instrument was pre-tested by administrating a pilot study in order to assess the wording and construct reliability and validity (Saunders *et al.*, 2007). In line with the Fahy's (2002) methodology, resource and capability questions appeared as single items and in random order rather than arranged resource/capability categories in the questionnaire to avoid the potential order bias.

7.3.1. Pilot study

After the preliminary testing, a pilot study was conducted with 42 MBA students from Yeditepe University, Istanbul who were middle to lower level managers and had sufficient knowledge about the objectives of the research to evaluate the questionnaire as well as the process for administrating the questionnaire. The

questionnaire included some space at the end of the last section for the feedback of the respondents about how the measurement instrument could be improved. The questionnaires were distributed and collected in the first week of March, 2013. Although it appeared that respondents experienced no difficulty to understand and complete the questionnaire, a series of tests were carried out to explore the validity and reliability of the constructs.

Reliability

In quantitative research, reliability addresses the repeatability of the measurement of a given construct which means "if the measurement of a construct can be duplicated over time instead its being a random event" (Hair *et al.*, 2009, p. 46). Constructs of the pilot study were evaluated by using Cronbach's alpha reliability tests which assess the quality of the measurement instrument (Sekaran, 1992; Hair *et al.*, 2009). Against suggestions of other scholars (*e.g.*, Sekaran, 1992; Slater, 1995) for the acceptable reliability value of Cronbach alpha coefficient as (α=0.60), the cut-off point (α=0.70) of Nunnally and Bernstein (1994) which was the most commonly cited minimum alpha value to assess reliability was used as a reasonable indicator of fit. The analysis accepts items that have minimum alpha values 0.70 as reliable constructs and suggests the items that have alpha values below 0.70 should be dropped to be able to gain the highest possible reliability coefficient (Nunnally & Bernstein, 1994). After calculating alpha values of the items via the computer software "Statistical Package for the Social Science" (SPSS[®]) version 20.0, since the reliability coefficients for the pilot study ranged from 0.74 to 0.83 (all within the acceptable range), no item was dropped. Therefore, no problem for item reliability was found in the pilot study.

Validity

Construct validity which reflects "the correspondence between a construct and a measure taken as evidence of the construct" (Hamann *et al.*, 2013, p. 68) refers to two related issues: convergent validity and discriminant validity (Hair *et al.*, 2009). In order to assess the convergent and discriminant validity of the constructs, a factor analysing measurement instrument VARIMAX rotation was employed (Saunders *et al.*, 2007; Hair *et al.*, 2009). The idea of the VARIMAX rotation lies

behind the understanding of the variable-factor correlations through simplifying the columns of the factor matrix.

With respect to convergent validity, some high loadings (closer to 1) and some low loadings (closer to 0) can be seen after factor analysis and whilst the variable-factor correlations that are closer to 1 indicates a clear association, the correlations that are closer to 0 indicates a poor association (Hair *et al.*, 2009). From the perspective of discriminant validity, all items should be loaded on their predicted constructs.

In summary, the items that load on their predicted construct with loadings at the 0.50 level or higher which are considered significant (Hair *et al.*, 2009) confirm convergent validity. In addition to this, all items also load on their cross-loadings suggest a good fit and confirm discriminant validity. All factor loadings were found to be at the 0.50 level or higher and all items were loaded into their stipulated constructs which constitute five factors: tangible resources, intangible resources, capabilities, control variables, and firm performance. Hence, no anomalies were observed in terms of convergent and discriminant validity in the pilot study.

7.3.2. Data collection

After the pilot study, data collection as the second phase of the administration of survey started in the first week of April, 2013 and the questionnaires were sent to the e-mail addresses of the general managers or the other executives at the top level as a web-link obtained from *www.freeonlinesurvey.com* with a covering letter that assures the privacy and confidentiality of respondents. Three weeks after the initial mailing, a reminder follow-up e-mail was also sent to be able to increase the response rate of the study (Sekaran, 1992; Saunders *et al.*, 2007). After another three weeks, a third mailing was sent. A web-based questionnaire was chosen for several reasons. Firstly, geographical wideness of Turkey and distribution of the firms warranted the use this kind of survey. Secondly, web-based survey provided senior managers with the flexibility of accessing the questionnaire "24-hour, 7-days a week" and completing the document in stages without any time pressure in their busy workload. Finally, the use of modern technology enabled the researcher to

enter and transfer electronically stored data into SPSS easily which accelerated the data collection and analysis process of the study.

The survey was conducted over the months of April and June, 2013. A total of 243 useable questionnaires were obtained from 951 firms, with the quantitative data collection stage taking nearly three months and yielding a response rate of 25.5% which is comparable to other similar type of resource-based studies (*e.g.*, Spanos & Lioukas, 2001; Galbreath & Galvin, 2008) that were previously conducted. However, given the low response rates in emerging economies (Hoskisson *et al.*, 2000), this rate is not surprising.

Non-response bias

Non-response bias which occurs when respondents differ from non-respondents in the sample can be considered as a common problem in surveys (Saunders *et al.*, 2007). In order to test for non-response bias, the means of key demographic variables obtained from early and late respondents were examined. According to Spanos and Lioukas (2001, p. 915), "the rationale behind such an analysis is that late respondents (*i.e.*, sample firms in the second and third waves) are more similar to the general population than the early respondents". In order to test representation capability of the respondents for the broader population, the means of early (131 responses–54% of the sample) and late respondents (112 responses–46% of the sample) on two key demographic variables were compared statistically via *independent samples t test* (Saunders *et al.*, 2007). As it was presented in table 7-6, the comparison of early and late respondents did not reveal a significant difference on firm size (*t = -12.386, p = 0.354*) and age (*t = 8.792, p = 0.193*).

Table 7-6. Non-response bias

	t	df	Sig. (2-tailed)	Mean difference
Firm size	-12.386	237	0.354	-106.78
Firm age	8.792	241	0.193	3.48

Hence, non-response bias was not considered as a serious issue in the study and the respondents appeared to be representative of the broader population.

7.3.3. Demographic characteristics of the sample

Firm size

The number of full-time employees ranged from 53 to 29.372. The mean number of employees was 431.63 and the standard deviation was 543.26 (see table 7-7).

Table 7-7. Firm size and age

	n	*Mean*	SD	Min.	Max.
Firm size	243	431.63	543.26	53	29.372
Firm age	243	34.57	31.25	4	93

Firm age

The number of years in business ranged from 4 to 93. The mean number of years in business was 34.57 and the standard deviation was 31.25 (see table 7-7).

Primary business activity

Primary business activities of the participant firms were automotive, computer and software, textile and apparels, retail, tourism, banking and finance, drugs, oil and petrochemicals, construction, logistics and transportation, telecommunications, and food (see table 7-8).

Table 7-8. Business activities of the firms

Business activity	*Frequency*	*Percentage*	*Cumulative percentage*
Automotive	19	7.8	7.8
Banking & Finance	21	8.6	16.4
Computer & Software	7	2.8	19.2
Construction	18	7.4	26.6
Drugs	9	3.7	30.3
Food	17	7.0	37.3
Logistics & Transportation	11	4.5	41.8
Oil & Petrochemicals	13	5.3	47.1
Retail	29	11.9	59.0
Telecommunications	3	1.2	60.2
Textile & Apparels	34	14.1	74.3
Tourism	8	3.3	77.6
Other	54	22.4	100.0
Total	243	100.0	

7.3.4. The validity and reliability issues

In order to examine the constructs of the research, tests for reliability, convergent validity, and discriminant validity were conducted. Moreover, correlations between variables were examined to assess the presence of multicollinearity.

7.3.4.1. Reliability

Construct reliability tests the degree to which individual items used in a construct are consistent in their measurement (Nunnally & Bernstein, 1994). Cronbach's alpha coefficients were calculated to test the reliability of the constructs. The constructs that had alpha values equal to and above 0.70 were accepted as reliable constructs (Nunnally & Bernstein, 1994). In order to meet the minimum coefficient threshold and gain highest possible reliability, two items were dropped. For the intangible resources construct, "the legally-protected designs" item was dropped. For the control variable construct, "the fixed cost structure required to compete" was dropped. Table 7-9 shows each construct and its Cronbach's alpha value.

Table 7-9. Reliability coefficients

Construct	Initial items	Final items	Cronbach's alpha
Tangible resources	7	7	0.813
Intangible resources	13	12	0.749
Capabilities	7	7	0.804
Industry control variable	12	11	0.738
Firm performance (dependent variable)	3	3	0.862

7.3.4.2. Validity

Construct validation involves a multifaceted process comprising particularly two steps (Hair *et al.*, 2009): convergent validity and discriminant validity

7.3.4.2.1. Convergent validity

Convergent validity refers to the degree to which items of constructs are related to its predicted construct (Spanos & Lioukas, 2001). Factor analysis, as a common method, is used to examine convergent validity. In factor analysis, "loadings are

used to detect whether or not an item appropriately loads on its predicted construct" (Galbreath, 2004, p. 165).

Table 7-10. Convergent validity

Constructs	Item no.	Mean	Loading
Tangible resources construct (TR)	Q.4	1.867	0.787
	Q.9	1.132	0.739
	Q.11	1.283	0.754
	Q.13	1.376	0.686
	Q.16	2.023	0.715
	Q.21	1.759	0.598
	Q.23	1.041	0.613
Intangible resources construct (IR)	Q.1	2.675	0.792
	Q.2	3.124	0.639
	Q.3	2.198	0.721
	Q.7	2.355	0.802
	Q.8	3.452	0.714
	Q.10	2.876	0.699
	Q.12	2.374	0.659
	Q.14	3.297	0.755
	Q.18	2.988	0.734
	Q.20	2.854	0.683
	Q.24	2.783	0.632
	Q.26	2.361	0.706
Capabilities construct (CAP)	Q.6	3.793	0.749
	Q.15	3.689	0.785
	Q.17	3.887	0.623
	Q.19	3.582	0.816
	Q.22	2.938	0.583
	Q.25	3.429	0.676
	Q.27	3.762	0.592
Industry construct (CONT–Control variable)	Q.28	3.178	0.693
	Q.29	3.239	0.838
	Q.30	3.361	0.763
	Q.32	3.986	0.719
	Q.33	2.135	0.663
	Q.34	4.264	0.737
	Q.35	2.984	0.798
	Q.36	3.017	0.614
	Q.37	2.886	0.726
	Q.38	2.794	0.645
	Q.39	4.096	0.608
Firm performance construct (PER–Dependent variable)	Q.40	5.167	0.779
	Q.41	4.872	0.813
	Q.42	5.329	0.796

Loadings of 0.50 or greater that are considered to be significant provide support for convergent validity (Hair *et al.*, 2009). All items have been forced into five factors and rotated through VARIMAX method to assess their loadings. Factor analysis results revealed that all items exceeded the cut-off point 0.50 (see table 7-10). When items constructed to load on the same construct do, in fact, load on that

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construct, one may surmise the existence of convergent validity. Hence, convergence validity was supported in this data set.

7.3.4.2.2. Discriminant validity

Discriminant validity is established when the items that measure a construct are not perfectly correlated with measures from other constructs from which they are supposed to differ (Spanos & Lioukas, 2001; Hair *et al.*, 2009).

Table 7-11. Discriminant validity

Item no.	TR Construct	IR Construct	CAP Construct	Ind. CONT Construct	PER Construct	Item no.
Q.4	**0.787**	0.204	0.052	-0.089	0.128	Q.4
Q.9	**0.739**	0.127	0.109	0.056	0.035	Q.9
Q.11	**0.754**	-0.095	-0.196	-0.009	0.067	Q.11
Q.13	**0.686**	0.138	0.048	0.034	-0.086	Q.13
Q.16	**0.715**	0.056	0.016	0.103	0.116	Q.16
Q.21	**0.598**	0.037	-0.118	0.074	0.205	Q.21
Q.23	**0.613**	0.093	0.022	0.095	-0.063	Q.23
Q.1	0.004	**0.792**	0.088	0.064	-0.059	Q.1
Q.2	-0.167	**0.639**	0.027	-0.028	0.117	Q.2
Q.3	0.092	**0.721**	0.112	0.091	0.064	Q.3
Q.7	0.101	**0.802**	0.014	0.067	0.006	Q.7
Q.8	0.126	**0.714**	0.207	0.106	-0.088	Q.8
Q.10	0.027	**0.699**	-0.005	0.015	0.139	Q.10
Q.12	0.045	**0.659**	0.016	0.076	0.056	Q.12
Q.14	0.109	**0.755**	0.097	-0.040	-0.043	Q.14
Q.18	0.071	**0.734**	0.088	0.055	0.194	Q.18
Q.20	-0.139	**0.683**	0.136	0.129	0.052	Q.20
Q.24	0.033	**0.632**	-0.079	0.093	0.101	Q.24
Q.26	0.069	**0.706**	0.045	-0.048	0.236	Q.26
Q.6	0.136	0.063	**0.749**	0.011	0.228	Q.6
Q.15	0.033	0.017	**0.785**	0.143	0.016	Q.15
Q.17	-0.004	0.099	**0.623**	0.130	0.168	Q.17
Q.19	0.175	0.016	**0.816**	0.065	-0.056	Q.19
Q.22	0.097	-0.073	**0.583**	-0.046	0.024	Q.22
Q.25	0.089	-0.069	**0.676**	0.205	0.039	Q.25
Q.27	0.018	0.044	**0.592**	0.007	0.119	Q.27
Q.28	0.098	0.139	-0.003	**0.693**	-0034	Q.28
Q.29	0.037	0.020	0.144	**0.838**	-0.005	Q.29
Q.30	0.214	-0.016	0.213	**0.763**	0.162	Q.30
Q.32	-0.063	0.145	0.054	**0.719**	0.086	Q.32
Q.33	-0.006	-0.092	0.068	**0.663**	0.105	Q.33
Q.34	0.104	0.162	0.055	**0.737**	-0.061	Q.34
Q.35	0.097	0.046	-0.032	**0.798**	0.030	Q.35
Q.36	0.123	0.072	0.043	**0.614**	0.101	Q.36
Q.37	0.045	0.115	0.008	**0.726**	-0.039	Q.37
Q.38	0.067	-0.093	0.154	**0.645**	0.127	Q.38
Q.39	0.071	-0.085	0.072	**0.608**	0.146	Q.39
Q.40	0.045	0.038	0.112	-0.004	**0.779**	Q.40
Q.41	-0.237	0.023	0.083	0.092	**0.813**	Q.41
Q.42	0.173	0.227	0.066	0.117	**0.796**	Q.42

In order to assess discriminant validity and evaluate the measures, the loadings of the items with their associated constructs and their cross-loadings were compared through factor analysis (see table 7-11). All items were found to have higher loadings on their predicted constructs (factors) in comparison to their cross-loadings, indicating that discriminant validity was achieved. A detailed factor analysis of the constructs that combine the validity and reliability issues is depicted in table 7-12.

Table 7-12. Factor analysis

Items	F1: TR	F2: IR	F3: CAP	F4: Ind. CONT	F5: PER
Q4. Physical equipment and other physical assets..	0.787				
Q11. Cash (on hand/at bank) earned from...............	0.754				
Q9. Raised financial capital.......................................	0.739				
Q16. Buildings and other physical structures...........	0.715				
Q13. Raw material (in stock)....................................	0.686				
Q23. Financial investments......................................	0.613				
Q21. Land, including its location..............................	0.598				
Q7. Legally-protected trademarks............................		0.802			
Q1. Contracts and partnerships...............................		0.792			
Q14. Brand name reputation....................................		0.755			
Q18. Company reputation...		0.734			
Q3. The operating and reporting structure...............		0.721			
Q8. The shared values, beliefs, attitudes and..........		0.714			
Q26. Product/service reputation...............................		0.706			
Q10. Customer service reputation............................		0.699			
Q20. Legally-protected patents................................		0.683			
Q12. Employee recruitment, compensation.............		0.659			
Q2. Proprietary/held-in-secret technology................		0.639			
Q24. Legally-protected copyrights............................		0.632			
Q19. Knowledge management and sharing skills....			0.816		
Q15. The overall skills, creativity, innovativeness....			0.785		
Q6. The skills, expertise and decision making.........			0.749		
Q25. ERP, supply chain, and logistics systems.......			0.676		
Q17. Relationships that employees and managers..			0.623		
Q27. Operational processes that support.................			0.592		
Q22. Organisational routines....................................			0.583		
Q29. Overall market growth in our industry..............				0.838	
Q35. The degree to which competitors offer............				0.798	
Q30. The number of competitors vying for...............				0.763	
Q34. The extent to which price competition is used.				0.737	
Q37. Industry threatened by substitute products......				0.726	
Q32. The intensity with which competitors jockey....				0.719	
Q28. Competitors are roughly equal in size and......				0.693	
Q33. Only a few competitors dominate the market..				0.663	
Q38. What level of bargaining power on suppliers....				0.645	
Q36. How easy is it for new firms to enter and.........				0.614	
Q39. What level of bargaining power on customers.				0.608	
Q41. Market share...					0.813
Q42. Profitability..					0.796
Q40. Sales turnover growth.....................................					0.779

Overall reliability of the scale   (α=0.839)

Factor's Cronbach's alpha reliability coefficient	α=0.813	α=0.749	α=0.804	α=0.738	α=0.862

Kaiser-Meyer-Olkin sampling adequacy: 0.9476**
Barttlet's test of approx. chi-square sphercity: 16435.0**1
**$p < 0.01$

So far, an exploratory factor analytic method using VARIMAX rotation was carried out to test the convergent and discriminant validity of the constructs, and to investigate the factor pattern of the scale. The analysis yielded five factors as expected. Whilst the whole scale indicated a Cronbach's alpha reliability value of 0.839, Cronbach's alpha values of the constructs' scales were also fairly high: dependent variable–firm performance (0.862), tangible resources (0.813), capabilities (0.804), intangible resources (0.749), and control variable–industry structure factors (0.738).

7.3.4.3. Correlations between key measures

Independence of the predictor (independent) variables is important in statistical testing since highly correlated independent variables can predict each other and may cause problems with multicollinearity which influence the accuracy of the regression analysis negatively (Hair *et al.*, 2009). This situation necessitates the examination of the inter-correlations between independent variables. The means, standard deviations, and correlation coefficients of all the variables used to test the hypotheses are presented in table 7-13. Although some significant inter-correlations between the independent variables were observed, none of the correlation coefficient was above the level considered to be serious, which is generally accepted as .80 or higher (Webb *et al.*, 2006). Accordingly, moderate levels of correlations among the independent variables do not seem to create multicollinearity problem. Besides, this level of inter-correlations does not only indicate the distinct nature of the variables, but it also ensures their unique contributions to the overall model (Webb *et al.*, 2006; Hair *et al.*, 2009).

7.4. Tests of hypotheses

Regression analysis (specifically, multiple hierarchical regression analysis) was used as the quantitative analysis technique to test the established hypotheses. Multiple regression analysis is "a statistical technique that provides an index of the degree of relationship (1 = perfect relationship, 0 = no relationship) between the criterion variable(s), on the one hand, and the weighted combination of the predictor variables as specified by the regression equation", on the other hand — that is, R (Hair *et al.*, 2009, p. 73).

Table 7-13. Correlation analysis

Variables	Mean	SD	1	2	3	4	5	6	7	8	9
Control											
1. Firm size	431.63	543.26	1.00								
2. Firm age	34.57	31.25	.002	1.00							
3. Industry factors	3.267	1.236	-.007	-.112	1.00						
Independent											
4. Tangible resources	1.497	.9476	.176*	.182*	-.097**	1.00					
5. Intangible resources	2.778	.7883	.089*	.073	-.046	.214**	1.00				
6. Capabilities	3.582	.5364	.210*	.147*	.003	.186**	.265**	1.00			
Dependent											
7. Sales turnover	5.167	1.569	.069	.002	.054	.003	.099**	.281**	1.00		
8. Market share	4.872	1.395	.008	.056	-.083**	.110**	.164**	.376**	.393**	1.00	
9. Profitability	5.329	1.482	.095**	.143*	.032	.197*	.239**	.388**	.402**	.436**	1.00

*p<0.05; **p<0.01

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Changes in a dependent variable (which is firm performance in this research) can be predicted by simultaneously accounting for the impact of various independent variables (which are tangible and intangible resources, and capabilities) via multiple regression analysis. The R-squared (R^2) statistic, "which indicates the proportion of variance in the dependent variable that is shared by the weighted combination of independent variables" enables researchers to evaluate the findings of regression analysis (Hair *et al.*, 2009, p. 74).

In hierarchical regression method, each set of independent variables is entered into separate blocks for analysis and the incremental changes of the R^2 statistic which are assessed "as an indicator of the fraction of the variance explained by each independent variable" (Galbreath, 2004, p. 170) are calculated. Hence, the explanatory power or in other words, the unique contribution of each independent variable in explaining dependent variable is explored. Similarly, in this research, the control variables (age and size), industry structure variables of Porter's (1980) framework and firm-level variables (tangible and intangible resources, and capabilities) were entered into regression analysis respectively and the contribution of each independent variable was calculated. According to the results, the established hypotheses were accepted or rejected.

Mathematical model for Hypothesis 1:

H_1: Intangible resources will make a larger contribution to firm performance than that of tangible resources.

(Model 1) FP = φ_0 + β_1AGE + β_2SIZE + β_3IND + β_4TR

(Model 2) = (Model 1) + β_5IR

FP = Firm performance, including sales turnover, market share, and profitability

φ_0 = Constant

AGE = Firm age

SIZE = Firm size

IND = Industry structure factors

TR = Tangible resources

IR = Intangible resources

Hypothesis 1

Model assessment:

The analysis started with entering each variable to the regression model in separate blocks. Model 1 shows the separate effects of control variables (age, size and industry factors) along with the tangible resources (TR) and their explanatory power in firm performance (see table 7-14). Namely, without other variables, age, size, industry factors and TR explained 12.6% [(R^2 = .126); (F = 2.345, $p<0.05$)] of sales turnover, 8.9% [(R^2 = .089); (F = 1.438, $p<0.01$)] of market share, and 13.9% [(R^2 = .139); (F = 2.998, $p<0.001$)] of profitability.

Having entered the intangible resources variable (IR) to model 2, the variations in sales turnover, market share, and profitability increased to 15.7% [(R^2 = .157); (F = 2.761, $p<0.05$)], 10.4% [(R^2 = .104); (F = 1.663, $p<0.05$)], and 18.1% [(R^2 = .181); (F = 3.586, $p<0.01$)], respectively. Therefore, entrance of the IR variable provided an additional and significant explanation power 3.1% (ΔR^2 = .031) for sales turnover, 1.5% (ΔR^2 = .015) for market share, and 4.2% (ΔR^2 = .042) for profitability in model 2.

Table 7-14. Statistics for Hypothesis 1

Variables	Sales turnover β	t	Market share β	t	Profitability β	t
Constant	–	6.548***	–	6.933***	–	7.425**
AGE	.023	.398	-.044	-.359	-.127	-.446
SIZE	.019	.736	.009	.547	.016	.697
IND	.073	1.263**	.139	1.941**	-.008	-1.897
TR	.194	2.745***	.078	1.367**	.379	3.055***
IR	.236	2.988***	.122	2.174**	.475	3.269***
Model 1 (w/out IR)						
R^2	.126		.089		.139	
F	2.345*		1.438**		2.998***	
Model 2 (with IR)						
R^2	.157		.104		.181	
ΔR^2 (Change in R^2)	.031		.015		.042	
F	2.761*		1.663*		3.586**	

*$p<0.05$; **$p<0.01$; ***$p<0.001$

Variable contribution:

IR make a unique, individual contribution to firm performance after accounting for the effects of tangible resources and the control variables (see table 7-14). Across all three performance measures, the IR beta coefficients are the largest and significant compared to the TR beta coefficients:

Sales turnover;   TR (β = .194, t = 2.745, $p<0.001$)

                 IR (β = .236, t = 2.988, $p<0.001$)

Market share;   TR (β = .078, t = 1.367, $p<0.01$)

                 IR (β = .122, t = 2.174, $p<0.01$)

Profitability;   TR (β = .379, t = 3.055, $p<0.001$)

                 IR (β = .475, t = 3.269, $p<0.001$)

Given the analysis results, IR are positively associated with all performance measures and make a larger contribution to firm performance than TR. Thus, Hypothesis 1 (H_1) is supported.

Mathematical model for Hypothesis 2:

H_2: Capabilities will make a larger contribution to firm performance than that of tangible resources.

(Model 1) $FP = \varphi_0 + \beta_1 AGE + \beta_2 SIZE + \beta_3 IND + \beta_4 TR$

(Model 2) = (Model 1) + $\beta_5 CAP$

FP = Firm performance, including sales turnover, market share, and profitability

φ_0 = Constant

AGE = Firm age

SIZE = Firm size

IND = Industry structure factors

TR = Tangible resources

CAP = Capabilities

Hypothesis 2

Model assessment:

Having entered the capabilities variable (CAP) to model 2, significant changes in R^2s were observed across all dependent variables (see table 7-15). The variations in sales turnover, market share, and profitability increased to 14.9% [(R^2 = .149); (F = 2.598, $p<0.05$)], 11.8% [(R^2 = .118); (F = 1.742, $p<0.01$)], and 21.4% [(R^2 = .214); (F = 4.136, $p<0.01$)], respectively. Entrance of the CAP variable provided an additional and significant explanation power 2.3% (ΔR^2 = .023) for sales turnover, 2.9% (ΔR^2 = .029) for market share, and 7.5% (ΔR^2 = .075) for profitability in model 2. Therefore, CAP account for significant additional exploratory power to the prediction of the dependent variables after simultaneously accounting for the effects of TR and the control variables.

Table 7-15. Statistics for Hypothesis 2

Variables	Sales turnover		Market share		Profitability	
	β	t	β	t	β	t
Constant	–	6.239***	–	6.128***	–	7.298**
AGE	.019	.364	-.062	-.386	-.045	-.239
SIZE	.004	.547	.052	.603	.013	.655
IND	.056	1.092**	.116	1.897*	-.014	-1.933
TR	.178	2.431**	.063	1.184**	.204	2.446**
CAP	.304	3.247**	.156	2.105**	.498	3.507**
Model 1 (w/out CAP)						
R^2	.126		.089		.139	
F	2.345*		1.438**		2.998***	
Model 2 (with CAP)						
R^2	.149		.118		.214	
ΔR^2 (Change in R^2)	.023		.029		.075	
F	2.598*		1.742**		4.136**	

*$p<0.05$; **$p<0.01$; ***$p<0.001$

Variable contribution:

CAP have the largest beta coefficients of any of the independent variables in the regression model (see table 7-15). In Hypothesis 2, CAP have a larger beta coefficient across all of the performance measures, than TR as shown below:

Sales turnover;   TR (β = .178, t = 2.431, $p<0.01$)

CAP (β = .304, t = 3.247, $p<0.01$)

Market share;   TR   (β = .063, t = 1.184, p<0.01)

                     CAP (β = .156, t = 2.105, p<0.01)

Profitability;   TR (β = .204, t = 2.446, p<0.01)

                     IR (β = .498, t = 3.507, p<0.01)

These results suggest that CAP are positively associated with all performance measures and more important to explaining firm performance than TR. Therefore, the findings of the analysis offer support for Hypothesis 2 (H_2).

    Mathematical model for Hypothesis 3:

H_3: Capabilities will make a larger contribution to firm performance than that of intangible resources.

(Model 1) FP = φ_0 + β_1AGE + β_2SIZE + β_3IND + β_4IR

(Model 2) = (Model 1) + β_5CAP

FP = Firm performance, including sales turnover, market share, and profitability

φ_0 = Constant

AGE = Firm age

SIZE = Firm size

IND = Industry structure factors

IR = Intangible resources

CAP = Capabilities

Hypothesis 3

Model assessment:

The addition of CAP to model 2 that includes control variables along with IR results significant changes in R^2s across all performance measures (see table 7-16). The variations in sales turnover, market share, and profitability increased to 16.5% [(R^2 = .165); (F = 2.087, p<0.01)], 12.4% [(R^2 = .124); (F = 1.865, p<0.01)], and 20.3% [(R^2 = .203); (F = 3.631, p<0.001)], respectively. Entrance of the CAP provided an

additional and significant explanation power 1.4% ($\Delta R^2 = .014$) for sales turnover, 2.1% ($\Delta R^2 = .021$) for market share, and 2.7% ($\Delta R^2 = .027$) for profitability in the regression model.

Thus, CAP account for significant additional exploratory power to the prediction of the dependent variables after simultaneously accounting for the effects of IR and the control variables.

Table 7-16. Statistics for Hypothesis 3

Variables	Sales turnover		Market share		Profitability	
	β	t	β	t	β	t
Constant	–	6.933***	–	7.632***	–	8.038***
AGE	.006	.286	.002	.252	.003	.206
SIZE	.013	.654	.052	.495	-.013	-.449
IND	.064	1.213***	.103	1.619**	.028	1.553
IR	.276	3.134*	.147	2.336**	.287	2.165**
CAP	.239	3.002*	.135	2.228**	.363	3.198**
Model 1 (w/out CAP)						
R^2	.151		.103		.176	
F	2.767***		1.665**		3.459***	
Model 2 (with CAP)						
R^2	.165		.124		.203	
ΔR^2 (Change in R^2)	.014		.021		.027	
F	2.087**		1.865**		3.631***	

*p<0.05; **p<0.01; ***p<0.001

Variable contribution:

With regard to the unique, individual contribution of CAP to explain performance relative to the other independent variables, the results were mixed (see table 7-16). For sales turnover, the beta coefficient for CAP was $\beta = .239$ ($t = 3.002$, $p<0.05$) which was smaller than IR coefficient of $\beta = .276$ ($t = 3.134$, $p<0.05$). Similarly, for market share, the beta coefficient for CAP was $\beta = .135$ ($t = 1.184$, $p<0.01$) which was also smaller than IR coefficient of $\beta = .147$ ($t = 2.336$, $p<0.01$). For profitability, the beta coefficient for CAP was $\beta = .363$ ($t = 3.198$, $p<0.01$) compared to IR coefficient of $\beta = .287$ ($t = 2.165$, $p<0.01$).

Given these results, CAP make larger contributions in only one of the three dependent variables that is profitability. Thus, the findings of the analysis offer only partial support for Hypothesis 3 (H_3).

Mathematical model for Hypothesis 4:

H_4: Capabilities will make a larger contribution to firm performance than the combined contributions of tangible and intangible resources.

(Model 1) FP = φ_0 + β_1AGE + β_2SIZE + β_3IND + β_4TR+ β_5IR

(Model 2) = (Model 1) + β_6CAP

FP = Firm performance, including sales turnover, market share, and profitability

φ_0 = Constant

AGE = Firm age

SIZE = Firm size

IND = Industry structure factors

TR = Tangible resources

IR = Intangible resources

CAP = Capabilities

Hypothesis 4

Model assessment:

The addition of CAP to the model including the control variables along with the combined contributions of TR and IR results significant R^2 change only for profitability (see table 7-17). Whilst entrance of the CAP increased explanation power of the model significantly from R^2 = .181 to R^2 = .209 [(ΔR^2 = .028); (F = 2.884, $p<0.01$)] for profitability, R^2 changes in sales turnover and market share were non-significant.

Hence, in only profitability do CAP account for significant additional explanatory power to the prediction of firm performance after simultaneously accounting for the effects of both TR and IR along with the control variables.

Table 7-17. Statistics for Hypothesis 4

Variables	Sales turnover		Market share		Profitability	
	β	t	β	t	β	t
Constant	–	5.196***	–	4.875***	–	5.683***
AGE	.005	.411	-.006	-.312	-.004	-.373
SIZE	.017	.623	003	.431	.008	.505
IND	-.029	-1.784	-.054	-1.863**	-.011	-1.442
TR	.126	1.532*	.056	1.418**	.109	1.769*
IR	.143	1.878**	.152	1.965**	.262	2.477**
CAP	.129	1.645**	.121	1.629**	.311	2.881**
Model 1 (w/out CAP)						
R^2	.157		.104		.181	
F	2.761*		1.663*		3.586**	
Model 2 (with CAP)						
R^2	.166		.116		.209	
ΔR^2 (Change in R^2)	.009		.012		.028	
F	2.330		2.017		2.884**	

*p<0.05; **p<0.01; ***p<0.001*

Variable contribution:

With regard to the unique, individual contribution of CAP to explain performance relative to TR and IR, the results were weak (see table 7-17). For sales turnover, the beta coefficient for CAP was β = .129 (t = 1.645, $p<0.01$) which was smaller than IR coefficient of β = .143 (t = 1.878, $p<0.01$) and slightly larger than TR coefficient of β = .126 (t = 1.532, $p<0.05$). For market share, the beta coefficient for CAP was β = .121 (t = 1.629, $p<0.01$) which was again smaller than IR coefficient of β = .152 (t = 1.965, $p<0.01$) but larger than TR coefficient of β = .056 (t = 1.418, $p<0.01$). For only profitability, the beta coefficient for CAP was β = .311 (t = 2.881, $p<0.01$) larger compared to β = .109 (t = 1.769, $p<0.05$) of TR and β = .262 (t = 2.477, $p<0.01$) of IR.

Given these results, CAP make larger contributions in only one of the three dependent variables that is profitability. Thus, the findings of the analysis do not offer support for Hypothesis 4 (H_4).

7.5. Chapter summary

The hypotheses developed were tested empirically in this chapter. In order to test the relative contribution of different resources and capabilities on firm performance, hierarchical regression method was used as the statistics technique. Based on the results of the statistical analysis, only two hypotheses that posited the larger

contributions of intangible resources (H_1) and capabilities (H_2) on firm performance compared to tangible resources were fully accepted. Whilst the data analysed offered only a partial support for Hypothesis 3 (H_3) that posited a larger contribution of capabilities on firm performance compared to intangible resources, Hypothesis 4 (H_4) suggesting a larger contribution of capabilities compared to the combined contribution of tangible and intangible resources was rejected. A summary of the findings was presented in table 7-18.

Table 7-18. Summary of results

Hypotheses	Findings
H_1: Intangible resources will make a larger contribution to firm performance than that of tangible resources	Supported
H_2: Capabilities will make a larger contribution to firm performance than that of tangible resources	Supported
H_3: Capabilities will make a larger contribution to firm performance than that of intangible resources	Partially supported
H_4: Capabilities will make a larger contribution to firm performance than the combined contributions of tangible and intangible resources	Not supported

The next chapter explores the findings of the quantitative and qualitative research with all details and offers both theoretical and practical implications.

CHAPTER VIII

DISCUSSION OF THE RESULTS & CONCLUSION

8.1. Introduction

This chapter aims to summarise the results of the whole research. The chapter begins with the elaboration of the qualitative findings that address the aims of the thesis. The qualitative findings reveal the complex and interconnected resource-capability interactions along with the relatively important specific resources and capabilities within the context of Turkish business environment. The qualitative research is followed by the quantitative research which aims to test a number of hypotheses regarding the relative importance of tangible and intangible resources, and capabilities empirically in a broader sample of Turkish firms. Then, managerial implications are discussed and the limitations of the study are described. Lastly, a number of suggestions for future research direction are provided.

8.2. Discussion of findings

Discussion of the findings will be in line with the aims of the thesis. This thesis has three objectives and *the first one* is "to identify the key resources and capabilities which demonstrate contribution to firm success". This objective was addressed through establishing a conceptual framework which includes a resource pool that was generated based on the previous resource-based literature and the qualitative findings.

A conceptual framework of resource pool

The RBV asserts that intangible resources are more closely exhibit the characteristics of VRIN criteria than tangible resources (Michalisin *et al.*, 1997; Hoopes *et al.*, 2003; Barney *et al.*, 2011). Hence, intangible resources are argued to have a greater impact on firm performance than resources that are tangible in nature. In order to verify this, the researcher must first develop a conceptualisation of resources from which to operationalise the resource constructs. Moreover, more precise identifications of resources and capabilities are another must for the RBV theory since many proxy measures (*e.g.*, advertising expenses, R&D investments) that were used in previous research limited the verification of the main prescription

of the RBV. Hence, given these requirements, a conceptual framework that includes precise definitions of resource and capability constructs was established which is consistent with the first aim of this thesis. Resources are divided into two categories as tangible and intangible resources, and the intangible resources that are skills rather than assets were deemed as capabilities (see Appendix B). Through establishing this kind of a framework, the researcher also aimed to offer a research tool that may enable other RBV researchers to conduct cross-industry or even cross-country research.

Whilst the conceptual framework included some resource and capability constructs that were already used in the past RBV studies, a number of new capability items were specifically emerged from the case studies and the researcher suggests that especially these items should be evaluated within the context of Turkish business environment. Human capital as a capability item and organisational culture as an intangible resource item were detected as critical determinants of firm success and these items will be elaborated in the following sections. However, these items are rather generic constructs and their influence on firm performance was widely examined in the RBV literature. For this reason, the researcher believes that the priority of analysis should be given to the most original items that emerged from the qualitative investigation. The research found that networking capabilities, business processes, and knowledge management skills were relatively more important for the Turkish firms to generate performance.

Networking rules !

Networking capabilities were found vitally important for firm success in Turkey. One possible explanation for this result is that the government and bureaucracy are too much involved in business and this situation eventually led to corruption in the country. Although the advantages that the firms obtained through the owner and managerial ties with government officials were not explicitly evident in the interviews, information emerged from "the off the record informal discussions" and news archives justified this situation.

For example, due to some religious references, whilst the current prime minister of Turkey was the major distributor of Ülker in Istanbul, a former minister of finance

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worked at the top management in Albaraka-Türk. After the new government came to power, the national flag carrier of Turkey, Turkish Airlines started to serve Ülker's Cola-Turka as the third cola brand after Coca-Cola and Pepsi and some accounts that belong to government institutions were shifted to Albaraka-Türk. However, referring to the research findings, against their emphasis on networking capabilities on the way of sustaining competitive advantage, foreign owned subsidiary firms (PwC and Estée Lauder) seemed to provide fewer advantages from networking capabilities in the Turkish market compared to that of national firms. This may be a result of the highly rooted relationships between the firms with Turkish origin and the governments which provide mutual benefits to both parties. Moreover, existence of high levels of bureaucracy and red tape that can result to inefficiencies such as loss of time and funds compels Turkish firms to establish relations with politicians and bureaucrats. In such a challenging institutional environment, it would be very difficult for firms to reach scarce raw materials offered by local suppliers or state-owned enterprises, to gain access to distribution and communication channels controlled by local authorities, and to obtain licences issued by home governments without establishing good relations with politicians.

In line with this, historically, strong political and bureaucratic contacts and connections led to the establishment of business groups which have affiliations with famous Turkish families (*e.g.*, Koç, Eczacıbaşı, Ülker, Sabancı, Zorlu and Doğuş). As a result, business groups that are collections of firms which operate in a wide variety of industries nearly control about 80% of the total industrial output of the Turkish private sector just like in India and China (Purkayastha *et al.*, 2012). So, the dominance of family-owned diversified business groups in Turkey and other types of business networks such as *Guanxi* in China, *Kwankye* in South Korea, and *Svyazi* in Russia indicates the importance of networking capabilities for firm success in the emerging market business landscape (Cavusgil *et al.*, 2013).

Obviously, networking relations are not limited to government and bureaucracy. Like other emerging markets, Turkey is called a network society where trust-based relations and longstanding connections are highly valued (Hoskisson *et al.*, 2000; Black & Morrison, 2010) and social and business environment is highly affected from these relationships as a consequence of the dominant collectivist culture in

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the country (Hofstede *et al.*, 2010). Therefore, well-established relations with suppliers, distributors, and customers can provide superior advantages to firms. For instance, Estée Lauder's strong and longstanding contacts with the owners of department stores provided the firm easy access to the most popular shopping malls in Istanbul and outperform its competitors. Similarly, the well-established long-term relationships between Ülker and local distributors and suppliers led to competitive advantage by enabling the firm to penetrate the whole market better than its multi-national rivals from developed countries such as Nestlé, and Kraft's Cadbury and Milka.

Furthermore, the limited knowledge of developed country firms regarding the risks and costs that they may encounter in host countries affects their entry mode choices. Due to cultural and institutional barriers, most of the developed country firms enter to emerging markets through strategic partnerships with local firms in the form of joint-venture or M&A based on mutual benefits (Cavusgil *et al.*, 2013). This situation also increases the need for having or establishing effective foreign network ties for both sides. According to the results of this research, it seemed that whilst national firms obtained considerable amount of advantages from political type of networking capabilities, foreign owned subsidiaries' advantages relied on other sort of network relations such as loyal customers and/or long-term relations established with local service providers (*e.g.*, distributors and suppliers). Therefore, given the emerging market characteristics of the country, the Turkish firms may have developed special networking capabilities for relationship-based management.

Business processes and knowledge management skills for more agile firms !

Another noteworthy result that emerged from research findings was the significant effects of business processes and knowledge management skills on performance. Business processes and knowledge management skills were identified as separate capabilities due to several different functions that they execute. However, they do not contribute to firm performance in isolation. As such, knowledge management capabilities manage all internal and external knowledge flow in a firm and provide valuable information through social relations of employees, mobile and digital social media platforms (*i.e.,* Ülker's *I have an idea*, Albaraka-Türk's *Orange*, Estée

Lauder's *High-Touch*, and PwC's *tax portal*), websites (*i.e.*, PwC's *internet TV*) and call centres to the business processes. Then, by utilising and processing this information and knowledge, business processes functionalise strategic and operational activities of the firm through intranet (*i.e.*, Albaraka-Türk's *informa*), EDI, ERP (*i.e.*, Ülker's *SAP implementation*), SCM (*i.e.*, Estée Lauder's *LEAN*) and CRM systems that are supported with sophisticated IT, and exploit opportunities in markets. This relative importance of business processes along with knowledge management capabilities on firm performance can be linked to the needs of the firms which may emerge as a consequence of high levels of turbulence, volatility, and unpredictability within the context of Turkish business environment.

Rapid and discontinuous changes are common in Turkish economy where a high environmental dynamism occur. In this dynamic environment, possession of the mechanisms that can effectively scan potential environmental and political shocks, changes and customer shifts and can provide precautionary signals to the firms is a necessity. In the past (especially in the 2001 local finance crisis), a few Turkish firms had expansive scanning and forecasting abilities with respect to trends, political situations, markets, customers, competitors *etc.* as a consequence of the possession of strong knowledge and intelligence providing tools (that are called knowledge management capabilities in this thesis) such as risk assessment skills and social relations of employees with external parties, mobile and digital social media platforms, websites and call centres. These firms (including some banks) have foreseen the oncoming crisis through their knowledge management skills and have started to implement necessary strategic and operational actions such as tightening the credit amounts, reducing production and/or raw material stocks and changing the product lines (through business processes such as ERP and MRP systems), and even dismissing redundant workforce. Yet, other firms with limited or no knowledge management capabilities incurred huge losses or went to bankrupt. Hence, many Turkish firms may have taken lessons from this crisis that had devastating effects and may have shifted their investments to knowledge management capabilities that create relevant knowledge stimulus and to business processes that enable firms to execute operational requirements in line with the knowledge provided.

Moreover, related to different local cultures, ethnic foundations, regional traditions and religious sects and varieties in lifestyles, social values, education levels and linguistics throughout the country, consumer preferences are very divergent in Turkey. Hence, the challenge in creating a marketing strategy for managers is not limited to segmentation but the consideration of regional differences as well. For example, according to some statistical documents of Ülker, whilst an average income level Turkish family living in Istanbul consumes one kilogram olive or vegetable oil monthly, the same kind of a family consumes five kilogram margarine or vegetable butter in Anatolia or eastern parts of the country. However, size of the families may differ as well. Similarly, in the mid-Anatolia, people consume big square biscuits (*petit beurre*) because they make a sandwich through squeezing Turkish delights between a couple of biscuits, in contrast, in big cities people prefer small square biscuits (*picnic*) to be able put them in their bags for snack purposes. Furthermore, whilst in the Black Sea region people prefer consuming oval rectangle biscuits (*finger*) because they plunge the biscuits into long tea glasses (an AC Nielsen Report indicates that 67% of Turkish people drink tea after lunch and dinner in Turkey), people who live in the south and southeast regions of the country prefer cream filled round biscuits.

The difference is not only regional but micro-regional differences can also be observed. As such, people who live in the suburban areas of Istanbul consume 2.5 litre bottles of classical Cola-Turka of Ülker, the consumers who reside in the modern and richer areas of the city prefer light Cola-Turka offered in 330 cl. cans. Some diverse consumption patterns were also seen for the Estée Lauder products in different parts of the country. The records of the firm's sales department show that the sales figures of the hand and face creams, perfumes and other cosmetics of the firm differ according to regional preferences of the consumers while western consumers of the country prefer more sophisticated (solution offering) cosmetic products, the eastern ones buy basic (protecting) ones. In a similar line, southern customers prefer colourful and ornate cosmetics but skincare is more important for the northern ones.

Therefore, as observed, the consumption patterns of Turkish customers were very divergent. Several theorists (*e.g.*, Chari & David, 2012; Cavusgil *et al.*, 2013) claim

that consumption patterns of the emerging market customers are much more diverse compared to western-world customers because cultural and sociological patterns in different regions are not far dissimilar in developed countries. In parallel, while in developed countries the same marketing mix can be used across countries, in Turkey, diversity in regional preferences make this kind of strategy very hard. Divergent consumption patterns related to culture and social life may shape the resource possessions of the firms. Hence, one explanation for the conspicuous importance of the knowledge management skills and business processes for the firms to sustain advantages in Turkish business environment is that the divergent structure in consumption habits compels firms to have sophisticated market intelligence mechanisms and distribution and supply chain systems to address this diverse product and service needs and requirements of the consumers.

Moreover, the country stands on a large geographical area and distribution channels which change distribution costs between regions are inadequate. This situation necessitates the firms to have sufficient distribution and logistics skills that are managed by business processes (such as EDI, ERP and SCM). Turkey ranks in the second place in the world in terms of the number of articulated lorries and long-vehicles that conduct logistics services throughout the country, Europe and the Middle East (Ministry of Industry and Trade, 2011). This can be an indication that the Turkish firms may have developed distribution and logistics skills due to their importance in the context of Turkish business environment.

Fast changing consumption habits facilitated by environmental dynamism can force firms to be innovative in emerging markets as well (Hoskisson *et al.*, 2000; Schilke, 2014). Due to capricious and changeable consumers, product life cycles may be more shortened in emerging markets than developed countries (Purkayastha *et al.*, 2012; Cavusgil *et al.*, 2013). For this reason, new product development and innovation abilities may be relatively more important in emerging markets and in case studies, this issue was not only mentioned but evidence (*i.e.*, gold transacting ATMs, fig filled biscuits) was also observed. So, the requirement of innovativeness that is related to effective knowledge sharing and management skills may be

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another factor to explain the relative importance of knowledge management capabilities in creating firm performance within the Turkish business environment.

Lastly, the Turkish firms generally operated in a business environment with weak infrastructure where the country-specific hyperchanging social, economic, and political factors occurred. Under this harsh business environment, most of them survived by finding idiosyncratic solutions to the unpredicted and unexpected problems, adopting new alternative strategies, or modifying the existing ones that increase the speed and scope of their strategic manoeuvring actions. For instance, whilst they used power generators in case of shortage of electric supply, they found new ways to compensate when logistics was difficult or they backward integrated into components or developed suppliers from scratch when suppliers were missing. They learned being nimble and proactive in the market since they always had to produce new solutions for mutating problems in a short period of time within the context of a socially dynamic and unsystematic business environment. Hence, Turkish firms may have given priority to invest in knowledge management skills and business processes to address their strategic flexibility requirements and after a while they may have acquired special skills to be able to operate in unreliable business environments. Evidence that supports this suggestion was that organisational routines were not associated with firm performance and sustained competitive advantage according to research findings. Therefore, repetitive and stable routines might not address the context and environment-specific problems of the firms and high strategic flexibility of Turkish firms might discharge routinisation that is in line with the other findings of the research.

Consequently, the large geographical size of the country with relatively weak infrastructure, environmental dynamism and divergent consumption patterns might compel Turkish firms to develop their knowledge management capabilities and business processes.

So far, although the importance of networking and knowledge management capabilities along with business processes was explicitly evident in all case studies, a direct relationship between these capabilities and firm performance was not evident to the best of our knowledge. Yet, firm performance was created

through the complex interaction and interconnectedness of different sets of resources and capabilities throughout the cases. Apart from exploring the most important determinants of firm success, "examination of the complex interaction of resources and capabilities to have a better understanding about performance creation process" was *the second aim* of this thesis.

Complex resource-capability interactions

Exploration of the process of performance creation within the context of Turkish firms was consistent with *the second aim* of this thesis. The detailed elaboration of four case studies confirmed the findings of several RBV scholars (*e.g.*, Hoopes *et al.,* 2003; Sirmon & Hitt, 2009; Bridoux *et al.*, 2013; Foss *et al.*, 2013) which suggest that firms create value and compete on a multitude or system of resources rather than on the basis of a single resource or capability. Therefore, firm performance was created as a result of a complex and complicated interaction of a set of different resources and capabilities in the context of Turkish business environment which was, in fact, consistent with the main argument of the RBV. In terms of complex interaction of different sets of resources and capabilities, this study provided some notable results.

First of all, research findings brought evidence in favour of the indirect relationships between resources and capabilities and performance constructs. In nearly all case studies, different resources and/or capabilities played mediating or moderating roles in performance creation rather than establishing direct relations with performance constructs. As an example, external knowledge that was vitally important to fill the gaps in product and business portfolios of firms and to upgrade their R&D capabilities was obtained through knowledge management capabilities. Knowledge management capabilities were associated with opportunity exploitation regarding the markets and/or products, but the strengths of this association were influenced by organisational structure and nature of the relations between managers and employees that enable the firm to access and use external knowledge during the process of exploiting opportunities. Meantime, managerial strategic decision making abilities directed the investments of the firm based on the external knowledge provided. Then, investments turned into firm performance such as increased sales turnover, market share, and profitability. So, the components of

human capital (*e.g.*, management style, strategic decision making abilities) along with the organisational structure moderated the relationship between knowledge management capabilities and firm performance.

Although the qualitative findings revealed that performance creation emerged as a consequence of mediating and/or moderating mechanisms that occur between different resources and capabilities, the results, in relation to the exact and specific roles of different resources and capabilities were mixed and inconclusive. Causal diagrams showed that the role that was played by a resource or a capability might change within the firm-specific context. For example, while the IT systems had a more direct effect on firm performance because they provide an effective and user friendly internet banking to its customers that increase customer loyalty, market share and profitability in Albaraka-Türk, IT systems of PwC only act as a communication provider between employees that create an indirect effect on firm performance. Similarly, Ülker achieved a high product penetration rate in all points of sales through its well-established and maintained relationships with the distributors that had direct effects on sales turnover and market share. The networking capabilities of Estée Lauder and PwC with external partners have resulted to knowledge transfer and possible strategic partnerships in different forms which created more indirect effects on performance.

Moreover, because of the context and industry-specific roles of resources and capabilities mentioned above, the separating lines between intangible resources and capabilities have sometimes disappeared. For instance, whilst social softwares (*i.e.*, social media tools, collaborative platforms, blogs, and wikis) can be considered as static intangible resources, they function as a dynamic capability which substantially increases the new product development and innovation ability of a firm by enabling its employees and/or customers reveal and share their embedded tacit knowledge.

Against rather mixed results about the certain roles of resources and capabilities, the findings clearly indicated that human capital and organisational culture were the most important mediators and/or moderators in performance creation process. And, a considerable amount of the resource base of the firms was reconfigured through human capital and organisational culture. The vital role of human capital

and organisational culture in resource orchestration has been apparent in all case studies since the actions, strategies and choices that were made over time by managers along with the creative and innovative skills of employees (influenced by organisational culture) led to important differences in firm performance. Although these findings were consistent with the previous RBV studies (*e.g.*, Sirmon *et al.*, 2007; Coff & Kryscynski, 2011; Foss, 2011; Bridoux *et al.*, 2013; Ahearne *et al.*, 2014) that regard the components of human capital from innovative skills, creativity and know-how of employees to managerial abilities such as management style, leadership, and decision making skills among the most important strategic resources or capabilities to sustain competitive advantage, the roles of human capital and organisational culture seemed more dominant and vital in the Turkish business context than that of in developed country business environments (Coff & Kryscynski, 2011; Cavusgil *et al.*, 2013).

Human capital as a strategic enabler and initiator !

Based on the empirical findings, human capital was seen as the most important strategic initiative and enabler of resource interaction in the process of performance creation in the Turkish business context. In nearly every process, from structuring the firm's portfolio of resources, to bundling those resources into capabilities, and leveraging the capabilities to realise competitive advantage, managerial intervention was required in all case studies. In fact, importance of human capital in firm performance is a very well-known and well-recognised issue in management literature (Coff & Kryscynski, 2011). Besides, the interaction of key individuals and legendary managers with organisational systems has even generated more direct influences on organisational outcomes (Coff & Kryscynski, 2011). For instance, while stock prices fluctuated with the health of key contributors such as Steve Jobs at Apple Computer, the leadership style of Sam Walton of Wal-Mart has been a source of inspiration as well as gratification for the employees.

However, interaction of human to business operations and processes seemed more prevalent in Turkey just like in other emerging economies compared to developed economies (Chari & David, 2012; Purkayastha *et al.*, 2012; Cavusgil *et al.*, 2013). The utilisation of human capital was observed in many different operational and strategic actions of the firms under investigation. On one hand,

while the complex interaction of sophisticated IT systems with human capital skills led to noteworthy improvements in the organisational performance, on the other hand, talented employees with creative and innovative skills have been sources of competitive advantage and/or strategic decisions of managers regarding the investments of the firms resulted to positive financial consequences. Besides, the managers re-configurated the resource basis of the firms by hiring employees with new characteristics or by creating conditions that favour the accumulation of certain kinds of human capital.

One explanation for the relatively more prevalent and important role of human capital to create firm performance in the Turkish business context might be related to the lack of high quality human resource and the existence of inefficiency in working life in the country. According to the World Economic Forum's Human Capital Index of 2013, Turkey ranks in the 60th position out of 122 countries in terms of human capital quality. The overall rank is consisted of the average of a number of parameters. The parameters that underpin human capital growth are education, health and wellness, workforce and employment and enabling environment. When the index is reviewed it can be seen that the education pillar which evaluates the quality of education in the country at all levels (primary, secondary, tertiary, territory *etc.*) has a rank of 77, workforce and employment pillar which evaluates talent and training quality of workforce, ease of finding skilled employees and country attractiveness for high quality workforce has a rank of 83. In terms of health and wellness and enabling environment pillars, the country is in a relatively better position with the ranks, 51 and 45 respectively.

However, the education and the workforce and employment pillars show that the overall quality of employees is low and there is inefficiency in the labour market against long working hours. Although, consumer expenditure on education is increasing, the quality of education is still questionable in the country. Moreover, some occupations (such as pumpers in the petrol stations that fill the tanks of the cars or staff standing after the pay desks to put the commodities of the customers into the bags in supermarkets) that may not exist in developed countries and can lead to inefficiency in labour markets are created in Turkey to decrease the

unemployment figures. This situation is also justified by the reports of International Labour Organisation (ILO) and the OECD statistics.

Given the conditions of incapability and inefficiency among workforce, more managerial supervision, initiation, control and interaction is required. Furthermore, integration of highly dynamic business environment with incapable workforce may complicate jobs of the managers and compel them to be even more interactive and intervening in every business function of the firms. In this situation, top managers who are responsible from the strategic decisions may intervene to the operational activities of the firm. In fact, the research provided some empirical evidence with regard to this issue.

As such, most of the top managers whom interviewed in the case studies mentioned about the details of IT capabilities, routines and knowledge management tools which should normally be the job of lower management levels or even technicians. This can be an indication about the excessive interaction of managers in the Turkish firms for the sake of a more effective business execution. Bearing in mind that, continuing immigration of skilled human capital from Turkey to Western countries (Kearney, 2012; World Economic Forum, 2013) may have worsened the situation and due to the lack of necessary skilled human resource stock in the country, the qualified managers in firms may have taken additional burdens on their shoulders that force them to be more intervener and interactive in the process of firm performance creation.

Admittedly, the findings related to the process of firm performance creation and importance of human capital in this process as a dynamic capability may offer limited contribution to the "looking inside the black box" (Sirmon *et al.*, 2007) attempts of the RBV scholars. However, Lippman and Rumelt (2003, p. 1085) who highlight the importance of this type of research, suggest that "because the heart of business strategy concerns the creation, manipulation, administration, and deployment of specialised resource combinations", as many RBV studies as possible should be conducted in different settings and countries. In line with their suggestions, the results of this research provided valuable insights regarding the relative importance of human capital in creating firm performance within the context of an emerging market.

Culture surrounds everything !

The final noteworthy result is the dominant impact of organisational culture on firm performance that can be evaluated from the perspective of cultural factors. This culture-related section was left to the end since most of the resource priorities and selections of the firms were influenced by unique Turkish cultural elements. In nearly all cases including the firms that are western-oriented (PwC and Esteé Lauder), statements like "…our highly committed people", "…success was built around core values, challenging norms and preconceived notions", "we are like a big family", and their projections on performance were frequently mentioned. In fact, this result is coherent with the predominant collectivist culture of Turkey that often "focuses on values such as sharing, group utility, and looking out for the interests of the group and displays large families that are closely bound to each other" (Cavusgil *et al.*, 2013, p. 51).

The dominant impact of organisational culture on firm performance within the context of Turkish business environment can be explained through the value and meaning of "work" in Turkish culture that is associated with Islamic philosophy to some extent. Generally, Turkish people do not work to be "rich" but to live and look after their families. Working age of young people may come up to 22-23 years of age that is relatively late compared to developed countries. This attitude differs from the Western value by which one is expected to "live to work" rather than "work to live" (Chen & Lin, 2006). A well-known word in Turkey to explain the difference between the lifestyles of the Turks and Americans is that "an ordinary Turk lives poor to vest his kids with an inheritance and dies rich but an ordinary American lives rich and dies poor with the mortgage debts to be paid". It is believed that success can be gained through networking with groups and societies that have a similar understanding of life.

Therefore, networks of the Turkish firms are largely based on ethnic, religious and cultural foundations which share similar social cultural values and attitudes in the pursuit of business development and advancement. According to Hofstede *et al.* (2010), national culture influences a variety of economic behaviours, including managerial behaviour. And, it is obvious that people who prefer working with similar kinds of people and firms that prioritise doing business with same kinds of

firms can lead to the establishment of strong uniform but unique cultural entities in the organisations that shape the business activities and resource possessions.

The results concerning organisational culture seem compatible with the findings about the strong impact of brand, image and reputation on firm performance that may also be explained by another cultural element, value perceptions of people in Turkey. As explained before, many Turkish people associate a modern life with the consumption of western-oriented products. Hence, the findings relating to strong reputational resource effects on firm performance may be tied to the brand and image-oriented consumption patterns of Turkish consumers that were influenced by national cultural elements.

In line with *the first and second objectives* of this research, a conceptual model of the resource pool that identifies the key resources and capabilities demonstrating contribution to firm success was established and the roles and importance of the unique resources and capabilities in the process of firm performance creation within the context of Turkish business environment were elaborated. However, although the research findings offered valuable insights with respect to resource and capability effects on firm performance in the Turkish business environment, the data were collected from only four companies and the findings of the research need to be tested in a broader sample of Turkish firms. This is also necessary for the theoretical verification of the main prescription of the RBV and theory generalisation purposes.

RBV suggests that firm-specific intangible assets and capabilities which provide important advantages to firms are the most desirable resources in sustaining competitive advantage (Barney, 1991; Amit & Schoemaker, 1993; Teece, 1998; Surroca *et al.*, 2010). Yet, "the value of a firm's resource must be understood in the specific context within which a firm is operating" (Barney, 2001b, p. 52). So, the value of a resource changes according to the nature of the firm, the industry in which it operates and the country settings that surround the firm (Barney, 2001b; Levitas & Ndofor, 2006). This situation prevents generalisation of the uniquely defined idiosyncratic firm-level resources within the context of a broader sample. However, although, the value of a firm's unique and idiosyncratic resources can change depending on the context within which a firm operates, the RBV's main

prescription claims that relative importance of the general categories that are tangible and intangible resources, and capabilities do not change (Levitas & Ndofor, 2006). Hence, generalisation of the RBV without losing the "firm-specificity" of resources can only be achieved through analysing the relative impacts of the macro level constructs: tangible resources, intangible resources, and capabilities.

Therefore, in line with *the third objective* of this thesis that is "to test empirically which resources and/or capabilities (if intangible resources and capabilities contribute more than tangible resources) are the most important determinants of firm performance", a number of hypotheses were tested:

The first hypothesis (H_1) assessed the relative impact of intangible resources compared to tangible resources on firm performance. The results provided evidence that intangible resources contribute more uniquely to firm performance than tangible resources since they established significant associations with sales turnover, market share and profitability after accounting for the effects of industrial factors and tangible resources. Although the relative contribution of intangible resources was significantly higher than tangible resources, given the beta coefficients that indicate the impact magnitudes of tangible and intangible resources on firm performance, the difference was not that high (*e.g.*, for sales turnover; $\beta_{TR} = .194$ versus $\beta_{IR} = .236$, for market share; $\beta_{TR} = .078$ versus $\beta_{IR} = .122$, and for profitability; $\beta_{TR} = .379$ versus $\beta_{IR} = .475$). Moreover, the additional explanatory power of intangible resources on performance measures was significant but limited (*e.g.*, 3.1% for sales turnover, 1.5% for market share, and 4.2% for profitability). These results show that against the dominant effect of intangible resources on performance, tangible resources still have a considerable impact in contributing firm performance within the context of Turkish business environment.

Capabilities were assessed against tangible resources to investigate their relative impact on firm performance in Hypothesis 2 (H_2) which has the same theoretical logic with the first hypothesis. Similarly, capabilities were theorised to possess higher barriers to duplication than tangible resources because of their VRIN characteristics (Barney *et al.*, 2011; Peteraf *et al.*, 2013). Hence, a greater impact on performance measures was expected. In line with this proposition, the

hypothesis was confirmed. But this time, capabilities did not only contribute firm performance significantly higher than tangible resources, but they also accounted for the largest beta values in the context of all hypotheses and regression models (*e.g.*, for sales turnover; β_{TR} = .178 versus β_{CAP} = .304, for market share; β_{TR} = .063 versus β_{CAP} = .156, and for profitability; β_{TR} = .204 versus β_{CAP} = .498). However, apart from the profitability measure on which a considerable contribution (an additional 7.5%) was achieved, capabilities provided limited contribution to other performance measures such as 2.3% for sales turnover and 2.9% for market share. Therefore, evidence was found to suggest that capabilities are among the most important determinants of a firm's market and particularly, financial performance.

The third hypothesis (H_3) examined the relative impact of capabilities compared to intangible resources on firm performance. Capabilities have long been argued to be an important determinant of the overall firm performance in the RBV literature but their contribution compared to intangible resources is controversial (Teece, 2007; Sirmon *et al.*, 2011; Peteraf *et al.*, 2013). In the regression model, capabilities provided significant but again rather limited contribution to performance measures such as 1.4% for sales turnover, 2.1% for market share, and 2.7% for profitability. With respect to the impact magnitudes of capabilities and intangible resources on performance measures, capabilities accounted for a more individual and unique contribution only to the profitability measure (β_{CAP} = .363 versus β_{IR} = .287) than intangible resources. Based on these results only a partial support was offered for Hypothesis 3 (H_3).

One explanation for this partial support might rest with capability and intangible resource interconnectedness (Dierickx & Cool, 1989; Sirmon *et al.*, 2011). For example, reputational assets (*e.g.*, corporate reputation, customer/product service reputation or brand name) which are among the intangible resource categories might be described as an outcome or the result of previous successful marketing or communication activities of a firm's managerial and/or networking capabilities. In another example, IT systems or collaborative platforms which are among the capability constructs might be described as the outcomes of the in-house developed software that is an intangible resource construct. Hence, when taken in

the context of the broader resources necessary to build a capability such as an IT system, its impact on firm performance measures might not be as significant as found by past studies, many of which isolate on an IT system as a stand-alone capability (*e.g.*, Zollo & Winter, 2002; Ray *et al.*, 2004, 2013). Lastly, the findings demonstrate that idiosyncratic stock of static resources and capabilities that are dynamic in nature become complementary while they create performance and they are likely to represent "the two sides of the same coin" (Wernerfelt, 1984).

The final hypothesis (H_4) analysed the relative effects of capabilities on firm performance compared to the combined effects of tangible and intangible resources. However, the findings of this hypothesis were inconclusive. Capabilities offered rather limited additional explanatory power to the prediction of firm performance only with respect to profitability against the combined effects of tangible and intangible resources. Besides, while the beta value of capabilities was statistically significant and larger than that of tangible and intangible resources with respect to profitability, it was smaller than the beta value of intangible resources (β_{CAP} = .129 versus β_{IR} = .143) and nearly equal to the beta value of tangible resources (β_{CAP} = .129 versus β_{TR} = .126) with respect to sales turnover, both of which were statistically significant. Similarly, with respect to market share, the beta value of intangible resources was larger than capabilities (β_{CAP} = .121 versus β_{IR} = .152). Hence, the combined effects of tangible and intangible resources and also the individual effects of both resources in some situations (*i.e.*, on sales turnover and market share) seemed to be more influential in achieving firm performance. One possible explanation for the rejection of H_4 is that the hypotheses of this study were too broadly stated and firm performance was measured too narrowly.

In reality, different resource categories and different types of capabilities may have varying influence on firm performance. As an example, the effects of human capital (which is a dynamic capability) may vary across different manifestations of firm performance but human capital which consists a number of human related skills such as leadership and strategic decision making abilities, employee know-how, creative skills of managers and/or employees *etc.* was considered as a general capability construct. However, each skill that constitutes a whole capability construct can have different indirect effects within the context of different

performance constructs such as number of new products and processes developed, new ideas generated, strategic partnerships established (Subramanian & Youndt, 2005; McKelvie & Davidsson, 2009) that may be the predictors of market and financial performance constructs used in this study. Although these skills, to some extent, may create performance repercussions on the final performance constructs, their real performance effects might largely remain on the mediating performance constructs.

Unexpected and non-negligible effects of tangible resources on performance

In contrast to the previous RBV research findings (*i.e.*, Amit & Schoemaker, 1993; Barney, 2001a; Galbreath & Galvin, 2006), a non-negligible tangible resource effect on firm performance was observed in the Turkish business environment. Although the relative effect of tangible resources compared to intangible resources and capabilities was lower on the performance measures, they were still significantly associated with all performance measures (especially with sales turnover) and offered unique contributions to firm performance based on the high values of the beta coefficients.

One explanation for the specific association between sales turnover and tangible resources may stem from the critical importance of physical assets such as raw material, production facilities, warehouses, stores, showrooms and vehicles for an efficient manufacturing and an effective operation of sales and distribution. Whilst these tangible resources may create a direct effect on sales turnover due to their critical roles in enabling the firm to sustain high sales volumes in the market, market share and profitability may emerge as a consequence of high sales turnover within the context of indirect efficiency effects (Spanos & Lioukas, 2001). Thus, against their statistically significant association, tangible resources offered relatively little contribution to market share and profitability given the low values of the beta coefficients.

The reason for this unexpected tangible resource effect on performance may be linked to the previous competitive strategy choices of the Turkish firms in global markets. With the support of low labour cost, most of the Turkish firms preferred adopting a low-cost strategy and investing on tangible resources that enable the

firms achieve high amount of production. A low-cost strategy relies "heavily on the ability to improve the manufacturing efficiencies in the firm's value chain" (Spanos *et al.*, 2001, p. 643). Although manufacturing efficiency can be increased through intangible resources such as just-in-time (JIT) and LEAN manufacturing software, relative effects of the tangible resources such as low-cost raw material and labour, modern machinery and equipment, and physical buildings and manufacturing plants are greater (St. John & Harrison, 1999; Schroeder *et al.*, 2002).

Another factor that can explain the finding of strong tangible resource effect on firm performance is that until early 2000s, the Turkish trade and commercial laws did not have deterrent penalties against the firms violating intellectual property rights in the country. Hence, this situation might also direct Turkish firms to focus on just manufacturing at lower costs in order to sustain competitive advantage rather than offering differentiated services and products to the markets. Under these conditions, many Turkish firms developed a special expertise for manufacturing imitated products (*i.e.*, Lacoste, Louis Vuitton and Tommy Hilfiger). However, with the effects of the EU regulations and the legal prosecutions of the global brands that incurred to high losses due to imitated products, illegal imitation of products was substantially prevented in the country especially, in the last five years.

Obviously, developed countries like USA, Canada, Australia and EU zone have a strong historical economic tradition based on free market structure, liberalisation and legal protection for intellectual property which enabled the firms of these countries make relatively more thorough strategic decisions in line with the requirements of new economy where service sector has a high share and intangible resources are in the focal concern.

So, the discrepancies concerning the relative importance of tangible versus intangible resources and capabilities on firm performance between the results of similar types of studies conducted in Western countries (*e.g.*, Powell & Dent-Micallef, 1997; Spanos & Lioukas, 2001; Galbreath & Galvin, 2006; Weigelt, 2013) and this study may be attributed to the remnants of the past Turkish economic growth model and competitive strategy choices of the Turkish firms.

8.3. The resource effect differences in manufacturing and services firms

Apart from the specific country characteristics, all types of resources and/or capabilities that firms acquire and use are, to a greater or lesser extent related to the industrial environment surrounding them (Porter, 1991; Hitt *et al.*, 2001b). In line with this knowledge, although industry effects were systematically controlled in this study, relatively significant role of tangible resources compared to developed countries, if not exclusively, necessitated the researcher to further investigate whether tangible resources are more important determinants of firm performance in manufacturing firms or not.

Any finding with respect to understanding the contribution of resources and capabilities in driving performance in both manufacturing and service firms is an obvious area of interest to managers. Moreover, based on their primary activities, whilst 146 (60%) firms were classified as manufacturing firms, 97 (40%) firms were classified as service firms in the total sample. Namely, composition of the sample predominantly consisted of manufacturing firms and this situation might lead to the deviation of results in favour of tangible resources. For this reason, resource effects with respect to performance creation should also be investigated in manufacturing and service firms separately. Thus, although not the primary focus of this study, given the controlled industry structure factors, rather than exhaustively exploring the contribution of different resources and capabilities in performance creation (on overall performance) industry by industry, the differences between manufacturing and service firms were tested.

As shown in model 1 for the *manufacturing firms* (see table 8-1), tangible resources along with the other control variables explained 13.2% of overall performance. Entrance of the intangible resources and then capabilities provided an additional and significant explanation power 6.4% ($\Delta R^2 = .064$) in model 2 and 2.3% ($\Delta R^2 = .023$) in model 3, respectively for overall performance.

The same analysis for the *service firms* yielded nearly similar results. Whilst tangible resources along with the other control variables explained 12.4% of overall performance, entrance of the intangible resources and then capabilities provided

an additional and significant explanation power 8.0% (ΔR^2 = .080) in model 2 and 3.4% (ΔR^2 = .034) in model 3, respectively for overall performance.

Table 8-1. Differences between manufacturing and service firms

Dependent variable: Overall firm performance

	Manufacturing firms (n = 146)			Service firms (n = 97)		
	Model 1	**Model 2**	**Model 3**	**Model 1**	**Model 2**	**Model 3**
F statistics	2.863**	3.287**	3.561**	2.475***	3.843*	4.169**
R^2	.132	.196	.219	.124	.204	.238
ΔR^2	—	.064	.023	—	.080	.034

Control variables: Age, size and industry structure factors
Independent variables: Tangible resources, intangible resources, capabilities
*p<0.05; **p<0.01; ***p<0.001*

Therefore, with respect to the relative impact of tangible resources in explaining firm performance, no significant difference was found between manufacturing (13.2%) and service (12.4%) firms.

Table 8-2. Contributions of individual variables

Dependent variable: Overall firm performance

	Manufacturing firms (n = 146)		Service firms (n = 97)	
Independent variables	**β**	**t**	**β**	**t**
Constant		4.371***		5.396***
AGE	.006	.552	.005	.439
SIZE	.042	.472	.019	.321
IND	.103	1.964*	.096	1.833**
TR	.153	2.039**	.147	1.906*
IR	.184	2.355*	.235	2.749**
CAP	.161	2.164*	.278	3.256*

*p<0.05; **p<0.01; ***p<0.001*

In relation to the unique, individual contributions of independent variables in manufacturing and service firms (see table 8-2), the beta coefficient for tangible resources in manufacturing firms was β_{TR-man} = .153 which was nearly same with the coefficient of $\beta_{TR-serv}$ = .147 in service firms. Against the similar impact level of tangible resources in both manufacturing and service firms, intangible resource and capability effects were much higher in service firms than in manufacturing

firms ($\beta_{IR\text{-}man}$ = .184 versus $\beta_{IR\text{-}serv}$ = .235 and $\beta_{CAP\text{-}man}$ = .161 versus $\beta_{CAP\text{-}serv}$ = .278).

Based on these results, tangible resource impact can be attributed to the Turkish economic system and strategy choices of the Turkish firms. However, confirming previous RBV research (*e.g.*, Bharadwaj *et al.*, 1993; Hitt *et al.*, 2001b; Galbreath & Galvin, 2008), intangible resources and capabilities were found more important in service firms in explaining performance variation than in manufacturing firms. Unlike manufacturing firms where production facilities, equipment, and capital are in the focal concern, service firms seem to focus on human and knowledge-related resources. Given the people, innovation, reputation, image, and knowledge intensive nature of service firms, these findings are consistent with the arguments that hold intangible resources and capabilities as the most important determinants of firm performance.

With respect to age and size, despite the arguments which suggest older and/or larger firms can be positively associated with firm performance because they may have more time and strength to create value, firm age and size were non-significantly associated with performance measures in this study. A possible explanation might be that since the minimum age requirement for inclusion in the study was three years, young firms under investigation showed high performance levels. But, a more potentially explanation rests with the historical development of the Turkish firms.

A well-functioning free market economy along with an effectively operating private sector has a very short history (around 25-30 years) in Turkey. Moreover, a proper trading culture has never existed in the Ottoman Empire which is the predecessor of modern Republic of Turkey. Correspondingly, the Turkish business environment consisted of relatively young firms compared to developed countries which have a huge portfolio of firms that trace back to 570s in Japan, 1000s in Europe and 1640s even in the USA (O'Hara, 2004). Notwithstanding, the oldest Turkish firm taking place in the official records is a Turkish delight manufacturer "Haci Bekir" that was established in 1777 (PwC, 2012). The records also demonstrate that only 18 firms established before 1900s in Turkey.

Consistent with this situation, age of the mean of the firms under study was only 34.6. One potential explanation for non-significant association between size and performance is that the mean number of employees of the firms occurred in the sample was nearly 432 with a standard deviation 543.26. Therefore, proximity between the mean and standard deviation demonstrates that the firms replied were similar in size. Given this similarity, firm size effects might not be measured adequately.

Therefore, three objectives of this thesis were addressed through a mixed-methods research approach. As the first objective, a conceptual framework that includes a set of resource and capability items was established. Then, the unique and idiosyncratic resources that were the most important determinants of firm performance in the Turkish business context were explored and their complex relationships on the way of creating firm performance were investigated in parallel to the second objective. Ultimately, as its third objective, the findings of the research were tested in a broader sample of Turkish firms for theory verification and generalisation purposes.

8.4. Managerial implications

A critical issue for management studies is how they can guide managers and organisations to a consistent level of success. Of course, this study cannot provide definitive answers but can provide insights that might be helpful. Hence, this section highlights some important managerial implications arising from the study;

The first and perhaps most obvious managerial implication is that firms should be aware of the poor institutional environment in Turkey that comprises governmental ineffectiveness, weakly established rule of law, and lack of control of corruption. In such an environment, firms may face several unknowns that require extensive managerial attention and time could result in non-productive investments, loss of opportunities due to ambiguities during decision making and instability in their operations. When disputes arise between business parties, firms may not always have the option of using legal processes to secure justice and even if they may do so, a legal decision may be made at an average of 273 days in the courts compared to 149 days in the courts of the EU countries (Ministry of Justice, 2013).

As a result of the lack of respect for the rule of law, public power is frequently used to enrich someone personally. A substantial amount of the business activities are continued through bribing or establishing close relationships with the government and local authorities. Hence, managers operating in Turkey should spend much of their time on day-to-day operations and establish relations with executives in governmental institutions. Turkey differs from developed economies in terms of economic, political, technological and socio-cultural factors and strong institutional effects may direct firms to develop certain resources and capabilities in Turkey. The development plans and programmes of political parties should be followed by managers.

As such, the recent administrations which attempt to execute some religious-based economic activities (*i.e.*, zero per cent interest in the economy, extreme limitation for the sales of alcoholic beverages, utilisation of public services for some groups tendentiously) should be considered for the efficacy of managerial planning and control. Given the importance of trust-based relationships to conduct business in Turkey, managers should select exclusive local representatives who have effective communication skills to establish friendly relations with all parties (*i.e.*, potential buyers, distributors, and local authorities) involved in business activities. Furthermore, given the truly strategic role of human capital in firm success and lack of required quality of human resources in the country, acquiring, attracting, retaining, and motivating human capital through effective HRM policies such as developing a unique culture via shaping the spoken and unspoken norms and rules of the firm that creates a working atmosphere and environment for maximum worker productivity and performance should be management priorities.

Another managerial implication is that reputational assets such as brand, image and corporate reputation from the intangible resource constructs were observed among the most important determinants of firm performance. It is certainly true to say that Turkey is a middle-income country and Turkish consumers do not have high incomes. However, they enjoy western-oriented richer consumption experiences and higher levels of convenience than most of the developed country consumers would aspire to (Haden, 2013). Western and other global brands (including famous Turkish brands) are highly esteemed in the country. Hence,

whilst Turkish firms should execute effective strategies and make necessary investments to create unique global brands, foreign firms that operate in Turkey should manipulate adequate marketing mixes which highlight western orientation of the product and deliver "good enough" quality at a lower price compared to developed economies. Besides, given the effects of reputational assets on performance, management should consider crafting, nurturing, and leveraging a positive corporate image and reputation as well as creating unique brands to achieve a high level of customer loyalty.

The findings of this study emphasise the vital role of business processes especially for strategic flexibility, business effectiveness, and efficiency within the context of dynamic Turkish business environment. Given the divergent and fast-changing consumer attitudes, wide geographical area, and difficult and harsh business conditions in the country, managers of the firms should pay attention to establish early warning systems along with rapid information and market intelligence providing mechanisms. In this sense, allocation of resources in favour of business process development such as strengthening IT infrastructure, SCM and logistics systems should be a concern for managers. However, resource allocation along with the optimal deployment of strategic resources is a key managerial challenge, and given the scarcity in resource availability, priority should be given to the most important ones.

The increasing trade potential of Turkey along with other emerging markets is expected to account for two-thirds or more of the world's future gross domestic product (GDP) growth (Ramamurti, 2012). This situation made emerging markets strategically important for the western firms. The trade potential of Turkish market attracts western firms as well.

Yet, many Turkish firms still enjoy tremendous competitive advantages against developed country firms such as extensive knowledge about emerging market customers and their needs, low-cost production advantages, frugal innovation (coming up with new products quickly and cheaply), privileged access to resources and markets, traditional first-mover advantages, operational excellence in adverse environments, expanding into other emerging markets, and integrating vertically in natural resources (Hoskisson *et al.*, 2000; Ramamurti, 2012). Hence, in order for

western firms to succeed in the Turkish market, managers of these firms at all organisational levels should take the challenge seriously and particularly, use the traditional strengths of the western multinationals in technology, brands, global scale, and global reach.

Besides, development of specific Turkish market business models and strategies should be a priority for the managers of western firms. As strategic options, the Turkish market can be treated "as places with talent that can be used to make goods and services for the world, markets with large and growing demand, and centres of innovation" (Ramamurti, 2012, p. 248). However, figuring out the right strategy for the Turkish market based on the development of a proper product range at the suitable price and distribution points may take up to a decade (Black & Morrison, 2010; Cavusgil *et al.*, 2013). On the other hand, given the relatively short time business horizons of western firms that expect returns within a year or two (Ramamurti, 2012), western managers should be patient during the strategy formulation and implementation process. Moreover, they should be willing to learn and get deeply engaged in the Turkish market.

8.5. Limitations

No research study is without limitations and the present one is no exception. Therefore, seven limitations are highlighted in this section: (1) classification and measurement of the resource and capability constructs; (2) broad nature of hypotheses; (3) measurement of performance constructs based on subjective perceptions; (4) limited number of variables to measure performance; (5) use of a single informant; (6) subjective and biased evaluations of managers in case studies; (7) investigation of only direct and linear relationships.

(1) A number of resource categories were identified according to the results of the qualitative investigation and extensive literature review. However, in contrast to the broad definitions and categories of resources and capabilities in the RBV literature, this study employs and examines only a small portion of the resources and capabilities that might potentially affect firm performance and does not perfectly measure resources as per theory. Furthermore, in some case studies, the lines between intangible resources and capabilities became vague and overlaps were

observed due to the different roles that intangible resources and capabilities played in different contexts. For this reason, the real effects of both categories on performance might not have been measured accurately. This result also raises a theoretical implication with regard to whether specific resources and/or capabilities are "universally" important across all industries, or are context-specific (or even country-specific).

(2) The context-specific nature of firm-level resources compelled the researcher to establish the hypotheses testing the relative importance of resources on firm performance empirically in broad nature. Namely, as general resource categories, tangible and intangible resources, and capabilities were used only to hypothesise the resource-performance relationships and sub-categories of these resources were omitted at this level of analysis. Although, generalisation of the RBV without losing the "firm-specificity" of resources was achieved in this manner, relative effects of several important specific resources and capabilities on firm success could not be measured empirically.

(3) In all research, objective performance measures should be used where possible and available since subjective performance evaluations may not be the perfect substitutes of objective measures. However, given the limitation of obtaining the financial figures of the firms investigated that were not offered to public, this research uses perception-based performance measurement. Although subjective perceptual measures especially, from top management teams, can be considered as an accurate, if not perfect, substitute of objective performance measures (Dess & Robinson, 1994; Venkatraman & Ramanujam, 1987), it should be noted that performance evaluations of top level managers might produce biased results.

(4) A limited number of financial variables to measure performance were used in this research. Yet, firm performance can be reflection of non-financial figures including job satisfaction, fulfilment of strategic goals or duration of partnerships (Arino, 2003) as well as financial figures or combination of both. Although the main prescription of the RBV considers profitability as the main performance indicator (Powell & Dent-Micallef, 1997; Spanos & Lioukas, 2001), putting non-financial

measurement constructs aside may have resulted to some deficiencies in evaluating firm performance.

(5) Both the qualitative and quantitative findings of the research rely solely on the perceptual judgements of the top managers and CEOs. Using such a research technique raises "the issues of common method bias, which can be particularly dangerous when a single informant fills out items that tap into independent and dependent variables within the same survey instrument" (Galbreath, 2004, p. 210). Moreover, although the on-line measurement instrument was sent to the personal e-mail addresses of the top level managers, some issues concerning the reliability of data may arise because it is not possible to know whether the questionnaires were filled by the top managers or someone else.

(6) Apart from using subjective measures to measure the constructs in quantitative investigation, one-on-one interview techniques were utilised as the primary source of qualitative data collection in case studies. This procedure, while providing a wealth of data and producing valuable insights about the complex interaction of resources and capabilities, "is open and sensitive to pervasive influences of the present researcher's personal biases and idiosyncrasies" (Lin, 2007, p. 288). Other than personal researcher bias, managers of the firms have a tendency to highlight only positive aspects of their organisations. Efforts of the managers to present their companies in the best possible ways which consequently may lead to exaggerated and too optimistic reflections of firm success were sometimes observed in the interviews. Although the researcher tried to deal with this issue by utilising the other data triangulation components such as observations and company reports for cross-checking purposes and making some critical assessments, the findings must be treated with caution.

(7) The last but not the least limitation of this research is about what is captured and not captured with respect to resource and capability effects. Some predictions among independent variables were found especially in qualitative investigation against the statistical tests that show no multicollinearity between the independent constructs. The meaning of this is that some resources and/or capabilities may predict each other and affect their power of impact on performance. So, whether some resources or capabilities might be contributing to competitive advantage in

some unique way as a mere reflection of a resource (or a capability) that is necessary to maintain survival in the market, or are an effect resulted from the resource-capability interaction is not known. Although research findings provide valuable insights with respect to resource and capability contribution to firm performance, the mechanisms between resource and capability interactions in performance creation are more than just complex and need further investigation and also some degree of confirmation.

8.6. Future research directions

Four future research directions are suggested. (1) Firstly, a construct set that includes a broader but not exhaustive number of resources and capabilities might be helpful for a better investigation of resource and capability and performance relationship, given the small R^2 and R^2 change effects that indicate that some other influential constructs are omitted in the model. However, reliability of potential constructs (the constructs used in this study is no exception) should be subject to further testing and refinement across multiple settings, industries and countries through longitudinal studies where possible.

(2) Secondly, this study assumes a direct and linear type of relationship between resources and capabilities and firm performance. However, interconnectedness and complex interactions between resources and capabilities reveal the existence of non-linear relationships along with moderating and mediating mechanisms which necessitate researchers to use more sophisticated quantitative and qualitative research designs. Structural equation models that are able to reveal the individual effects of all constructs with all details can be used for this purpose. Additionally, qualitative investigations such as ethnography and in-depth interviews should be combined with quantitative studies.

(3) A third future research direction is that this research only examines the cumulative effects of construct categories such as tangible resources, intangible resources, and capabilities. However, a better understanding of their individual contributions can provide valuable insights to managers in terms of making strategic decisions about firms' resource portfolios.

(4) As the last future research direction, firm performance was measured based on market share, sales turnover, and profitability. Although these constructs are considered among the most suitable and concrete performance indicators, some additional measures such as the number of innovative and new products or other non-financial performance measures would be included in future studies.

8.7. Conclusion

Given the ongoing interest and necessity to understand the roles and impact levels of different resources and capabilities on firm performance, the RBV scholars conduct many studies in order to provide valuable insights. Potential advantages derived from resources and capabilities on the way of sustaining competitive advantage and obtaining superior performance were generally examined in a fairly simple and uncoupled way in the previous resource-based literature. Most of the past RBV research explored resource/capability and firm performance relationship through the studies that offer no hypotheses, employ a single or a very few major intangible resource which can bias results, and do not conduct any tests of statistical significance.

Moreover, resource and capability definitions used in the RBV literature are vague and discrepant which hinder to have a thorough understanding about the complex linkages between resources/capabilities, and performance. However, a conceptual framework that classifies resources and capabilities in a coherent system should be the starting point not only to measure resource/capability and performance relationship thoroughly but also to carry out cross-industry (even country) research in future. Hence, given the need for defining a resource pool that is necessary for construct clarity purposes, as its first objective, this thesis offered a framework in which resources and capabilities were adequately defined and conceptualised.

A resource in isolation cannot generally lead to firm performance. It is the complex interaction of resources and capabilities along with the other mechanisms (*e.g.*, managerial, business and IT processes) playing the mediating and/or moderating roles in these interactions that lead to performance. Therefore, this complex resource-capability interaction leading to firm performance is like a veiled black box and what is known regarding this process is very limited. In line with the second

objective of this thesis, the issue of how the complex and embedded system resources might lead to firm success was investigated through the qualitative component of the mixed-methods research design employed in this study.

The law-like generalisation and validation of the RBV is a necessity and as its last objective, this study tested a number of hypotheses derived from the qualitative components along with the extant RBV literature empirically through the data collected from a large sample of Turkish firms. This empirical analysis did not only test qualitative findings but it also revealed the relative effects of tangible and intangible resources along with capabilities on firm performance. These findings are especially valuable for the managers who are responsible from the resource allocation and investment decisions in organisations.

Apart from the results with respect to the relative effects of different resources and capabilities on performance and the resource orchestration process in achieving performance, use of the mixed-methods research design and the findings about the Turkish business environment seemed to be the other novel elements of this thesis. An RBV research that was conducted through a mixed-methods design based on a fresh emerging market data may provide sufficient contributions to the ongoing efforts of the RBV researchers to understand the performance creation process occurring in the organisations.

In conclusion, the central purpose of this study was to verify and generalise the main prescription of the RBV empirically through a new conceptual framework and explore the complex resource-capability interaction leading to firm performance in the Turkish business context. The results of this research suggest some specific conclusions:

(1) Previous RBV studies empirically investigating the performance effect of a resource in isolation might not provide strong support for the RBV as claimed.

(2) Whilst capabilities can contribute to firm performance more than tangible and intangible resources, and intangible resources can contribute to firm performance more than tangible resources, they do not necessarily do so under all circumstances. The contribution of different resources and capabilities may be subject to the types of resources, firms, industries and even countries under study.

(3) Keeping in mind the resource interconnectedness and interactions, tangible resources should be studied more carefully, particularly in terms of the role they play in achieving performance.

(4) In contrast to the arguments of many RBV scholars, there might not be a single "most important" resource or capability of performance.

Since economies today might best be viewed as resource-based economies, firms need to focus on their unique resources in order to create competitive advantages. Therefore, this research provides an empirical contribution to the RBV literature in the way it tests the relative effects of resources and capabilities on firm performance and outlines the interrelationships between resources and capabilities in details in the context of a big emerging market business environment, Turkey. Although this study reveals some specific insights about "how much RBV matters in the Turkish business environment" as well as providing generic evidence to the management literature, the findings certainly need further replication, explanation, and generalisation.

APPENDIX A – PLAIN LANGUAGE STATEMENT AND CONSENT FORM

UNIVERSITY OF **EXETER** | BUSINESS SCHOOL	INTERVIEW – 2012

Name of the study

The contribution of tangible and intangible resources, and capabilities to a firm's profitability and market performance: Empirical evidence from Turkey

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The aim of this interview is to identify the key resources and capabilities which demonstrate contribution to firm success and explore how and why these resources and capabilities lead to firm performance. You are kindly requested to answer all questions based on your experience/knowledge. The study seeks to develop a deeper understanding of the drivers of firm performance. The information collected will only be used for the purposes of this dissertation and may be included in future research. You will agree to participate this study by signing this form. Thank you for taking the time to read this information.

Please initial box

- I confirm that I understand what the research is about and have had the opportunity to ask questions.

- I understand that my participation is voluntary and that I can withdraw at any time without giving a reason.

- I agree to take part in the research.

Yes   *No*

- I agree to my interview being audio recorded.

- I agree to the use of anonymised quotations in publications.

Name of participant..   Signature..

Researcher's name...   Signature..

Date...

APPENDIX B – INITIAL AND SECOND LEVEL CODES USED IN THE STUDY

Initial list of codes

TR – Tangible resources
IR – Intangible resources
CAP – Capabilities
PER – Performance

Second level codes

Tangible resource (TR) oriented assets	Codes	Description	Category
Cash	TR – Cash	Cash that includes currency (on hand or at the bank) earned from all kind of operations.	
Raised financial capital	TR – RFINCap	Funds provided by lenders or investors in the form of debt from secured bank loans or equity gained from the issuance of stocks or bonds.	*Financial Assets*
Financial investments	TR – FInv	Investments such as government issued instruments, derived financial products, equity positions in other companies, marketable securities, and company shares.	
Buildings	TR – Build	All kinds of tangible and physical structures such as production plants, warehouses, office buildings, showrooms, stores including their locations.	
Equipment	TR – Equip	Tools, machinery, vehicles, and any other physical equipment used to produce, deliver or install a product (and/or service) and conduct a particular business process or task.	*Physical Assets*
Land	TR – Land	Real estate owned by the company for production or investment purposes (including its location).	

Intangible resource (IR) oriented assets			
Strategic partnerships	IR – STR-Part	Organisational contracts that have been established in the forms of M&A, joint venture, franchising, licensing, and distribution agreements.	
Organisational culture	IR – ORG-Cult	The complex pattern of values, behaviours, attitudes, beliefs, and expectations shared by the organisation.	*Organisational Assets*
Organisational structure	IR – ORG-Struct	The operating and reporting structure of the organisation that includes authority, delegation, role and task definitions, responsibilities, accountability and liaison devices.	
Organisational policies	IR – ORG-Pol	The policies that aim to acquire, develop and retain the human talent of the organisation (*e.g.*, recruitment, incentives, compensation, education, rewards, and training).	

Copyrights	IR – LP-Copy	Legally registered and protected copyrights (*e.g.*, literary, dramatic, musical, pantomimes, choreographic, and artistic works, sound recording, pictorial, graphic and sculptural work, motion pictures and other audiovisual work, and computer software).	
Designs	IR – LP-Design	Legally registered and protected designs (*e.g.*, the novel shape, configuration, pattern, or ornamentation of a two dimensional [*i.e.*, carpet design, fabric print] or three dimensional [*i.e.*, beverage bottle] commercial article.	*Intellectual Property Assets*
Trademarks	IR – LP-Trade	Legally registered and protected trademarks (*e.g.*, product, service, brand, sign, including devices, aspects of packaging, names, phrases, sounds, letters, words, signatures, pictures, scents, symbols and logos).	
Patents	IR – LP-Patent	Legally registered and protected patents (*e.g.*, exclusive, new, and inventive products and processes).	
In-secret technology	IR – IS-Tech	All forms of held-in-secret information, R&D activities, databases, software developed in-house, specialised design, manufacturing or other technology.	
Brand name	IR – BRAND-Rep	Brand name recognition and reputation, and the number of unique brands that the company owns.	
Corporate image/reputation	IR – CORP-Rep	Overall reputation and the public perception of the organisation.	*Reputational Assets*
Customer service reputation	IR – CUSTSER-Rep	The perception about the quality and reliability of post sale support provided by the organisation.	
Product/service reputation	IR – PRODSER-Rep	The perception about the quality and reliability of the products and services offered by the organisation.	

Capability oriented properties (CAP)

Human capital	CAP – HUMCap	The skills, expertise, creativity, innovative thinking, pro-activity, collective learning, and know-how of employees.	
Networking capabilities	CAP – NETW	Relationships established and maintained with external constituents such as customers, distributors, agents, suppliers, outsourcing partners, strategic alliances, government and bureaucratic institutions, and other collaborations.	
Business processes	CAP – BUS-Process	Systems (*e.g.*, intranet and ERP) that support inter-functional coordination of activities, processes for acquiring supplies and other raw materials along with optimising logistics and warehousing activities (*e.g.*, SCM), and other IT systems that help information processing about customers and markets (*e.g.*, CRM).	*Capabilities*
Knowledge management skills	CAP – KNOWL	Collaborative platforms such as social software tools (*e.g.*, blogs, wikis, and mash-ups) that enhance the open communication, facilitate knowledge sharing and help revealing embedded tacit and strategic knowledge.	

Organisational routines	CAP – ORGRout	The series of repeatable or replicated actions, methods, tasks and functions (*e.g.*, rules, procedures, conventions, technologies and strategies that were mostly codified in manuals) performed in the organisation by specific people at specific times.	

Performance (PER)

Sales turnover	PER – ST	Annual sales generated by the operations.	
Market share	PER – MS	The percentage of the market accounted.	*Performance*
Profitability	PER – PROF	The ability to generate earnings relative to sales.	

APPENDIX C – EXAMPLE OF GROUNDED THEORY DATA ANALYSIS

An example of the application of the grounded theory process is provided below. An extract from a transcript of an interviewee which is a representative of other transcripts is used. Although the sample is a brief extract and it does not highlight all of the phenomena, it is an appropriate representative of the process used throughout the data analysis.

Transcript Extract

The first step is undertaken to identify the phenomena and to examine the text through looking at events, objects, actions, or interactions that are considered relevant to the research. Phenomena are identified in the below transcript extract and are numbered and marked in bold.

Sample #1:

Interview date: 10.04.2012

> Erm, then the senior team that was formed to help outsider consultants made a conclusion that **(1) they wanted to be able to realise this change**, and as a result of that, **(2) from top to bottom**, **(3) our staff showed a keen interest for achieving this**. And then a **(4) lot of collaboration across functionality** between headquarters, branches, and other departments occurred **(5) to end this in the best manner**. Indeed, it was a difficult and **(6) long period of time** whilst **(7) members of the whole organisation collaborated** on it. The fact that **(8) everyone focused on the target and decided to do stuff** in line with the requirements of the project, we needed to **(9) figure out the most efficient way of doing it**. And the reason it took so long, actually it is not finished yet, is because of having that **(10) effective and excited conversation** which took place among our staff in the **(11) different branches who were saying we want to do this way and the consultants saying well, are you sure that makes sense that is a kind of issue needs serious remediation.** However, although we were expecting to have at least modest resistance from our employees, **(12) they have been so willing and supportive** during the process. This situation really impressed me and made me think that the bank created some kind of a **(13) change management capability** with **(14) the help of corporate culture**. We always **(15) respected to our employees and concerned them as a real source for sustaining competitive advantage** since the establishment of the bank. Besides, we have **(16) encouraged them (17) to develop their personal and technical skills**, and **(18) made them feel as our partners rather than employees**. For this reason, we always **(19) refrained adapting a strict hierarchical structure** to the bank. I believe we are getting our **(20) human resources investments** worth now.

Sample #2:

Interview date: 29.03.2012

Probably the **(21) brand name has the priority** mostly in mind's of the customers. In fact, we thought that **(22) the patents and licences might have a little bit more importance** for the firm, but what we think may not be same with what our customers think and **(23) they are (customers) always right**. However, **(24) brand and patent are really attached** to each other. Those are the things to be considered for a real valuation of a firm apart from **(25) cash flow statements and equipment**. **(26) Ownership of well-known brands is extremely important** in our (food) business where hygiene and **(27) product reliability issues cause maximum concern on customers**. A recent marketing research study indicated Ülker as the second **(28) most recognised brand** in Turkey, in all categories.

Sample #3:

Interview date: 30.05.2012

(29) Human capital is a big deal in this business. This business, just like I think most all businesses that must produce **(30) special services** and sell directly to their customers, **(31) the human piece of this is a big intangible resources**. For this reason, we need to understand the **(32) dedication and talent of our people** and utilise from them as much as we can. We have several consultants who are just **(33) extremely talented people** that do **(34) high quality** job of **(35) understanding the needs of the customers** and **(36) offering different sophisticated solutions**. This is the rule of the game, competition is fierce in every industry and you are on the stage as long as you can differentiate yourself from others. In this context, our **(37) organisational culture dictates to us excellence** in delivering what we promise and adding value beyond the expectations and we believe that **(38) excellence can only be achieved through innovation, agility and skilled people** who are open to learning. **(39) Recruiting enough good people** is a big challenge for us because there are simply not enough new skilled graduates at our standards. Therefore, apart from attracting **(40) talented people** by using our **(41) corporate reputation** and offering a high standard of life for the future to work and stay with us, **(42) we have to provide our people the opportunity to learn, grow, and succeed** on their own terms as well. Having **(43) the best consultants is the only way** of keeping and retaining **(44) our customers whose relationships trace back** to 10 to 15 years.
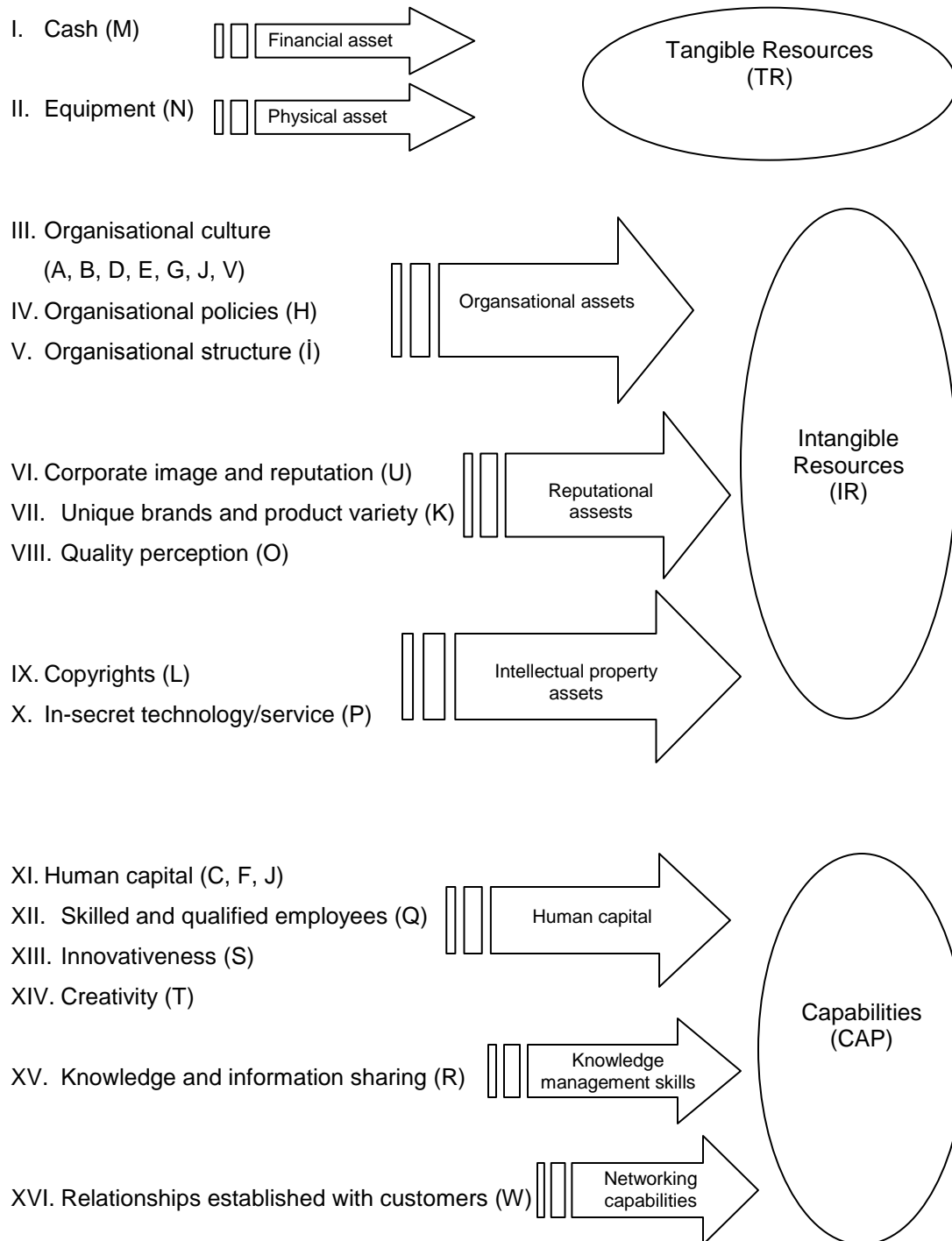
Phenomena identified from the extracts are labelled and listed below:

(1) Future plan
(2) Motivation from top to down
(3) Ambition of the staff for success
(4) Functional cooperation and collaboration
(5) Efficiency sought
(6) Concern for time
(7) Altogether collaboration
(8) High commitment
(9) Efficiency and optimisation search
(10) Effective communication
(11) Joint decision making, different visions
(12) High commitment
(13) Organisational agility
(14) Supportive corporate culture
(15) Highly respected and empowered staff
(16) Consideration of the needs of the employees as a policy
(17) Investing to HR
(18) Empowered staff
(19) Flat organisational structure
(20) Investing to HR
(21) Importance of brand
(22) Importance of patents and licences
(23) Customer orientation
(24) Brand and patent relationship
(25) Use of cash flow and equipment
(26) Well-known brands
(27) Product quality concerns of customers
(28) Recognised brand
(29) Human capital as a source of performance
(30) Special services
(31) The role of HR quality
(32) Highly dedicated staff
(33) Skilled and qualified staff
(34) High quality concern of the firm
(35) Knowledge and information gain
(36) Solutions that comprise know-how
(37) The role of organisational culture
(38) Innovativeness and creativity of staff
(39) HR policies adopted
(40) Quality and skills of the employees
(41) The role of corporate reputation
(42) Learning desire of the staff / HR policy
(43) Quality and skills of the employees
(44) Long-term relations with the customers

The next stage of the coding process includes grouping similar phenomena and re-labelling them as concepts. The number shown in brackets names relate to the phenomena numbered in the previous step.

(A) Core values, shared vision and attitudes (1, 3, 5, 6, 9, 14, 37)
(B) Organisational commitment (2, 8, 12, 32)
(C) Teamwork (4, 7)
(D) Open communication (10)
(E) Joint problem solving (11)
(F) Change management skills (13)
(G) Empowerment, job satisfaction (15, 18)
(H) Firm policy (16, 17, 20, 23, 34, 39)
(I)   Flat organisational structure (19)
(J) Investment to HR (17)
(K) Unique brands (21, 24, 26, 28)
(L) Registered and protected patents and licences (22, 24)
(M) Cash flow (25)
(N) Equipment (25)
(O) Quality perception (27)
(P) Professional service know-how (30, 36)
(Q) Skilled and qualified employees (29, 31, 33, 40, 43)
(R) Knowledge and information sharing (35)
(S) Innovation ability (38)
(T) Creativity (38)
(U) Strong corporate reputation (41)
(V) Openness to learning (42)
(W) Relationships established with customers (44)

In the last stage of coding, concepts that were found to be conceptually similar or related are then termed categories. The letters shown in brackets related to the concepts presented in the previous step.

I. Cash (M) → Financial asset →

II. Equipment (N) → Physical asset →

Tangible Resources (TR)

III. Organisational culture
(A, B, D, E, G, J, V)
IV. Organisational policies (H)
V. Organisational structure (İ)

→ Organsational assets →

VI. Corporate image and reputation (U)
VII. Unique brands and product variety (K)
VIII. Quality perception (O)

→ Reputational assests →

IX. Copyrights (L)
X. In-secret technology/service (P)

→ Intellectual property assets →

Intangible Resources (IR)

XI. Human capital (C, F, J)
XII. Skilled and qualified employees (Q)
XIII. Innovativeness (S)
XIV. Creativity (T)

→ Human capital →

XV. Knowledge and information sharing (R)

→ Knowledge management skills →

XVI. Relationships established with customers (W)

→ Networking capabilities →

Capabilities (CAP)

***Terminology is consistent with that of causal network models.

APPENDIX D – SURVEY QUESTIONNAIRE

1. Firm Resources

This part of the questionnaire aims to explore the impact of various tangible and intangible resources on your market performance. A rating of 0 implies that the factor has, compared to other factors, no impact on your ability to successfully compete in the market, while a rating of 4 implies that the factor has, compared to other factors, high impact on your ability to compete successfully in the market. Please rate your assessment of each factor below, by circling the single most appropriate response.

	Comparatively no impact in our market performance				Comparatively high impact in our market performance
1. Contracts and partnerships (*e.g.*, joint ventures, mergers and acquisitions, agency, franchising, distribution, and/or licensing agreements, property leases, *etc.*) have:	0	1	2	3	4
2. Proprietary/held-in-secret technology (*e.g.*, customised software, specialised manufacturing technology, software developed in-house, *etc.*) have:	0	1	2	3	4
3. The operating and reporting structure of the firm has:	0	1	2	3	4
4. Physical equipment and other physical assets (*e.g.*, machinery, tools, vehicles, *etc.*) have:	0	1	2	3	4
5. Legally-protected designs have:	0	1	2	3	4
6. The skills, expertise and decision making abilities of managers have:	0	1	2	3	4
7. Legally-protected trademarks have:	0	1	2	3	4
8. The shared values, beliefs, attitudes and behaviours of employees and managers of the firm (*i.e.*, firm culture) have:	0	1	2	3	4
9. Raised financial capital (*e.g.*, secured bank loans, issuance of shares or bonds, *etc.*) has:	0	1	2	3	4
10. Customer service reputation has:	0	1	2	3	4
11. Cash (on hand/at bank) earned from operations has:	0	1	2	3	4
12. Employee recruitment, compensation, reward, and training policies (*i.e.*, human resource management policies) have:	0	1	2	3	4
13. Raw material (in stock) has:	0	1	2	3	4
14. Brand name reputation has:	0	1	2	3	4
15. The overall skills, creativity, innovativeness and knowhow of employees have:	0	1	2	3	4

	Comparatively no impact in our market performance				Comparatively high impact in our market performance
16. Buildings and other physical structures (*e.g.*, factories, offices, warehouses, stores, showrooms, *etc.*), including their location, have:	0	1	2	3	4
17. Relationships that employees and managers have established and maintained with external constituents (*e.g.*, customers, distributors, agents, suppliers, outsourcing partners, government *etc.*) for the firm's benefit have:	0	1	2	3	4
18. Company reputation has:	0	1	2	3	4
19. Knowledge management and sharing skills (*e.g.*, collaborative platforms, social software, blogs, wikis) have:	0	1	2	3	4
20. Legally-protected patents have:	0	1	2	3	4
21. Land, including its location, has:	0	1	2	3	4
22. Organisational routines (*e.g.*, rules, procedures, conventions, technologies and strategies that were mostly codified in manuals) have:	0	1	2	3	4
23. Financial investments (*e.g.*, financial instruments, company shares, equity positions in other companies, *etc.*) have:	0	1	2	3	4
24. Legally-protected copyrights have:	0	1	2	3	4
25. ERP, supply chain, and logistics systems have:	0	1	2	3	4
26. Product/service reputation has:	0	1	2	3	4
27. Operational processes that support the whole organisational units and help information processing about customers and markets (*e.g.*, IT systems, call centres, CRM) have:	0	1	2	3	4

2. Industry Characteristics (Control Variables)

This part of the questionnaire is designed to ascertain various characteristics of the industry within which your firm belongs. Please circle the single most appropriate response for each of the items listed below.

	Very low				Very high
28. In our industry, the degree to which competitors are roughly equal in size and power is:	1	2	3	4	5
29. Overall market growth in our industry is:	1	2	3	4	5
30. The number of competitors vying for customers in our industry is:	1	2	3	4	5

	Very low				**Very high**
31. The fixed cost structure required to compete in our industry is:	1	2	3	4	5
32. The intensity with which competitors jockey for a better position in the industry is:	1	2	3	4	5
33. In our industry, the degree to which only a few competitors dominate the market is:	1	2	3	4	5
34. The extent to which price competition is used regularly in our industry is:	1	2	3	4	5
35. The degree to which competitors in our industry offer clearly differentiated products/services is:	1	2	3	4	5

	Very easy to enter				**Very difficult to enter**
36. How easy is it for new firms to enter and compete in your industry?	1	2	3	4	5

	No threat				**Extreme threat**
37. To what degree is your industry threatened by substitute products/services?	1	2	3	4	5

	Very weak power				**Very strong power**
38. What level of bargaining power (*i.e.*, ability to negotiate lower prices) do you have over your suppliers?	1	2	3	4	5
39. What level of bargaining power (*i.e.*, ability to negotiate lower prices) do customers have over your firm?	1	2	3	4	5

3. Profitability and Market Performance

This part of the questionnaire is designed to assess success levels. Please circle the number best estimating how your firm's success compared to close competitors over the last three (3) years.

	More slowly over the last three years		**At about the same rate over the last three years**			**Much faster over the last three years**	
40. Relative to close competitors, our firm has been growing sales turnover:	1	2	3	4	5	6	7

	A smaller market share over the last three years		About the same market share over the last three years			A larger market share over the last three years	
41. Relative to close competitors, our firm has had:	1	2	3	4	5	6	7

	Less profitable over the last three years		About equally profitable over the last three years			More profitable over the last three years	
42. Relative to close competitors, our firm has been:	1	2	3	4	5	6	7

4. Demographic Details

This part of the questionnaire is designed to collect general demographic information about your firm. Please respond to each question as indicated.

43. Our firm has been in business for: _____ years (please specify a number)

44. Our firm has: _____ full time employees (please specify a number)

45. What is the primary business activity of your firm (please circle the corresponding number)

1. Banking & Finance   2. Construction   3. Telecommunications   4. Automotive

5. Textile & Apparel   6. Tourism   7. Oil & Petrochemicals   8. Food

9. Drugs   10. Retail   11. Computer and software   12. Logistics & Transportation

13. Other _____ (please specify)

APPENDIX E – PORTER'S FIVE FORCES FRAMEWORK

Michael Porter has been the first strategy scholar who applied the principles of industrial organisation (I/O) view which regard industry structure factors as the main determinants of firm performance, into the field of strategic management, particularly in the area of competitive advantage (Porter, 1980, 1985). Referred to as the "Porter's five forces model of competition", the framework has frequently been used in the strategic management literature to assess the competitive environment. According to Porter (1980, p. 46), "intense competition in an industry is neither coincidence nor bad luck. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry". The degree of competition that may range from *intense* to *mild* in an industry depends on five basic forces (see figure) and the combined strength of these forces determines the profit potential of any industry and thus firms' relative opportunity for superior performance (Porter, 1985).
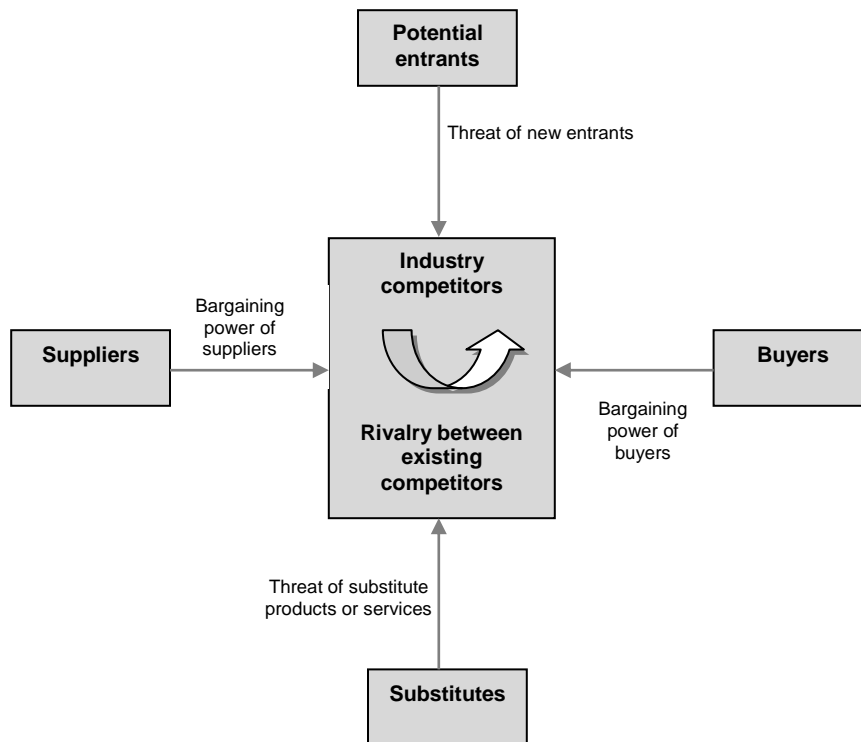
Figure: Porter's five forces model

(Porter, 1980)

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The basic competitive forces comprising the model that may be more or less prominent or active depending on the industry are *rivalry between existing competitors*, *threat of new entrants*, *threat of substitute products or services*, *bargaining power of suppliers*, and *bargaining power of buyers* (Porter, 1980, 1985).

The first structural force, *rivalry among existing competitors*, focuses on the level of competition of firms (*e.g.*, fierce or mild) within an industry, each jockeying for a superior position and takes the form of competition (*e.g.*, monopoly, oligopoly or free market) into account for the assessment of competitive environment. Mintzberg *et al.* (1998) suggest that the four other forces converge on rivalry and regard competition as "war". Hence, this force looks for explaining the conduct of firms engaged in the battle for market share and performance (Porter, 1980).

The second structural force, *threat of new entrants*, focuses on the strength of the entrance barriers of an industry which may restrict the influx of new entrants that desire to gain market share and substantial resources. Economies of scale, high investment or capital requirements, strong brand loyalty, and the necessity for product differentiation can be counted among the entrance barriers that make difficult for outsiders to gain entry and protect the industry's profit potential (Mintzberg *et al.*, 1998).

The third structural force, *threat of substitute products or services*, describes entities that can replace existing products and services in an industry. Whilst in industries where few product or service substitutes are available, industry profitability is protected, in industries where product or service substitutes that limit the profit potential of the industry by placing a ceiling on the prices firms can charge are abundant, industry profitability decreases (Porter, 1980). Hence, the level of competition depends on the extent to which products or services in one industry can be replaced by products or services from another (Mintzberg *et al.*, 1998).

The fourth structural force, *bargaining power of suppliers*, concentrates on the relative power and control that suppliers can or cannot exert over firms in an industry by raising prices or reducing the quality of purchased goods (Porter,

1980). If suppliers who wish to maximise their own profits are few and strategic, they may use their pricing advantage which can decrease the bargaining power of firms. This, in turn, does not only drive competition fiercer but also impacts overall industry performance negatively. Conversely, if suppliers are plentiful and commoditised, choice and bargaining power over price favours firms in the industry, which in turn positively impacts overall industry performance (Porter, 1980, 1985).

The fifth structural force, *bargaining power of buyers*, investigates relative purchasing power of customers who endeavour to bargain for lower prices and demand additional services or products of higher quality. Firms which provide concessions to buyers with high bargaining power necessarily increase the level of competition in the industry, which ultimately erodes industry profit margins.

Consequently, Porter's five forces framework considers the attractiveness of industry structure as an important determinant of profit potential of a firm. Porter (1990, p. 35) states that "the strength of each of the five competitive forces is a function of industry structure, or the underlying economic and technical characteristics of an industry… the strength of the five forces varies from industry to industry and determines long-term industry profitability". Therefore, a firm should carefully analyse the aforementioned forces in order to assess the profit potential of an industry before making a market entrance decision.

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