

**FUNCTIONAL UPGRADING, RELATIONAL CAPABILITY
AND EXPORT PERFORMANCE
OF VIETNAMESE WOOD FURNITURE PRODUCERS**

By

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Summary

Departing from my interest in finding key factors determining a developing country firms' export success, this research explores two fascinating topics: one is the debate on whether a developing country's producers should become involved in marketing functions where a developed country's firms already hold a strong position, and the other is the very limited attention given in the export literature to the role of relational capability in a firm's export business.

This research applies value chain analysis to examine the link between functional upgrading and a firm's export performance. The resource based view, dynamic capability perspective, and relationship management literature are also used in the research to study the role of a firm's relational capability in its export business. The research includes an explorative study and a hypothesis testing study. A qualitative methodology with in-depth interviews, direct observation and case study analysis methods was employed in the explorative study. The quantitative methodology based on statistic tools including confirmative factor analysis and linear multiple regression was applied in the hypothesis testing study. Empirical studies were done in Vietnam's wood furniture industry. The findings from the explorative study signal the positive impact of functional upgrading and relationship development on a firm's export development. The findings show that combination of different functions in different value chains is a good strategy for long term development the global market. The findings from the hypothesis testing study generally confirms the positive relationship between marketing function and export success of a developing country firm and relational capability is a critical capability for a its export business. Specifically, data analysis results confirm the positive effects export market intelligence, export promotion, export product adaptation, and export pricing, although the significances of export distribution and after export sale activities were not confirmed. Relational capability was empirically confirmed to not only directly contribute to export performance but also strengthen the efficiency of export marketing activities including export marketing intelligence and pricing.

The research provides some theoretical and managerial contributions. This research provides an answer to the debate by arguing that moving beyond manufacturing to marketing function will lead to a firm's export success. This research not only proves that functional upgrading closely links to firm's export success but also points out how each specific marketing responsibility contributed to a firm's export success. In addition, this research makes the dynamic capabilities approach more applicable to the extent that it specifies that dynamic capabilities include relational capability. This research brings a new light to the export literature that relational capability is an important determinant factor on export success. Moreover, this research suggests that firms should be active in both relationship development and export marketing responsibility. The research also points out which export marketing activities a firm should focus on more and which skills contributing to relational capability that a firm should develop. Finally, the research signalizes some of its drawbacks which might be made good in future research in this field.

Key words: Functional upgrading, relational capability, export performance.

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CHAPTER 1: INTRODUCTION

1.1. Motivation and backgrounds for study

Departing from my interest in finding key factors determining developing country firms' export success, this research explores two fascinating issues. One issue is the question whether developing country producers are better off by “sticking to their knitting” in continuing to specialize in upstream activities including manufacturing, while leaving the downstream activities - such as marketing and sales – in the hands of its international partners; or, alternatively, by involving themselves in the downstream activities as an add-on to their own manufacturing. The other key issue addressed in this thesis is how much of a role “*relational capability*” of developing country firms plays in relation to their export performance.

In previous eras, participation in the industrial segments of global value chains provided the source for sustainable income growth (Kaplinsky, 1998). But, in an increasingly globalizing economy, due to the increasing accession of firms from developing countries as a result from their governments' export oriented strategy, competition in markets of traditional manufactured products becomes highly competitive. In response to this wave, firms from high income economies tend to consolidate core competence and delegate labor-intensive activities to partners in developing countries where labor cost is much lower. This sourcing trend, in turn, pulls in an increasing number of producers from developing countries to work as suppliers for sourcing firms. These industrial niches have become more and more intensified, raising the fear of immiserising industrial growth (Kaplinsky, 1998).

Kaplinsky and Readman (2000) find the existence of immiserising growth in a furniture sector where there are a number of countries that have experienced growing export volumes and falling aggregate receipts. Kaplinsky (2005) provide evidences of the decline in the terms of trade for developing country manufactured exports. Too many enterprises from low labor cost economies are compressing into the manufacturing stage, leading to the price and profit squeeze in manufacturing. Schmitz (2006, p. 563) point out that:

“Many producers, especially those of small and medium size, find that participating in and gaining from the global economy do not always go together. This then gives rise to the question whether other nodes of the value chain (such as logistics, design, marketing) offer higher returns. On this critical question there is little information.”

In fact, the critical question of whether developing country producers should specialize in manufacturing, delegating the design and marketing function to their international partners or whether they should undertake those functions has been theoretically debated among different literature streams.

Competitive advantage theory suggests that a firm should focus on what it does well and give away activities in which it has a less competitive advantage. The argument for international specialization is based on the comparative advantage of nations which recommends that firms in labor abundance countries should focus on producing labor intensive products. Compared to sourcing firms from high income countries, developing country firms have more advantage in producing labor- intensive product due to low labor cost while they also are not as advantaged in marketing since there is a lack of managerial skills, marketing knowledge as well as the capacity to brand in consuming markets. According to this reasoning, for economic efficiency, developing country firms should specialize in producing and delegating export marketing responsibility to foreign partners.

On the contrary, value chain literatures recommend a move toward a design and marketing function. The underlying idea of this literature stream is that competing in today’s intensified competitive global market, a market where buyers demand many more attributes in addition to price – such as product variety, quality, customization – firms in low income countries need to develop competencies that go beyond the traditional factor of low labor cost. These capabilities include skills, management practices, and productive relationships that allow firms to combine speed and scale with higher order functions such as design, consistency in quality, low inventories, timely supply, and direct ties to world distribution networks to build more dynamic comparative advantages (Tewari, 2006). Global value chain (GVC) literatures (Gereffi,1999b; Gereffi, 2001, Kaplinsky&

Readman, 2001; Humphrey, 2004; Bair and Dussel, 2006) indicate the inequality in value distribution among the chain leader and producers. Thanks to the advantage of being closer to the consuming market, sourcing firms often make decisions about from whom to source, what qualification products have to be met, and the price of the finished product. Due to the lack of branding activities in consuming markets, many developing country producers work as processors, having to accept term and conditions set up by sourcing firms, unable to set up a better price, and even accepting a price lower than that of competitor's contracts. Gereffi (1999a) argues that to get higher income, a developing country firm needs to move to more value added activities including marketing and design. Gereffi (1999a) names the process in which a firm moves beyond the manufacturing function to other functions in the downstream and upstream end as a functional upgrading. Some global value chain studies (Gereffi, 1999a; Kaplinsky et.al, 2003; Humphrey, 2004) have brought to the debate their arguments on functional upgrading as a determinant of a firm's sustainable development. But these literatures lack the empirical support of larger- scale observations. Most of them are based on a small number of observations.

Notably, the recent GVC studies (Bazan and Navas-Aleman, 2003, 2004, Schmitz, 2006) begin their query by asking whether functional upgrading really makes developing country firms better off. In an empirical study on the Brazilian shoe industry, Bazan and Navas-Aleman (2003, 2004) find that the profitability of manufacturers who embarked on selling their own design and established their own marketing channel is not higher than the profitability of those who kept to manufacturing only. They conclude "We did not find evidence of increased incomes for firms pursuing functional upgrading activities in the Sinos Valley in comparison to others that remained solely unbranded manufacturers. Investments in marketing, design and branding are high at the beginning so perhaps another survey should be made in a few years' time to measure whether the returns justified such expenditure" (Bazan and Navas-Aleman, 2004, p.127).

In fact, the debate is two sides of the same coin which motivates me to develop a further theoretical discussion. On the one side, for economic efficiency, a

developing country firm should not involve themselves in design and marketing functions through which developed country firms keep strong positions. However, on the other side, such an international division of labor creates the opportunity for powerful actors to act as leaders, taking the authority in deciding economic returns for other members of the value chain, possibly furthering the inequality in value distribution among the chain leader and producers. Improving market power is only one way for developing country firms to balance asymmetrical power. Developing higher skilled functions such as design and marketing, that is, accomplishing *functional upgrading* (Gereffi,1999a; Kaplinsky et.al, 2003; Humphrey, 2004) is a way for developing country firms to increase economic returns. To deal with this debate, the research provides theoretical discussions inspired by two different literature streams: the stream based on economic efficiency and the stream based on economic returns.

Actually, if the above debate is examined from another perspective, such as the relationship management perspective, the solution for the debate becomes more complicated. The literature which studies the inter-organizational relationships (Thorelli,1986; Jarillo, 1988; Gualati, 1998; Gulati & Gargiulo, 1999; Ritter, 1999; Muller& Halinen, 1999; Ritter et al, 2004) consider a firm's capability to tap into an external resource as a firm's critical capability which even more important than a functional capability when such a firm joins the global market. Zhang et al (2003, p. 550) argue

“In increasingly competitive global economy, classical marketing tools such as price and product quality are susceptible to imitation by rivals, which supports the notion that a more enduring source of advantage may stem from mutually beneficial, trusted based relationship with local distributors. Studies of international channels suggest that a fundamental characteristic of superior exporters may be their effective use of relational norms in governing their foreign distributors”.

Moreover, the successful export performance of small firms in Italy (UNIDO 1997, UNIDO 1998), and in some developing countries (Rabellotti, 1993; Nadvi,1995; Humphrey and Schmitz 1995; Ceglie and Dini, 1999; Ghauri et.al., 2003) are reported to be caused by their cooperative business relationships with

partners rather than by their own effort in design and marketing. It can be further deducted that if a firm specializes in a global value chain, then such firm can still obtain high income provided that the firm holds positive coordinating capability and/or relational capability. Such relational capability may be more important than design or distribution capability because a firm can outsource those functions from other partners in a network. However, this deductive argument seems to be unexplored in export performance literatures. Reviews of export performance literature (Cavusgil & Zou 1994; Zou & Stan 1998; Shoham, 1998; Katsikeas et.al 2000, Leonidou et.al 2002; Balabanis et.al 2004) show that there has been almost no study on the effect of a firm's relational capability to its export performance. Actually, there have been some studies of international channels regarding the role relational factors play in a firm's export success. Zhang et al (2003), in their review of studies of international channels (Fram and Ajami, 1994; Arnold, 2000; Skarmeas and Katsikeas, 2001), suggest that a fundamental characteristic of superior exporters may be their effective use of relational norms in governing their foreign distributors. The only study found that looks at the link between relational capability and export performance and turns out to measure the effect of relational factors on export performance is by Ling-yee and Ogunmokun (2001). Although they use the term '*relational capability*', what they measure in their study is not this concept. The export performance literatures' omission in studying the role relational capability plays still needs to be fulfilled. This absence motivates me to incorporate the role of relational capability in my exploration of export performance determinants of developing country firms.

1.2. Positioning the study

Dealing with the debate about whether developing country producers should move beyond manufacturing to design and marketing functions which developed country firms hold strong positions, the research positions itself between two different literature streams. One stream is based on economic efficiency, including the concept of competitive advantage; the other is based on economic returns including value chain analysis. More specifically, value chain analysis is

applied as the main framework to analyze the link between functional upgrading and a firm's export performance.

To address the omission of the role relational capability in export performance literatures, this research employs a combination of three literature streams including a resource based view, a dynamic capability perspective and relationship management literatures in order to analyze the link between relational capability and export performance.

The research therefore involves several schools of literatures: export literature, competitive advantage theory, value chain literature including value chain analysis and global value chain analysis, resource base perspective, dynamic capability perspective, relationship management literature. The research issues are solved by linking these streams of literature together. In fact, the research focus is the overlap among these literature streams.

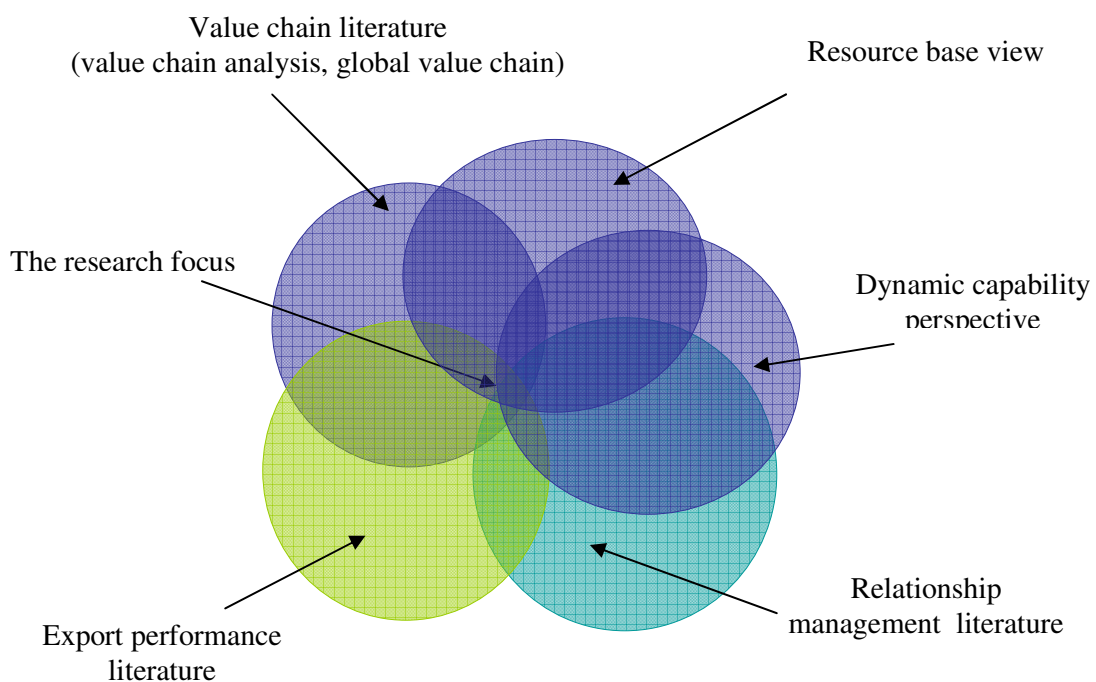


Figure 1: Research focus

1.3. Objectives of study and research questions

Being motivated by the above mentioned debate and gap in the literature, this research focuses on the main query about *the implications of functional upgrading and relational capability to export performance of developing country firms*. The research aims at:

- (i) Examining, both theoretically and empirically, the interrelationship between *functional upgrading* of developing country firms and their export performance.
- (ii) Examining, both theoretically and empirically, how *relational capability* affects (moderates) this interrelationship between functional upgrading and export performance of developing country firms

To obtain the research objectives, five research questions are set up as follows:

1. How does functional upgrading – involvement in downstream activities - take place in a specific industry selected for this study (the furniture industry in Vietnam)?
2. How do business relationships develop in the industry selected for study?
3. How does functional upgrading affect developing country firms' export performance?
4. Does developing country firms' relational capability relate to their export performance?
5. Does developing country firms' relational capability moderate the relationships between their functional upgrading and export performance?

1.3. Research methodology designed

This research comprises empirical studies. It takes exporting firms in a developing country as its level of analysis. To answer the research questions, two kinds of studies are set up. One is an explorative study of the industry selected for this empirical research, namely the Vietnamese furniture industry. The other is a hypothesis testing study.

The explorative study is aimed at: (i) providing an answer for the first and second research questions, (ii) supplying empirical basis for the model specifications built in the hypothesis testing study. The hypothesis testing study is aimed at answering - both theoretically and empirically - the third, fourth and fifth research questions. The research therefore employs both quantitative and qualitative methodologies. The qualitative methodology is used in the explorative study and involves in-depth interview, direct observation and case study analysis. The quantitative methodology is employed in the hypothesis testing study and involves statistical methods such as Confirmative Factor Analysis and multiple regression.

Empirical studies are to be done on the population of firms in a single industry in one developing country. The industry selected is Vietnam's wooden furniture industry. There are several reasons why this industry is appropriate for an empirical study. Firstly, the wood furniture industry is a traditional manufacturing sector and employs large amounts of labor. The study of such an industry has wide sectoral significance. At the same time, it also flourishes in high-wage economies, suggesting that there is a potential upgrading path which allows firms in low-wage countries to pursue development. Secondly, I believe that by focusing on Vietnam, an emerging economy, we can shed light on the development pathway for firms in other developing economies with a similar institutional context. In the context of an emerging market, where international players come to find suppliers, this empirical study on a firms' ability to utilise external relationships in conducting their export business promises fruitful managerial implications. Moreover, Vietnam provides a good context for such a study interested in business relationships because Vietnam is a collective culture and relationships are considered important. Additionally, the study on this industry is significantly meaningful for Vietnamese policy makers and firm managers because in Vietnam there has been no mass survey research on the sector available up to now.

1.5. Outline of the research

The remaining part of this research is divided into seven chapters.

Chapter 2- Literature review

This chapter recaps key contributions of the literature streams which are relevant to the problems set up for study. The chapter begins with export performance literature in section 2.1. The recapitulation of value chain approaches including value chain analysis and global value chain analysis are presented in section 2.2. Global value chain literatures are the most extensively reviewed because they are much more relevant to the discussion. The chapter goes on with a review of the Resource-based view in Section 2.3, dynamic capability perspective in Section 2.4, and ends with a recapitulation of relationship management literature in connection with relational capability.

Chapter 3- The explorative study on Vietnam wood furniture industry

This chapter presents the explorative study of the Vietnam wood furniture industry to find the answer for the first and second research question as well as empirical basis for the model specifications built in the hypothesis testing study. The chapter starts by outlining the context of the Vietnam wood furniture industry and continues with a description of the industry's development. The positioning of the Vietnamese wood furniture producers and their moves toward functional upgrading are introduced in section 3.3. The chapter resumes with cases of successful export development in which analyses of the firms' design and marketing activities, and relationship building experiences are presented in section 3.4. The chapter ends at section 3.5 with a summary of findings, answers for the first research question, and suggestions for an empirical model in the hypothesis testing study.

Chapter 4- Conceptual model and hypothesis

This chapter aims at providing theoretical discussion leading to the development of hypotheses on the relationships between functional upgrading, relational capability and export performance. The hypotheses are theoretical answers for the third, fourth and fifth research questions. The chapter begins with section 4.1

where definitions relating to key concepts of the research are discussed and goes on with section 4.2 where hypotheses are presented. The discussions on other potential predictors of export performance are included at the end of the chapter.

Chapter 5-Research methodology

This chapter presents methodology employed to test the hypotheses built in Chapter Four. The chapter begins with a presentation of the empirical model and the measurement procedure where variables are operationalized. The chapter continues with issues relating to research design, choice of statistical tools, data collection including method, sampling, process and respond rate. The chapter ends at analysis of the reliability of the data.

Chapter 6-Result of data analysis

This chapter provides results of data analysis. The chapter starts with the description of data screening which include data missing, outliers. The chapter continues with the testing for non response bias, the testing for assumption of linear regression, the testing for the validity of the measurements. Descriptive statistics which provide an overview of the frequency, mean, standard deviation of the variables measured from the sample are followed. The chapter proceeds with the results of hypothesis testing and stops short of summarizing the testing results.

Chapter 7- Discussion and Implications

This chapter provides discussions on and implications of the hypothesis testing results. The chapter begins with section 7.1 which discusses the effects of variables, and stops at section 7.2 where implications including both theoretical and managerial aspects are presented.

Chapter 8- Conclusion

This concluding chapter aims at (i) reviewing all main research issues and findings of the research, (ii) checking the answers for the research questions, (iii) pointing the contributions, limitation of the research and suggesting future research directions.

In section 8.1, the chapter begins with a summary of research where the research issue, methodologies and findings of both explorative and hypotheses testing

studies are recapped. The answers for the research questions are presented in section 8.2. Contributions is presented in section 8.3 and limitations and future research recommendations are presented in section 8.4

CHAPTER 2: LITERATURE REVIEW

The aim of this chapter is to review the key contributions of literature streams that are relevant to the problems set up for this study. The main ideas of the reviewed works are introduced and discussed in connection with the research questions, and then used as a theoretical framework for developing the conceptual model. By reviewing these state-of-the-art literatures, this chapter positions the research study in the context of a vast amount of literature.

Firstly, export performance literature is reviewed to find up-to-date discussions on the determinants of a firm's export success. Then, value chain approaches, including value chain analysis and global value chain analysis, are extensively reviewed, as they are applied as the main framework that will analyze the link between functional upgrades and a firm's export success. Resource based views, dynamic capability perspectives, and relationship management literature are recapped, since they serve as background knowledge that helps to examine the role a firm's relational capability plays. Key contributions of the literature streams are to be recapitulated thereafter, in relation to the problems set up for the study.

The literature was identified by using electronic searching engines as well as manual searches in cases when electronic searching engines are inadequate. The electronic searching engines used are Google¹ and Google Scholar², which directly link to the Copenhagen Business School database. This method has the advantage of efficiently generating a large number of papers which contain the key search words and are published in a wide range of journals. Examples of key words include terms such as "export performance," "value chain," "relational capability," "relationship," and "marketing responsibility." The manual search, on the other hand, was directed at the key studies referenced by the studies which were found through the search engines. These materials were most often books or

¹ <http://www.google.com>

² <http://scholar.google.dk/>

studies inaccessible through the Internet and Copenhagen Business School database.

The chapter begins with export performance literature in section 2.1. The review reveals that export marketing responsibility and relational capability seem to be absent in the existing export literature. The recapitulation of value chain approaches, including value chain analysis and global value chain analysis, are presented in section 2.2. The review of GVC literature shows the link between functional upgrading and economic returns, and the resulting appeal of practicing functional upgrading. The review also provides the map of a value chain approach's functional activities and actors. Such a map is beneficial for exploring the wood furniture industry selected for this empirical study research. The chapter continues with a review of the Resource-based view in Section 2.3 and the dynamic capability perspective in section 2.4. The Resource-based view and the dynamic capability perspective are reviewed, in light of their connection to relational capability. The chapter ends with a recapitulation of relationship management literature in connection with relational capability.

2.1. Export performance literature

A review of the existing export literature shows that previous studies have addressed a wide range of topics, including export stimuli; export barriers; export promotion programs; foreign market selection, entry, and expansion; export marketing strategy; export development models; and export performance (Balabanis, et al. 2004). The large volume of publications on these issues has encouraged some researchers to review and synthesize the various literature in order to assess the conceptual, methodological, and empirical aspects of the studies concerned; to identify the aggregated implications for policymakers; and to facilitate theory advancement in this field. Previous papers reviewing export literature that can be classified with the above identified research streams include papers on the following topics: export stimulation (Leonidou 1995a); export barriers (Leonidou 1995b); the export development process (Leonidou and

Katsikeas 1996); export performance (Aaby and Slater 1989; Chetty and Hamilton 1993; Katsikeas, et al. 2000; Leonidou 1995a, 1995b; Leonidou, et al. 1998, 2002, Zou and Stan 1998; Katsikeas, et al. 2000; Balabanis, et al. 2004); and the export information system (Leonidou and Theodosiou 2004).

Recent reviews of export performance literature (Leonidou 1995a, 1995b; Zou and Stan 1998; Leonidou, et al. 1998, 2002; Katsikeas, et al. 2000; Balabanis, et al. 2004) converge to present three distinct sets of variables on which a simplified export performance model can be based. The first group includes variables that relate to managerial, organizational, and environmental factors. These variables serve as the background or antecedent forces in the sense that they indirectly affect export performance. The second group includes the intervening variables that directly affect export performance such as a firm's export marketing strategy (i.e., targeting and marketing mix programs). The third group consists of the economic and non-economic measures of a firm's export performance. Leonidou, et al. (2002) indicates a unidirectional causal relationship within which managerial, organizational, and environmental factors influence the firm's export targeting and marketing mix, which in turn affect export performance.

The latest and most comprehensive reviews (Balabanis, et al. 2004; Leonidou, et al. 2002; Katsikeas, et al. 2000) summarize a range of empirical studies on the link between organizational factors (including demographic aspects, operating elements, resource characteristics, and product characteristics—as well as the goals and objectives of the exporting firm, its size, and resource availability) and export performance; however, a firm's relational capability has been almost untouched by this literature. There have been some studies of international channels on the role of the relational factor in a firm's export success, however. Zhang, et al. (2003) reviews studies of international channels (Fram and Ajami 1994; Arnold 2000; Skarmeas and Katsikeas 2001) and suggests that a fundamental characteristic of superior exporters may be their effective use of relational norms in governing their foreign distributors. The only study that has been interested in the link between relational capability and export performance is

by Ling-yee and Ogunmokun (2001). However, although they use the term '*relational capability*', what they measure is not as such but the effect of relational factors (including relational cooperation and changes in relational intensity) on export performance. In other words, they fail to define and operationalize the concept '*relational capability*' and cannot provide a legitimate prediction regarding the link between "relational capability" and export performance. The export literature still necessitates a study on the effect of relational capability on a firm's export performance.

For intervening variables, Balabanis, et al. (2004); Leonidou, et al. (2002); and Katsikeas, et al. (2000) agree that a large number of studies examining the link between export performance and marketing strategy have found a positive relationship. Specifically, there is a strong association between export success and product quality, pricing strategy, dealer support, and advertising. Actually, marketing should be examined at the operational level rather than as only a strategy, because theoretically four P marketing strategies are needed for success in any business, and therefore, these strategies certainly seem to be associated with export success. However, the efficiency of marketing strategies depends not only on the appropriation of the strategies, but also on the feasibility of implementing the strategies. Implementation of a marketing strategy in the export business requires a large amount of resources and efforts that are often beyond the capacity of developing countries' firms. Moreover, strategy involves long-term planning which might not be appropriate in the cases of small and young firms in developing countries, since these firms are often involved in the export business as a result of outsourcing trends. Therefore, an analysis of the extent to which an exporting firm implements four P marketing strategies provides a more realistic understanding as to which marketing activities will lead to export success. However, the extent to which an exporting firm implements the four P marketing strategies, termed in this research study as export marketing responsibilities, is overlooked in existing export literature.

2.2. Value chain approaches

2.2.1. Value chain analysis

Value chain analysis was first introduced by Porter (1985) and provides two key elements:

- The value creation activities are performed in different connected stages (inbound logistics, operations, outbound logistics, marketing and sales, and after sales service), which are facilitated by supporting activities (strategic planning, human resource management, technology development, and procurement). Porter refers to these intra-firm linked activities as the value chain.
- The value creation activities need not be performed within a single value chain but may be provided by other chains. Porter completes the discussion of the intra-firm link function with the concept of the multi-linked value chain, which he refers to as the *value system*. The value system basically extends his idea of the value chain to inter-firm linkages.

Developing Porter's (1985) idea of a value chain, Kogut (1985) provides the concept of the value added chain, which he defines as "the process by which technology is combined with material and labor inputs, and then processed inputs are assembled, marketed, and distributed. A single firm may consist of only one link in this process, or it may be extensively vertically integrated" (Kogut 1985, p. 15). The key issues in this literature are which activities and technologies a firm should keep in-house and which should be outsourced to other firms, as well as where the various activities should be located (Gereffi, et al. 2005).

Since Porter (1985) and Kogut (1985), literature has evolved with various terminologies, with some terms that overlap but others that differ in their definition, focus and use. Such terminologies range from "value streams," (Womack and Jones 1996) to "commodity chains," (Gereffi 1994) to "production network" (Sturgeon, 2001). Sturgeon (2001) distinguishes the principle difference between "chain" and "network" as the former indicating the sequence of producing activities supporting end use, while the latter is a set of inter-firm relationships that bind groups of firms into a large economic unit.

Mizik and Jacobson (2003) add further analysis on Porter's (1985) value chain framework. They theorize that a firm must allocate its limited resources between two fundamental processes of creating value (i.e., innovating, producing, and delivering products to the market) and appropriating value (i.e., extracting profits in the marketplace). Two processes, which combine and interact, are fundamental to achieving superior financial performance:

“Value creation is a cornerstone of marketing....It postulates that for an organization to achieve an advantage, it must create superior value. Value creation alone, however, is insufficient to achieve financial success. A second necessary process involves a firm's ability to restrict competitive forces so as to be able to appropriate some of the value that it has created in the form of profit...Factors as varied as reputation and brand effects, customer switching costs, advertising, and network externalities, for example, are isolating mechanisms” (Mizik and Jacobson 2003, p. 63)

Mudambi (2007) develops Porter (1985)'s value system further, introducing the “smiley” model. This model depicts the extent of value creation at its different stages of creation. Mudambi (2007) posits that the ‘smiling curve of value creation’ depicts upstream and downstream activities at the ends of the curve, which are highly value-added activities. He lists such activities as basic and applied Rand D, design as part of the upstream end, while marketing, branding, and after-sales services are part of the downstream end. Mudambi's (2007) ‘smiley model’ actually indicates that the design and marketing function create higher returns than the manufacturing function.

2.2.2. Global value chain analysis

2.2.2.1. Concept of global value chain

Expanding value chain analysis to a system of inter-firm linkages on a global perspective, Gereffi (1994) introduced the term *global commodity chains*, which enabled important advances in the analytical and normative usage of the value chain concept. Based on Gereffi's (1994) analysis of *global commodity chains*, the global value chain (GVC) approach has been extensively developed by several

other researchers. GVC literature consider value chain as the range of link activities which are not confined to within a firm but all those activities between firms in the same country and across countries. Gereffi (1999a) distinguishes the global value chain approach from traditional internationalization theory, because the former focuses on globalization, which involves “functional integration and co-ordination of internationally dispersed activities,” while the latter is confined to internationalization. Internationalization depicts the trade of primary commodities that offer a small value added benefit before the shipment from developing countries to developed countries, a traditional feature of trade since the 17th century.

Developing from the ideas raised by Gereffi (1999a), Kaplinsky and Morris (2001, p. 4) define a value chain as “the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use.” From this definition, a *global value chain can be simply understood as the sequence of all functional activities required in the process of value creation involving more than one country.*

2.2.2.2. *Map of value chain.*

Generic map of value chain

A typical value chain often comprises production, design, retailing and co-ordination functions³, which make it possible to deliver value to the end users. Kaplinsky and Morris (2001) depict a simple value chain in Figure 2, showing linkages between four main functions of the value creating process: design, production, marketing and recycling. By looking at the production function at the center of the value chain, design, R and D, and procurement can be categorized as

³ Value chain coordination function is similar to the term “marketing” used in recent marketing textbooks in which marketing is considered a process of creating value by delivering products and services to and satisfying consumers (Kotler and Armstrong, 2005)

up-stream activities, while marketing and after-sale services are down-stream activities.

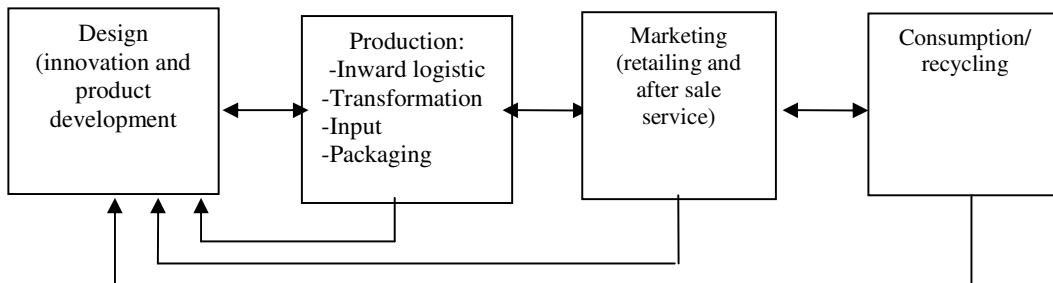


Figure 2: Simple value chain
(Source: Kaplinsky and Morris 2001, p.4)

This figure provides a basic picture of the value creating process. It specifies functions and activities along the value chain. However, it does not specify a value chain's actors and their linkages. In fact, the value chain of a finished product is much more complex than this. Sturgeon (2001) develops a more generic extended value chain depicted in Figure 3 below. In this figure, design is considered to take place after production. Design should be considered one input for production; thus, putting design function within the physical product flow may be inappropriate.

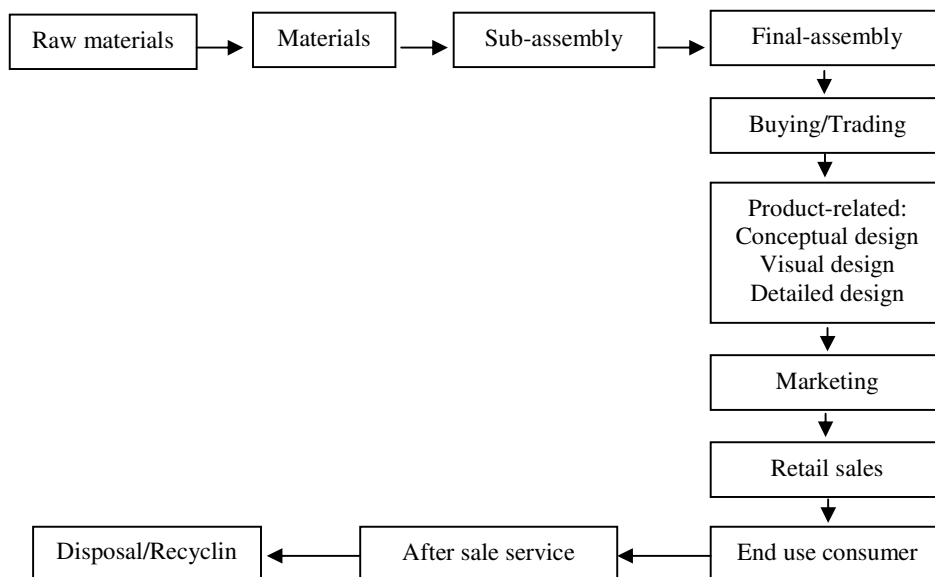


Figure 3: Generic extended value chain
 (Source: Sturgeon 2001, p.13)

Mitsubishi (2005) argues that value chain should not be seen as the sequence order of design, production, and marketing, because this linear sequence blurs the distinction between physical product flows and information flows. He proposes to separate design and marketing function in information flow while placing production function in physical flow. He also includes actors in value chain and his value chain figure is presented in Figure 4.

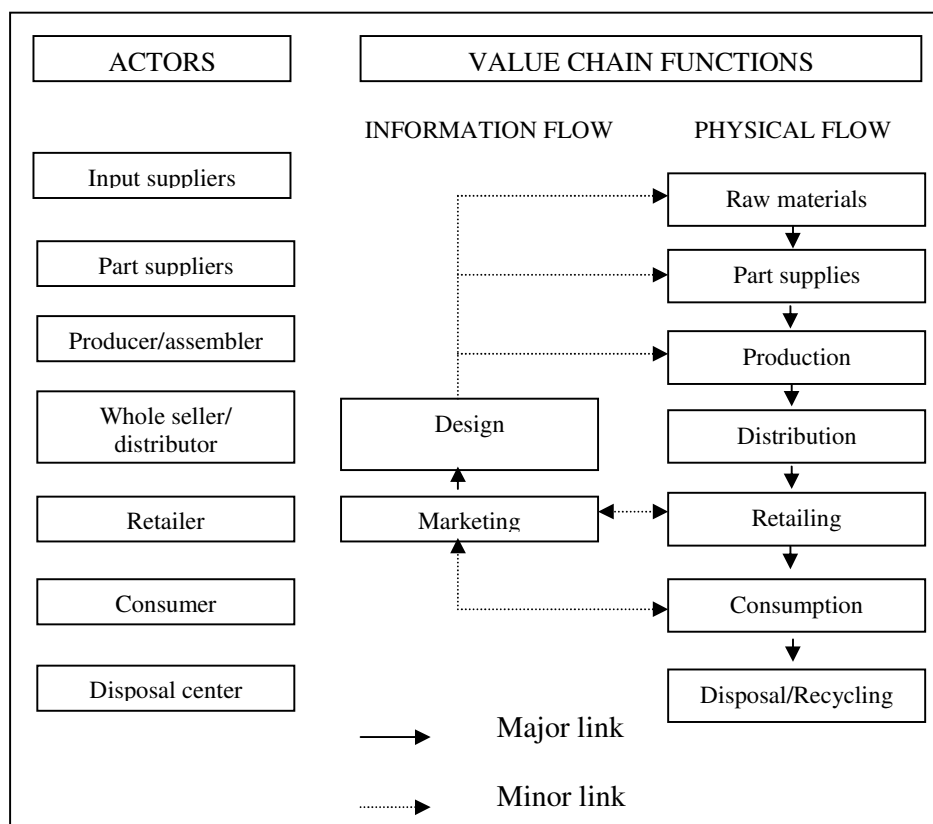


Figure 4: Value chain
 (Source: Mitsuhashi 2005, p.25)

Mitsuhashi's (2005) value chain figure depicts both value chain functions and actors, making distinction between information flow and physical flow. However, it is inappropriate to assume that whole sellers or distributors are the only ones in charge of design. In many cases, producers regard design and marketing responsibility as illustrated by certain case studies in the Vietnam wood furniture

industry. Additionally, marketing function should not be confined to only retail marketing. In the global market, business-to-business marketing also plays a significant role. Therefore, this figure can be applied to maps of the value chain of a finished product, if some modifications are made to overcome the mentioned weaknesses.

Map of furniture value chain

Based on the linkages among actors and sequences of activities along value chain, Kaplinsky, et al. (2003) presents a map of a wood furniture value chain as in Figure 5. The authors explain that activities in the global furniture value chain range from production (which can be done anywhere in the world) to retailing (which is carried out in the consuming market). Activities in the upstream end involve the forestry sector and its supplementary sectors such as seed inputs and water, as well as sawmills and their supplementary sectors such as chemicals and the machinery sector. Furniture producers obtain cut logs from sawmills and other inputs from the machinery, adhesives, and paint industries, in addition to design and branding services. Depending on which market is served, the furniture passes through various intermediary stages before it reaches final customers.

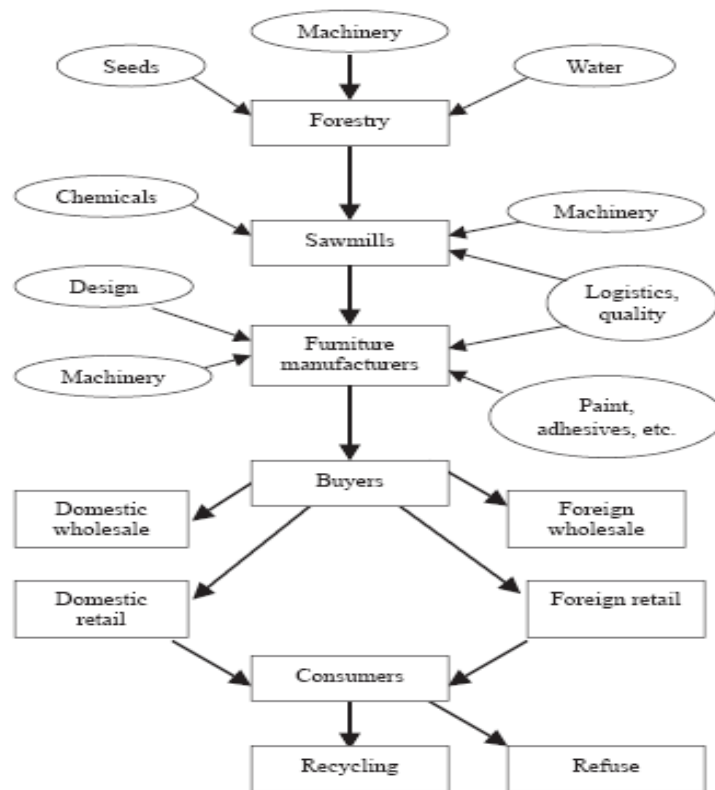


Figure 5: Wood furniture value chain
 (Source: Kaplinsky, et al. 2003, p. 6)

Kaplinsky, et al. (2003) note that distribution channels in consuming markets vary from region to region. For example, retailing is popular in France, Germany, large multi-store outlets in the USA and the United Kingdom, but small independent outlets are common in Italy. Kaplinsky, et al. (2001, p. 18) distinguish three major buying agents in a producer’s distribution channel: large multi-store retailers, small-scale retailers, and specialized medium-sized buyers.

2.2.2.3. Governance

The concept of ‘governance’ is central to the global value chain approach. Humphrey and Schmitz (2001) use the term to express that some firms in the chain set and/or enforce the parameters under which others in the chain operate. At any point in the chain, the production process (in its widest sense, including

quality, logistics design, etc.) is specified by a set of parameters which define the product and how, when, and how much of it is to be produced.

Gereffi (1999a) distinguishes two types of governance: those cases in which the coordination is undertaken by buyers (“buyer-driven commodity chains”), and those in which producers play the key role (“producer-driven commodity chains”).

“Producer-driven commodity chains are those in which large, usually transnational, manufacturers play the central roles in coordinating production networks...Buyer-driven commodity chains refer to those industries in which large retailers, marketers, and branded manufacturers play the pivotal roles in setting up decentralized production networks in a variety of exporting countries, typically located in the third world. This pattern of trade-led industrialization has become common in labor-intensive, consumer goods industries...” (Gereffi 1999a, p. 41-42)

According to Gereffi’s (1999a) categorizing, the industry selected for the empirical study in this research—the wood furniture industry—is more likely to be grouped in buyer-driven chains, where production seems to operate in developing countries, under the specifications of lead buyers from advanced economies.

Gereffi et al. (2005, p. 83-84) further extends to five basic types of value chain governance, including:

1. *Markets*. Market linkages do not have to be completely transitory, as is typical of spot markets; they can persist over time, with repeat transactions...
2. *Modular value chains*. Typically, suppliers in modular value chains make products to a customer’s specifications, which may be more or less detailed...
3. *Relational value chains*. In these networks we see complex interactions between buyers and sellers, which often create mutual dependence and high levels of asset specificity...
4. *Captive value chains*. In these networks, small suppliers are transactionally dependent on much larger buyers...Such networks are frequently characterized by a high degree of monitoring and control by lead firms.
5. *Hierarchy*. This governance form is characterized by vertical integration...

The success of Gereffi's, et al. (2005) theory of global value chain governance lies on its dynamic perspective. The theory point out that governance structure is not static. It can evolve over time, subject to changes of four key determinants, including complexity of transactions, ability to codify transactions, capabilities in the supply-base, degree of explicit coordination, and power asymmetry. For example, if the producer's capability improves to a high degree, governance structure can change from captive- to market-based. Gereffi's, et al. (2005) theory of global value chain governance opens the possibility that by improving capability, producers in captive chains can break the existing governance structure to gain a more favorable position in the chain.

Upon Gereffi's, et al. (2005) categorizing, the wood furniture industry can be subject to any one of the five governance types rather than to only the buyer driven chain.

2.2.2.4. Distribution of economic returns

How economic returns are distributed among members of the value chain is one of the GVC concerns. The notion of economic return that concerns the GVC is in line with the notion of value appropriation, raised by Mizik and Jacobson (2003) and reviewed above. They both indicate what a firm gains from buyers, for the value it provides the buyers.

In GVC literature, various terminologies are used to indicate economic return. For example, Gereffi (1994) uses the term 'wealth', Kaplinsky (1998) employs 'economic rent', and 'gain' is in Schmitz (2006). GVC literature (Gereffi 1999a, Schmitz 2006) provides fruitful analysis on how economic return is distributed in different types of value chain governance.

Adapting and extending the typologies of rents in Kaplinsky (1998), Gerrefi (1999a, p. 43) theorizes that:

“Producer-driven chains rely primarily on *technology rents*, which arise from asymmetrical access to key product and process technologies; and *organizational rents*, which refer to a form of intra-organizational process know-how... organizational techniques such as just-in-time production, total quality control,

modular production, preventive maintenance, and continuous improvement. Buyer-driven chains are most closely tied to *relational rents*, which refer to several families of inter-firm relationships... *trade-policy rents*, understood as the scarcity value created by protectionist trade policies like apparel quotas; and *brand name rents*, which refer to the returns from the product differentiation techniques used to establish brand-name prominence in major world markets.”

Empirical studies on distribution of gains along the chains by Fitter and Kaplinsky (2001), Kaplinsky and Fitter (2004), regarding the coffee chain, indicate inequality in distribution of gains between less developed and developing country producers and the global value chain leaders. Kaplinsky (2005) indicates the decline in the terms of trade for developing countries’ manufactured exports.

Summarizing key findings from empirical studies in coffee (Fitter and Kaplinsky 2001, Kaplinsky and Fitter 2004) and the shoe sector (Bazan and Navas-Aleman, 2003, 2004), on the gains along the chain, Schmitz (2006) concludes that on the critical question of whether other nodes of the value chain (such as logistics, design, and marketing) offer higher returns than manufacturing, there is little information.

2.2.2.5. *Industrial upgrading*

Typologies of industrial upgrading

The GVC literature provides a view of the industrial upgrading in a wider perspective, which is systemic in nature and involves groups of firms linked together in value chains. This relates both to the achievement of new product and process development, and in the functional reconfiguration of who does what in the chain as a whole (Kaplinsky and Morris, 2001). The concept of upgrading—making better products, making them more efficiently, or moving into more skilled activities—has often been used in studies on competitiveness (Porter 1990 and Kaplinsky 2001). Summarizing GVC literature’s idea on upgrading, Giuliani, et al. (2005, p. 9) represent a clear description of four upgrading typology of as below:

- (i) Process upgrading is transforming inputs into outputs more efficiently by re-organizing the production system or introducing superior technology
- (ii) Product upgrading is moving into more sophisticated product lines in terms of increased unit values
- (iii) Functional upgrading is acquiring new, superior functions in the chain, such as design or marketing or abandoning existing low-value added functions to focus on higher value added activities
- (iv) Intersectoral upgrading is applying the competence acquired in a particular function to move into a new sector.

Kaplinsky and Morris (2001) explain in detail that functional upgrading is changing the mix of activities within and between links. They depict functional upgrading as arrows from production to design and marketing and branding as in Figure 6.

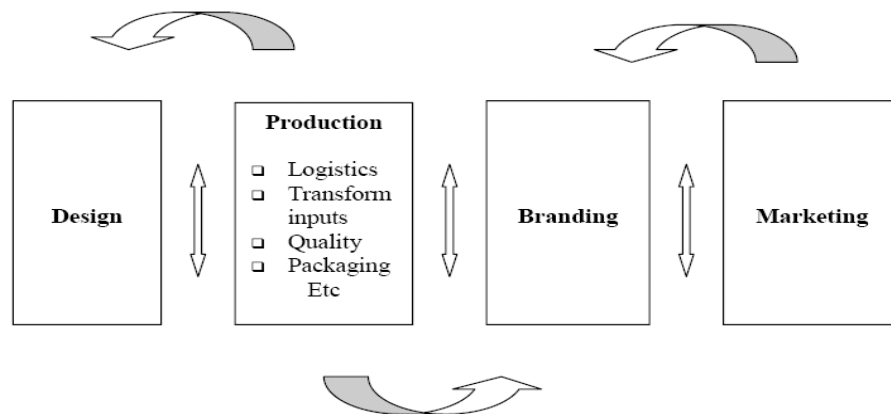


Figure 6: Functional upgrading
 (Source: Kaplinsky and Morris 2001, p. 39)

Gereffi (1999a) and Humphrey (2004) provide discussion on functional upgrading as a hierarchy mechanism, in which developing country firms transform from OEA production (original equipment assembling under contract to a global buyer) to OEM (original equipment-manufacturing manufacturer that is manufacturing a product under a buyer’s brand), to ODM (own design manufacturer) to OBM (own brand manufacturing). Mitsuhashi (2005, p. 31) adds more distinction on typologies of OEM and ODM:

“Blue print- OEM is original OEM under which buyer prescribe specific designs, directions and procedure engage solely in production activities. Copy-OEM is reproducing a product based on samples provided by buyers. Quasi-ODM signifies the transfer of product development function to the producers...ODM is a form of order mechanism under which producers are in charge of both product concept and product development...OBM is the final stage of order mechanism under which producers are engaged in their own brand development and the product is marketed under the producer’s brand.”

Upgrading and economic returns

The aim of upgrading, as suggested by GVC literature, is to increase economic returns. Summarizing key ideas in GVC literature on the relationship between economic returns and functional activities, Mitsuhashi (2005) draws a figure describing the link between upgrading and economic returns in Figure 7:

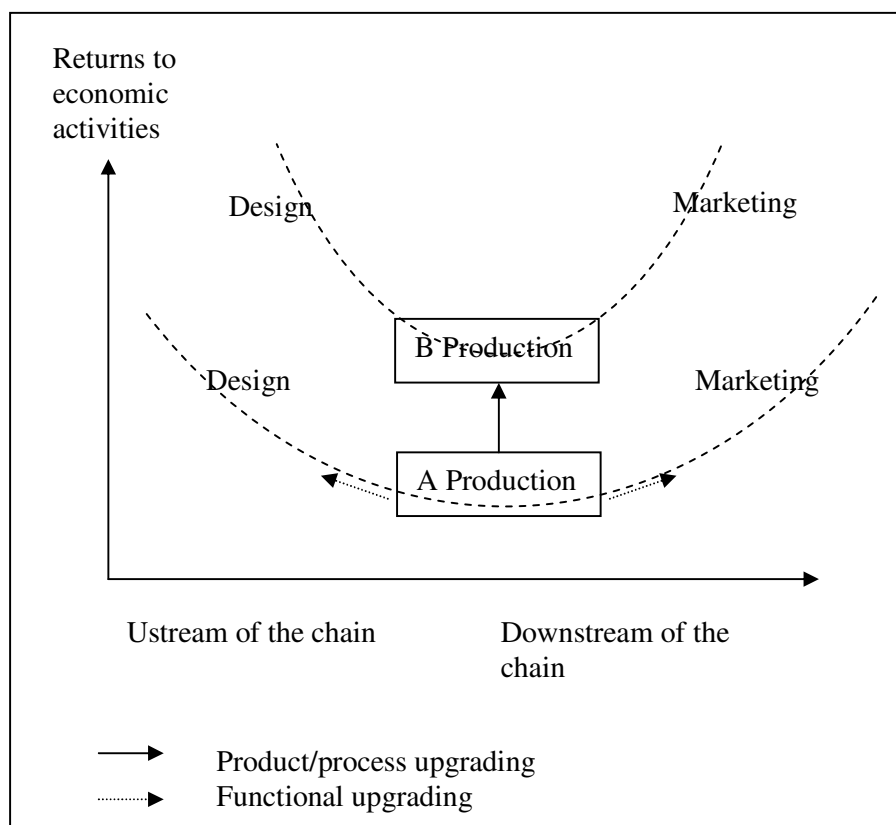


Figure 7: Upgrading and economic returns
(Source: Mitsuhashi, 2005, p.28)

Mitsubishi (2005) explains that the process and product upgrading are indicated as an upward shift of production activities from A to B, which allows the industry or firm to take part in a higher level value chain. In contrast, functional upgrading is denoted as movement or expansion along the value chain by acquiring design and marketing function, which is expected to yield higher returns, especially in a buyer-driven chain. The previous key research, Gereffi (1999a), proposes that the participant in global commodity chains enables local industry and firms to obtain both the upward shift and movement/expansion along the value chain.

Mitsubishi's (2005) figure resembles Mudambi's (2007) "smiley model," reviewed earlier, in the sense that both models imply that economic returns are high at two ends of the value chain. However, Mitsubishi's (2005) figure is easier to understand than Mudambi's (2007) to the extent of terminology used. The term "economic return" in Mitsubishi's (2005) is easier for readers to capture ideas than the term "value added" in Mudambi's (2007).

GVC literature used to believe that functional upgrading makes developing country producers better off, until Bazan and Navas-Alema (2003, 2004) provided counter-evidence that the functional upgrading of the firms in the Sinos Valley footwear cluster in Brazil has not led to high economic returns. From this evidence, Schmitz (2006) raised the query if functional upgrading really makes the developing country better off.

Prospects of functional upgrading in some types of chains

GVC literature (Gereffi 1999a; Humphrey and Schmitz 2004; Schmitz 2006) put much effort on explaining the connection between chain relationships and upgrading. Schmitz (2006) discusses prospects of functional upgrading, and concludes that functional upgrading difficultly takes place in captive chains due to buyer power and substantial investment, while in market-based chains, the producers experience neither support for, nor blockages to, upgrading.

Schmitz (2006) discusses multi-chain strategy as a method to overcome obstacles to functional upgrading caused by asymmetric power. By reviewing Lee and Chen's (2000) evidence of Taiwanese computer industry, and Bazan and Navas-Alema's (2004) evidence of Brazilian Sinos Valley shoe cluster—where many firms upgrading by operating in several types of chains simultaneously—Schmitz (2006) concludes on the important implications of the multi-chain strategy. He proposes that there is a prospect of functional upgrading for developing-country producers, if they can pursue a double-edge-sword strategy or multi-chain strategy—maintaining their OEM production (which often means continuing in a captive chain), while starting to experiment with and building up their ODM operations in a different chain.

2.2.2.6. Conclusion on review of global value literature

In sum, the global value chains framework focuses on the nature and content of the inter-firm linkages and the power that regulates value chain coordination, mainly between buyers and the first few tiers of suppliers (Gereffi, et al. 2005). Drawing upon issues of power and inequality, GVC literature raises critical questions: Are the gains equally spread between the participants? Are firms being upgraded or downgraded in the process? Through the concepts of “governance,” “buyer driven chain”, “producer driven chain” and “captive chain,” GVC allows an understanding of how firms are locked into dependant relationships across territories, through considering issues of cooperation, competition, power, management, and control, within and between value chains. By explicitly focusing on the coordination of globally dispersed—but linked—production systems, GVC literature has shown that many chains are characterized by the dominant party(s), who determine the overall character of the chain; and the lead firm(s) that become(s) responsible for upgrading activities among individual links and coordinating interaction between the links (Kaplinsky and Morris, 2001). GVC literature provides a holistic map of the global production network and market. More importantly, GVC literature suggests that if functional upgrading can be practiced, high economic returns can be obtained.

2.3. Resource based view

The origin of RBV can be traced to the work of Penrose (1959), who highlighted firm heterogeneity and proposed that unique assets and capabilities of firms were important factors that give rise to imperfect competition and the attainment of super-normal profits. The term “resource based view of the firm” was first introduced by Wernerfelt (1984), but was not fully developed until later by Barney (1991), Grant (1991), and Peteraf (1993).

The resource-based view (RBV) has formulated the relationships among firm resources, capabilities, and competitive advantage. The theory assumes that the desired outcome of managerial effort within the firm is the creation and deployment of a sustainable competitive advantage, which in turn will result in the achievement of superior performance. Key literature of the resource-based view (Wernerfelt 1984, Barney 1991, Grant 1991, Peteraf 1993) examines firms’ resources and capabilities that enable them to create rates of return higher than normal, and a sustainable competitive advantage. Hart (1995) shows that the connection between firms' capabilities and competitive advantage has been well established in literature, but the resource-based view takes this thinking one step further: it posits that competitive advantage can be sustained *only* if the capabilities creating the advantage are supported by resources that are not easily duplicated by competitors.

The RSV has been developed upon two assumptions. One is that firms are fundamentally heterogeneous, in terms of their resources and internal capabilities. The other is that resources and internal capabilities—which are distinctive or superior to those of rivals—become the basis for competitive advantage.

The RSV examines the characteristics of resources, and the strategic factor markets from which they are obtained, to explain firm heterogeneity and sustainable advantage. These resources may be assets (tangible assets such as plant and machinery, or intangible assets such as brand name and reputation) or capabilities (the skills to create, nurture, and deploy assets) (Barney 1991). RBV sees the route to strategic advantage as lying in hard-to-copy investments in firm-

specific resources that lead to markedly lower costs and/or higher product quality (Teece, et al. 1997). Competitive advantage thus lies in valued scarce resources, i.e. “upstream” in factor markets rather than “downstream” in product markets (Knudsen and Madsen 2002). A firm's capabilities result from bundles of resources being brought to bear on particular value-added tasks (e.g., design for manufacturing, just-in-time production).

Resources that are valuable and rare, and whose benefits can be appropriated by the owning (or controlling) firm, provide that firm with a temporary competitive advantage. That advantage can be sustained over longer time periods to the extent that the firm is able to protect against resource imitation, transfer, or substitution (Bamey 1991, Wade and Hulland 2004).

The RSV has deepened our understanding regarding such topics as how resources are applied and combined, what makes competitive advantage sustainable, the nature of rents, and the origins of heterogeneity. Heterogeneity implies that firms of varying capabilities are able to compete in the marketplace, and at least break even. Firms with marginal resources can only expect to break even. Firms with superior resources will earn rents (Peteraf 1993).

The theoretical challenge solved by a resource-based view is the identification of the conditions necessary to preserve competitive advantage in an economic equilibrium framework. According to the useful overview in Peteraf (1993), these conditions are: (1) imperfect mobility, (2) ex ante and ex post limits to competition, (3) given the possibility of resource heterogeneity. This statement can be fruitfully decomposed into one component relating to the nature of productive resources (the heterogeneity claim) and one component relating to protection from competition (the immobility and limits to competition argument).

The resource-based perspective is useful as a normative guide for the firm's export activities (Knudsen and Madsen 2002). It examines sources of firm's competitive advantage in business activities. Therefore, the analytical framework of resource-based perspective is vital for the study of the firm's export business as well. This research will apply its analytical framework when examining the role

of firms' business relationships and its capability to develop business relationships in export business.

2.4. The dynamic capabilities perspective

Dynamic capability perspective (DCP) has developed from resource-based perspectives. The crucial issue in DCP is to explore the way firms do business in a rapidly changing technological environment (Teece, et al. 1997). Teece, et al. (1997) defined “Dynamic capability” as the “ability to develop new resources and capabilities.” According to Teece, et al (1997), processes, positions, and paths are key ideas associated with the dynamic capabilities view. Managerial and organizational processes refer to the firm’s stable activity patterns or routines; they consist of the flows that cumulatively alter the firm’s positions—i.e., the stocks of productive resources, including external relations. Paths are the feasible potentialities currently open to the firm. That is, the firm’s future evolutionary potential is constrained, at any point in time, by the cumulative history that marks the path from the past to the present day. Competitive advantage lies with the firm’s “managerial and organizational processes, shaped by its (specific) asset position, and the paths available to it” (Teece, et al. 1997, p. 518). In short, DCP argues that corporate profitability in the long run can be sustained through the development of dynamic capabilities which arise as a result of its internal *processes* which facilitate learning, including the capacity to reconfigure what the firm has done in the past; its *position*, that is its access to specific competences either within its own activities, or those which are drawn from the regional or national system of innovation; and its *path*—that is, its trajectory, because change is always path-dependent.

DCPs share some common concerns with relationship management literature. DCP is concerned with “the ability to develop new resources and capabilities,” while relationship management literature, which is to be introduced thereafter, implies relational capability as the ability to connect its own resources to those of other firms and help to develop new capability through organizational learning

resulting from knowledge and information exchange within relationship. DCP provides a useful analytical framework for export research, because most export activities nowadays take place in a rapidly changing world (Knudsen and Madsen 2002). Therefore, a DCP analytical framework should be applied when examining the role of relational capability in export business.

2.5. Relationship management literature

The research uses the term “relationship management literature” to indicate literature that studies business relationships in a management aspect. In fact, there are several research schools dealing with relationship management. The concept of relationship management was first introduced in marketing literature in the 1980s, when marketing scholars became interested in customer relationship management and relationship marketing. When Berry (1983) introduced the term “relationship marketing,” he defined relationship marketing as “attracting, maintaining and—in multi service organizations—enhancing customer relationships” (p. 25). Over the decade of the 1990s, the term was broadened to include relationship development and maintenance with other types of partners, such as suppliers and competitors. The expansion of the relationship-marketing concept was advocated by Morgan and Hunt (1994), who defined relationship marketing as “all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges” (p. 22). Departing from the broadening concept of relationship marketing, industrial marketing and strategic management literature are two schools that put much effort into studying relationship management. Industrial marketing scholars have developed the industrial network approach, which emphasizes the importance of relationship to the firm’s performance (Haakansson 1982, 1989; Haakansson and Snehota, 1995; Axelsson, 1992) as well as placing effort on studying the management of the firm’s business relationships (Ritter 1999; Muller and Halinen 1999; Ritter, et al. 2004) and considering the firm’s capability to tap into the external resource of the firm’s critical capability—even more important than other functional capabilities, especially when a firm joins a production network. Strategic management

scholars have developed a strategic network approach (Thorelli 1986, Jarillo 1988, Gualati 1998, Gulati and Gargiulo 1999) that places emphasis on management of the firm's strategic relationship. However, both approaches share the common concerns of the issues of developing and managing business relationships with partners. Therefore, this research reviews the key studies of industrial network and strategic network approaches, which deal with business relationships in management aspects. Moreover, this research takes a brief overview of these approaches, and focuses on reviewing studies which mention the firm's capability to develop and manage business relationships.

The industrial network approach has been developed by European researchers since the 1980s. This approach is based on the assumption that a firm is dependent on the resources controlled by other firms, and takes some ideas from the resource-based view which suggests that a company's unique resources and capabilities can generate competitive advantage, and that competence development may accumulate from interaction with other parties and relationship building (Haakansson 1982, 1989, Haakansson and Snehota, 1995). The main analytical idea of the industrial network approach is the actors-resources-activities (ARA) model, in which actors perform/control activities and/or resources. Resources are transferred among actors and transformed by actors during production. Transfer activities link transformation activities of different actors to each other. Through transfer activities, actors develop relationships with each other. Through the relationships, firms can mobilize and use some resources controlled by the other parties (Haakansson and Snehota, 1995).

The strategic network was initiated in the late 1980s by Americans. In earlier studies, Americans focused on models of the hub firm and its network (Thorelli, 1986; Jarillo, 1988). Jarillo (1988) argued that networks become economically efficient by reducing transaction cost and allowing a firm to specialize in those activities of the value chain that are essential to its competitive advantage. The hub firm benefits by specializing in those activities essential to its competitive advantage, while subcontracting non-core competent activities to other firms in

the network. Firms in the network benefit from specialization, which can lower overall costs. Opportunism on the part of network participants is minimized through mutual trust and a desire to remain in the network.

Because of perceiving business relationships as controllable variables, which are created and developed by a hub firm, the early model of strategic network has been criticized for being too deterministic and omitting the inter-influence nature of business relationships. Realizing the shortcomings, the later study (Gualati, et al. 2000) acknowledges that the networks of relationships, in which firms are embedded significantly, affect their performance. They defined strategic networks as a firm's set of relationships, both horizontal and vertical, with other organizations—being their suppliers, customers, competitors, or other entities. These inter-organizational ties are enduring, of strategic significance for the firms entering them, and include strategic alliances, joint ventures, long-term buyer-supplier partnerships, and a host of similar ties. Managing the network involves using appropriate governance mechanisms, developing inter-firm knowledge sharing routines, making appropriate relationship-specific investments, and initiating necessary changes to the partnership as it evolves while also managing partner expectations (Thorelli 1986, Jarillo 1988). In fact, the term “strategic network” is used with similar implication to the term “alliance network,” in the studies which focus on closely-linked groups of firms which ally for a common goal (Gualati 1998; Gulati and Gargiulo 1999; Klocke, et al. 2002). Although these studies do not officially provide definition of “alliance network,” they implicitly indicate an alliance network as a set of actors as companies and alliances among them as relations.

Considering business relationships as key assets of firms, many studies from both approaches have focused on the issues of managing business relationships among which the firm's capability to manage relationships has emerged as a hot topic for studies. Several methods have been suggested to capture the firm's capability to manage relationships. Kale, et al. (2002) suggest “alliance capability” as a composite of alliance experience and the existence of a dedicated alliance

function, which focuses on the more structural set-up of the firm. Anand and Khanna (2000) measure “network capability” by the number of previous alliances. Lorenzo and Lipparini (1999) regard “relational capability” as the capability to interact with other companies, a capability that is based on absorption, combination, and coordination. Ritter (1999) and Ritter and Gemunden (2003) recommend that “network competence” is a firm’s ability to develop and use inter-firm relationships, which can be measured by task execution and qualifications. However, the exact content of such a capability was not studied in detail (Gulati 1998; Kale, et al. 2002) until Walter’s, et al. (2005) development of networking capability measurement.

The review of relationship management literature reveals that there is a lack of agreement surrounding the concept of relational capability as well as an unclear distinction surrounding the term “relational capability.” In other words, the concept “relational capability” has not been well studied and developed.

CHAPTER 3: EXPLORATIVE STUDY ON VIETNAM FURNITURE INDUSTRY

The first⁴ and second⁵ research questions require an explorative study to understand the practice of functional upgrading and business relationship development in the Vietnam wood furniture sector. The explorative study is also needed for understanding how an institutional context shapes Vietnamese wood furniture producer's business activities. The knowledge of the above mentioned practice and the knowledge of the institutional context are both essential for building an empirical model and interpreting results in the hypothesis testing study.

The units of analysis in this chapter are two: the industry and the firms in the industry. The chapter uses qualitative research methods including in-depth interviews, direct observation and descriptive analysis. Primary and secondary data are used in this chapter. Secondary data is collected through official statistical sources including those by the Vietnamese General Statistic Office, the General Department of Custom, the Ministry of Planning and Investment, the Ministry of Agriculture and Rural Development, Vietforest, HAWA as well as published researches. Primary data is collected from the researcher's field work that included interviews and observations in Dong Ky, Quy Nhon, Binh Duong clusters. The researcher visited four firms in each of the three clusters⁶ and had twelve interviews with entrepreneurs. The firms were selected based on their export success⁷ and their existence in export business of over five years. In addition to interviews with entrepreneurs, the researcher had interviews with three local authority leaders in the three clusters and two leaders of two associations (Vietforest and HAWA). Data obtained from these interviews and observations was note taken and then transcript right after each interview and observation. *The*

⁴ How does functional upgrading – involvement in downstream activities - take place in a specific industry selected for this study (the furniture industry in Vietnam)

⁵ How do business relationships develop in the industry selected for study?

⁶ The researcher visited four firms in Dong Ky including Hung Long, Viet Ha, Viet A, Dong Duong, four firms in Quy Nhon including Duc Nhan, Phu Hiep, Tan Duc Duy, My Tai, four firms in Binh Duong including Truong Thanh, AA, Tan Phu, Tan Thanh.

⁷ Export successful firms were selected based on their export turnover of the year 2003, 2004 and 2005 which are recorded in yearly statistic handbooks by Vietnam General Department of Custom.

in-depth interview method is employed in order to do analysis at the firm level. Key informants include two types: managers of association and local governments as well as firms' export managers. The interviews were semi-structured⁸ and designed in two formats. The interviews with association and local government leaders were based on questions relating to institutional factors and the export development of firms in the industry. The interviews with firms' export managers were based on questions relating to the firms' export activities including design and marketing activities, and its business relationships. In total, seventeen interviews were conducted. Each interviews lasted for more than an hour. *The direct observation* method employed in this study was limited to what the researcher could see when the researcher was present during the interviews. The presence of the researcher in the case study firms created the opportunity for direct observations of some management behavior, and such observations served as another source of evidence in the case study (Yin, 1994). These observations allowed access to what the respondent actually did in relation to what they said they did in the interview or what the theory and literature had suggested (Holliday, 1992, Ekanem, 2007). *Case study analysis* was based on both primary data collected during interviews and observation by the researcher at selected firms as well as secondary data provided in the firms' materials. Among twelve firms visited by the researcher, only four firms with notable features relating to functional upgrading and relational capability were opted to develop into case studies.

Descriptive analysis was mainly used when studying the context of the Vietnam wood furniture industry. Data used in this section is mainly secondary data.

The chapter starts with the context of the Vietnam wood furniture industry and goes on with a description of the industry's development. The position of Vietnamese wood furniture producers and their moves toward functional upgrading are introduced in section 3.3. The chapter resumes with a few cases of successful export development and includes analysis on how design and

⁸ Jones (1985) guides that in preparing for interviews researchers will have, and should have, some broad questions in mind, but argues that although they are to some extent tied to their frameworks they should not be tied up by them

marketing activities, as well as relationship building account for the firms' success in export development. The chapter ends at section 3.4 and includes a summary of findings, answers to the first research question as well as suggestions for an empirical model to test the hypotheses presented in later chapters.

3.1. Context of Vietnam Wood Furniture Industry

Institutional economic literatures (Commons, 1931; Coase, 1998; Williamson, 2000) have long been in agreement that such institutional factors as legal, political, social, and educational systems shape the way economic agents interact and the way industrial activities are organized. Institutional context impacts the development of whole industry as well as firms in the industry (North, 1990; Oliver, 1997b). The impact on export development by institutional factors such as the foreign trade policy, the foreign exchange system, the national trade promotion system, the export financing system, the vocational training system are empirically confirmed (see export performance literature reviews by Leonidou, 1995a; 1995b; Morgan, 1997). The institutional factors relating to the wood processing business in Vietnam will be described hereafter.

3.1.1. Natural condition, population and culture

Vietnam has a total area of 329,560 sq km. It is located in Southeastern Asia, with long sea coast stretching from the North to the south, bordering with China, Laos, and Cambodia. In 2004, Vietnam has a forest of 12.3 million ha of which 81% of this forest is natural forest and the other 29% is a plantation forest. Vietnam's forest is sectioned off into three types of uses which include special-use, protection and production. The production forest supplies timber and non-timber forest products and covers 36% (Jong et.al 2006).

The total population of Vietnam in 2007 is about 86 billion with 68.6% of working age (from 15 to 64 years), the median age is 26.9 years and the labor force is 46.42 million people (source CIA⁹).

⁹ <https://www.cia.gov/library/publications/the-world-factbook/print/vm.html>

Like other Asian countries, Vietnam has a collective culture. Vietnamese society is comprised of an interconnected network of personal relationships. Business relationships are created and maintained through personal ties. Personal relationships are maintained by trust and credibility which is considered necessary for longer-term relationships.

3.1.2. Macro economic context

Until the end of the 1980s, Vietnam was largely isolated from the capitalist world economy as a result first of the wars and then because of US sanctions. The renovation policy toward an open market economy regime was launched in 1986. During the 1990s, the Vietnamese economy underwent a transition from a centrally planned economy to a much more market oriented system, and from a relatively closed economy to one which is increasingly integrated with the world market (Jenkins, 2004). Jenkins (2004, p.14) summarizes the increased openness of the Vietnamese economy in the 1990s with the following key points:

- “- Liberalization of entry into international trading activities
- Removal of most export taxes
- Removal of non-tariff barriers
- Reductions in tariff levels and bands—maximum tariff reduced from 200 per cent to 120 per cent and the number of bands to 15
- Negotiation of various trade agreements—ASEAN Free Trade Area (AFTA) in 1995; agreement with EU (1992); Bilateral Trade Agreement with US (2000), accession into WTO in 2006
- Measures to promote exports—import duty rebates; establishing export processing zones”.

The combination of these deregulations and the macroeconomic stabilization generated a strong positive output response. Real annual GDP growth averaged nearly 7.5 percent during 1990 (Kokko et.al, 2006). Between 2001 and 2006 “GDP grew at annual average rate of 7.8 percent.., per capita GDP rose from USD 415 to 725. Compared with East Asian countries Vietnam’s growth in this period is second only to China, and somewhat better than other strong performers like

India. Growth has also been more steady in Vietnam, with low variation around the average rate” (World Bank, 2007, p.1).

The domestic private sector emerged as an important actor in the late 1990s. Moreover, since 2000, with the introduction of a new enterprise law that simplified the complex licensing procedures that had been required to set up new private firms, the number of registered private enterprises has increased dramatically. There now exists three different ownership typologies in the economy: State owned enterprise, private owned enterprises and Foreign invested capital enterprise.

In fact, although the market economy has been gradually introduced in Vietnam for two decades now, almost all of the current generation of entrepreneurs were born and grew up in the command economy. Compared to entrepreneurs from capital countries where a market economy has long been practiced, Vietnamese entrepreneurs are still growing in knowledge and experience of doing business.

Regarding infrastructure, although it has been greatly upgraded since the 1990s, Vietnam’s infrastructure such as transportation routes and its sea port system is not as good as that in other regional countries like Singapore, Malaysia, Indonesia or Thailand. World Bank (2007, p.4) comments that “One challenge for Vietnam now is to upgrade its infrastructure especially in areas such as transport, ports, and power that investors have often pointed to as constraints”.

3.1.3. Regulatory framework

3.1.3.1 Trade policy

As mentioned in the previous section, the key renovation strategy of the Vietnamese government is pushing its policies toward trade liberalization. With a predominantly import-substituting manufacturing sector developed under a long-standing protectionist regime, Vietnam’s trade policies have been gradually shifting from import substitution towards an export oriented strategy. However, there still exists a fundamental dualistic character to Vietnam’s trade policy

regime because of an import-substitution bias and an emphasis on export promotion.

a. Instruments for protection of domestic production

(i) Import tariffs

The original import tariff schedule was replaced in 1992 by a detailed, consolidated schedule based on the harmonized system (HS) of tariff nomenclature. The tariff structure was fine-tuned in subsequent years, reflecting a trend towards increasing selective protection of consumer goods (cosmetics and some categories of food products), upstream activities related to textiles and garments (silk, cotton and certain fibres) and some specifically protected intermediate goods (metal products, cements and glass). (Athukorala, 2006).

Following the accession to the ASEAN Free Trade Area (AFTA) and WTO, the tariff structure has been restructured and rationalized. Under the Common Effective Preferential Tariff (CEPT) of the AFTA, Vietnam has reduced tariffs on all but a few sensitive items from AFTA member countries to less than five per cent since 2006. Being an official member of the WTO in Jan 2007, Vietnam is committed to cutting around 30% of the current import tax rate within five years of its membership. The areas seeing the strongest reduction are textiles and garments at 63%, fish and fisheries at 38%, timber and paper at 33%, and machinery and electronic products at 24%.

(ii) Non-tariff barriers

By 1998, nine major products remained under import quotas but over the years have been gradually eliminated and currently only petroleum products are subject to quotas. Seven agricultural commodities have been in tariff rate quotas (TRQs)¹⁰ since 2003.

As in many other countries, Vietnam's current list of prohibited imports are generally maintained for health and security reasons and they do not seem to distort trade patterns.

b. Export stimuli

¹⁰ According to Prime Ministerial Decision No. 91/2003/QĐ issued on 9 May, 2003

To promote exports in the context of a restrictive trade regime, Vietnam has launched a number of measures to correct such anti-export bias.

A duty rebate scheme, which provides export producers (firms exporting more than 50 per cent of output) with duty-free access to the imported intermediate inputs, has been applied since 1991. The duty suspension facility has been 275 days since 1998 for all enterprises, which import inputs for export production (Athukorala, 2006, p.165).

Concessions are given to exporters relating to corporate income tax and turnover tax. Profit from export production is taxed at a concessionary rate depending on the degree of export orientation of production which is 20 per cent for period of 12 years applied for firms exporting between 50 and 80 per cent of production and 15 per cent for a period of 15 years for a firm exporting at least 80 percent of production (Athukorala, 2006). Exports are also exempted from value-added tax and other domestic taxes.

There are no significant direct subsidies to exporters. Export stimuli mainly take the form of interest rate support managed by The Export Promotion Fund (to first-time exporters, for exports to new markets, or for goods subject to major price fluctuations). The Fund also provides export rewards and bonuses. The provision of export bonuses, originally targeted for exports of agricultural products, was expanded in 2002 to include non-agricultural products such as handicrafts.

The Vietnamese government promotes the establishment of export processing zones (EPZs) to attract export-oriented foreign investors. Up to date, there are three EPZs in operation where firms operating in EPZs have duty-free access to all inputs and enjoy various tax concessions compared to the less attractive concessions of FTZs in other countries in the region.

3.1.3.2. Foreign Exchange system

Foreign exchange policy has been used to regulate import flows from time to time in line with government priorities. Dealing with the impact of the East Asian crisis in late 1998, two major instruments were used, one limited the foreign invested enterprises to the actual amount of foreign exchange they brought into

the country in the year ('balance' their foreign exchange); another required an advanced payment for importing consumer goods. Over the years, these requirements had been relieved and finally were removed in 2004¹¹. This removal of the regulation helps Vietnamese wood processing exporters to reserve foreign currency for importing materials. These exporters then avoid a reduction of their profit caused by the exchange rate gap between selling foreign currency earned from the export but then buying foreign currency to import their materials¹².

3.1.3.3 Regulation on wood processing business

Wood processing business belongs to conditional business sectors. To register as a wood processing company, a producer has to register with not only the Ministry of Planning and Investment but also the Ministry of Agriculture and Rural Development. Such a complicated administrative requirement discourages a small producer to register as a company.

The custom clearance procedure requires a permission certificate for the export of wood material. This encourages the export of wooden finished products and restricts exporting un-processed materials.

The wood processing industry has been subject to a recently re-enforced legal framework, designed to improve the domestic wood supply situation as well as regulate the forest environment. A revised Law on Forest Protection and Development went into effect in 2005. A national forestry strategy for 2006–2020 was launched in 2006. The Forest Sector Monitoring and Information System (FOMIS) was set up to enforce these legal frameworks meant for protection (Fripp 2006, p.17)

¹¹ Government Decision 46/2003 reduced the foreign exchange surrender requirement to zero percent

¹² Commercial banks buy foreign currency at the rate lower than their selling rate.

3.1.4. Trade supporting system

There has been a system of trade supporting organizations in Vietnam that include the state trade supporting system, non-governmental trade supporting organizations, and various commodity associations of enterprises.

In the state trade supporting system, the Ministry of Trade has been in charge of administrating a Vietnam Trade Representative in foreign countries. The Trade Promotion Agency is the national trade promoter and belongs to the Ministry of Trade. It is in charge of national trade management and promotion service, and currently operates two Vietnam Trade Center overseas: one in New York and one in Dubai. The Vietnam Trade Center in New York significantly contributes to the promotion of Vietnamese furniture firms in the USA. Since 2005, it has been supporting Vietnamese furniture firms' participation in some big furniture trade fairs in the USA. In addition to the national trade promotion system, some provincial trade departments, especially the Ho Chi Minh city Trade Department, are helpful resources for firms' promoting activities. Ho Chi Minh city Trade Department is an experienced organizer of annual export trade fair in Vietnam (EXPO). It, moreover, is a very helpful supporter for Vietnamese furniture firms to promote abroad. Annually, it provides financial and technical support for about 20 firms to participate in furniture trade fairs abroad, including, the biggest annual furniture trade fair in Europe, Tendance-lifestyle (Frankfurt, German).

Among trade supporting service suppliers, Vietnam's Chamber of Commerce and Industry (VCCI) is the biggest professional organization. In the wood processing sector, there are two big commodity associations: HAWA¹³ and Vietforest¹⁴ as well as one agency funded by Germany, the Vietnamese-German Forestry Program. Generally, the quality of the services supplied by VCCI, HAWA

¹³ Handicraft and Wood Industry Association of Ho Chi Minh City (HAWA) was established in 1991 and acts as a volunteer organization consisting of 269 enterprises that are operating in the following field: Indoor and outdoor furniture, Interior decoration, Pottery, porcelain, bamboo, rattan, Lacquer ware, Fine art

¹⁴ Vietnam Association of timber & forest products was established in 2000, which is an Volunteer organization and the legal entity of the Vietnam businesses and the management of science, techniques of various economic sectors operating on the fields of forestation, exploitation, processing, distribution, business and import-export of Timber- forest products.

satisfies these furniture firms' demand. However, in some cases, the quality of service is low due to the absence of a common standard. The results from my interviews with 12 entrepreneurs in the wood furniture industry indicate that trade promotion organizations play an important role in their exporting activities. The interviewees much appreciated how HAWA and the Vietnamese-German Forestry Programs brought such services as furniture trade fairs, market surveys, enterprise connections, information resources, consultations, training sessions, and publications. HAWA has been an experienced organizer of annual furniture trade fair (VIFA)¹⁵ since 2005. With HAWA's effort in promoting the trade fair abroad, especially to American, European, and East Asian customers, the annual VIFA often attracts a large number of global buyers from such all over the world such as Europe, North America, Japan, and Australia.

3.1.5. Vocational training systems

Up to now, there has not been a vocational training institution to train wood processing workers. In regard to design training programs, although they are provided by several institutions¹⁶, these programs do not meet the demands of the wood processing enterprise. The institutions were said by my interviewees to mostly offer training according to their 'supply' ability and not according to their enterprise's demand.

3.1.6. Effects of institutional context on the wood furniture industry

The above analysis of the institutional context suggests that the Vietnamese wood furniture firms run business in a rich contextual environment that has both positive and negative impacts on their export business.

Positive impacts include the following: Natural forest and plantation forest provide material supplies for the industry. In addition, thanks to the country's location close to some wood material supplying countries (Lao, Indonesia,

¹⁵ Vietnam International & Home Accessories Fair, <http://www.vifafair.com/>

¹⁶ including Industrial Design and Interior & Exterior Decoration programs at Hanoi University of Industrial Fine Art, Industrial Fine Arts programs at Ho Chi Minh City Architecture University

Malaysia), Vietnamese producers can easily access other potential material supplies. Moreover, the country's geography with a long sea coast enables importing wood materials as well as exporting finished products. With a large population and labor force of 46.42 million, Vietnam has emerged as a low labor out sourcing destination. The advantages have attracted foreigners to come to Vietnam to find suppliers of labor-intensive products, leading to more chances for the Vietnamese wood furniture producers to integrate into the global market. Moreover, regulatory frameworks have been increasingly adjusted, further enabling export business. Simplification of the complex business licensing procedures has encouraged many small wood processors to set up new private firms, leading to more chances to work with foreign buying firms who like to deal with a registered firm rather than a small workshop. A stable economic and political environment with export stimuli such as a duty rebate scheme and export bonuses facilitates Vietnamese wood furniture producers' involvement in the export business. The well developed trade supporting system—especially efficient trade promotional support by HAWA, the Vietnam trade center in New York, the Ho Chi Minh city Trade Department—significantly contribute to the export development of wood furniture producers.

Negative effects include the following: Vietnam's infrastructure such as transport, ports, and power, especially in mountainous areas where wood supplies are available, are not good enough to facilitate business operations, making input costs high and possibly leading to reduction of their competitive advantage in cheap cost production. The spontaneous and unpredictable changing and amendment of Vietnamese regulatory frameworks also makes enterprise difficult. For example, in June 2006, the government's sudden suspension of exporting solid wood products made many firms unable to deliver shipments as stipulated in their export contract. Regulation on wood processing business that requires a wood processor to register with not only with Ministry of Planning and Investment but also with Ministry of Agriculture and Rural Development discourages a small producer to register as a company. The weakness of

vocational training systems does not support the development of the wood furniture industry.

These institutional factors should be taken into account when referring to the results of this research's empirical model. This research is planned to test population of Vietnamese wood furniture firms. Any institutional factor which make firms in this industry perform differently should be controlled in the empirical model. Such factors include a firm's size, location and ownership. Although this research does not attempt to test population of firms across industries or across countries, such institutional factors (e.g, natural condition) discovered in this explorative study that they may contribute to export success of firms in this industry are worth of attention if further research on firms in other industries or other countries wish to refer to the empirical results of this study.

3.2. A description of the industry's development

The wood furniture industry has become a big global business. By 2005, furniture was the largest low-tech sector, with a total global trade worth US\$97.185 billion, accounting for 0.948%¹⁷ of total commodities in global trade, ranking 19th among biggest trading sector, exceeding apparel (ranking 20th) and footwear (ranking 31st). Global furniture trading volume has been increasing faster than that of apparel and footwear product. From 1995 to 2005, the growth rate of global furniture trading is 7.52% while those of the apparel and footwear sectors are at 6.71% and 2.86% respectively (UNCTAD, 2007). High-income countries including the United States and Canada, the European Union, and Japan are the major wood furniture consuming markets. The growth of the global wood furniture trade is closely linked to the booming of the furniture industry in emerging economies like Vietnam.

In the recent ten years, Vietnam's wood furniture industry has shown remarkable achievements with exceptional growth in scale and production, an increase in foreign investment and export turnover. Export turnover from wood products has reached an annual growth rate of 40 percent, multiplied almost tenfold since 2000

¹⁷ Calculated based on data supplied in UNCTAD Handbook of Statistics 2006-2007

and reached 2.4 USD billion in 2007, officially included in the country's top five products¹⁸ since 2005 (Vietnamese German forestry Program, 2008).

Vietnam has become one of the world's top furniture exporters, ranking the fourth largest wood furniture exporter¹⁹, holding 0.78% of the world's furniture market share since 2005 (UNCTAD, 2007). Vietnam prevails over other foreign suppliers for a number of reasons, including inexpensive prices and high quality (Runckel & Associates, 2006). The main markets of Vietnamese wood furniture are USA, Europe (UK, France, Germany, Netherlands, Denmark, Sweden), East Asia (China, Japan, South Korea) though currently Vietnam exports to more than 120 countries. In 2007, Vietnam surpassed Indonesia and Thailand to be the second biggest ASEAN furniture exporter, only after Malaysia (Hong Van, 2008) and its furniture export turnover rate to USA, Japan, UK are USD 948 millions, USD 307 million, USD 196 million respectively (General Department of Vietnam Customs, 2008).

Outdoor furniture is the main export of the industry. In 2007 outdoor furniture manufacturing accounted for approx 90% of Vietnam's total wood product exports (Vietnamese German forestry Program, 2008).

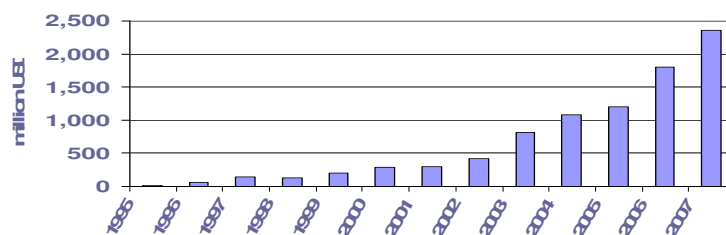


Table 1: Wooden Furniture Exports

(Sources: Vietnam's General Department of Customs)

According to Vietnamese Ministry of Agriculture and Rural Development, in 2006, there are 1500 companies registered in the wood processing industry, 30% of these are state owned or Joint Stock companies, 60% are private owned, while

¹⁸ after crude oil, footwear, garments, and seafood

¹⁹ after China, Malaysian.

the remaining 10% are foreign invested companies. Foreign investment is mainly from Asia (Taiwan, Singapore, Malaysia and China) and Europe (Denmark, Norway, Sweden and France). Besides the number of registered companies, there are hundreds of thousands of small woodworking manufactures that are not registered across Vietnam.

Wood furniture producers mainly gather in three regions the Northern Red River delta provinces (densely in Dong Ky village- Bac Ninh province), the Central highland provinces (densely in Quy Nhon city), and the Southeast provinces (densely in Binh Duong, Ho Chi Minh, Dong Nai industrial parks). These three main production areas can be notably distinguished from each other in their institutional context, their firms' production scale, the types of products, and their target markets. The institutional context for example in Dong Ky village is a traditional handicraft village with a small production area. Workshops are in living quarters. Dong Ky's infrastructure although being improved by widening the main road is quite poor in comparison to those of the other two clusters. Although the local authority has been open minded on upgrading infrastructure to meet demand for production sites, they still lack the necessary knowledge to manage the industrial park. Meanwhile, industrial parks in Quy Nhon and Binh Duong clusters are quite different from Dong Ky in the sense that they are newly built with good infrastructures, enabled by favorable supporting policies of local governments. Binh Duong cluster is being recognized as the area where local government is the most active in providing the most favorable condition for business, while the Quy Nhon cluster is recognized as the most favorable geographical location because of its closeness to the sea and Lao where almost all of the wood supplies come from. The differences in institutional contexts among the three clusters may lead to different business patterns among firms in the three clusters. Firms in Dong Ky are often on a small scale of around 10 workers and develop from family business. Their internationalization pattern can be seen as at a gradual stage. Such firms serve domestic consumption and may be involved in export business with Chinese and South Korean buyers who will visit the village and make orders. They rarely receive big orders. Their customers are often

consumers on a solid carved style. Local production networks are naturally created among firms based on kinship or friendship. When one firm obtains an order bigger than its capacity, the owner-manager of the firm often will subcontract the order to his relatives or friends. The contract is relational and not in written form. Meanwhile, firms in Quy Nhon and Binh Duong range from medium to large scale. Many of these firms were established to serve export markets. Their customers are often big global buyers who make large orders. They supply Europe, USA markets with both indoor and outdoor furniture. Local network ties are not as closed as the ones in Dong Ky.

Regarding production scale, on the whole, enterprises are relatively small, with the exception some export oriented furniture factories. The companies which employ less than 50 employees are 63% while companies employing more than 500 workers account for only 7%²⁰ of the total enterprise.

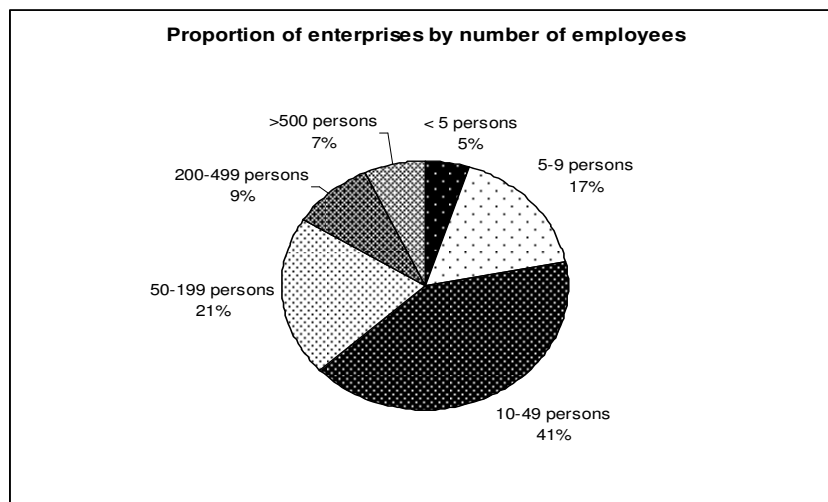


Table 2: Employment Structure

(Source: General Statistic Office, 2005)

The industry produces four main types of products: exterior furniture, interior furniture, and fine arts products. Firms in the Central highland and Southeast provinces produce western-style furniture mainly for the EU, USA markets and a small minority in the domestic market while firms in the Northern provinces make

²⁰ Calculated based on data supplied in Statistic Handbook of Vietnam 2007

home accents and traditional solid wood furniture for the domestic market as well as China, Japan, South Korea market.

The descriptive analysis of the Vietnam wood furniture industry development shows that firms in the industry are not homogenous in ownership structure, size, and export experience. Firms gather in three clusters which are affected by different institutional factors like infrastructure, local government policy and business atmosphere. These background factors should be taken into account when developing an empirical model in the hypothesis testing study.

3.3. Position of Vietnam wood furniture producers in GVC and their moves towards functional upgrading

3.3.1. Upstream activities

Upstream activities are examined from the perspective of inputs needed for production.

In regard to machinery, Vietnam wood furniture producers purchase machines mainly from China, Taiwan, Japan or Germany but small tools and equipments from domestic makers. Specifically, Dong Ky producers mainly buy domestically made machines or ones imported from China. Producers in Quy Nhon and Binh Duong mainly import machines and equipments from Taiwan, Japan or Germany.

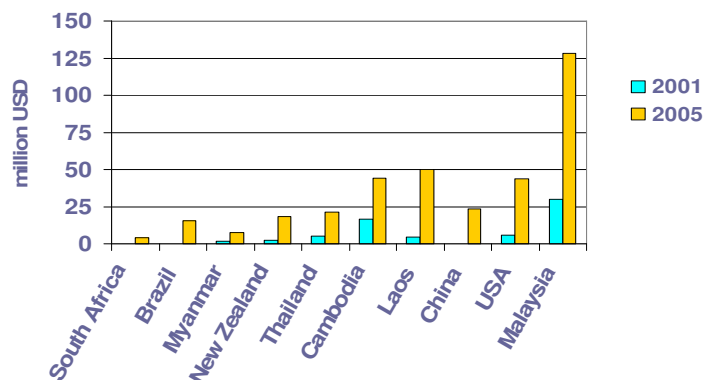


Table 3: Import Sources of Logs, Timber & Board Materials

(Source: Vietnamese Ministry of Trade)

As far as wood material is concerned, producers rely heavily on imported wood material. 80% of the furniture industry is based on imported supplies (Dawson, 2008). Statistics from Vietforest show that Vietnamese enterprises need between 3-3.5 million cubic meters of wood per year, while the domestic material supplying market only meets 20 percent of that total volume. In 2006, the wood sector imported US\$700 million worth of wood materials, accounting for one-third of the export turnover²¹.

Producers mainly buy wood material imported from Malaysia, Laos and Cambodia. The dependence on imported materials make Vietnam's wood processing firms vulnerable to the fluctuation in material supply. Since 2005, when its major suppliers in Southeast Asia like Malaysia halted exporting sawn timber, Vietnamese enterprises felt difficulty in sourcing timber input, leading to a competition for materials. Moreover, the increasing concern in high income markets like Europe, USA, and Japan regarding legality and sustainability will also limit a furniture firms' choice of wood material suppliers in the future. The fact that Vietnam wood furniture sector has been growing at a rapid rate while its material supply is limited makes Vietnam producers suspect that they may be involved in the illegal trade of wood to global buyers. This is an obstacle for their downstream activities in a market with concerns about the legality and sustainability of wood material used.

In response to the requirements by consuming markets, Vietnamese firms have been paying attention to and source legal wood materials. Many firms deal with the requirements by the European and USA markets for certificates of FSC (Forest Stewardship Council) chain of custodies by sourcing for legal and secure source materials. Some firms like Truong Thanh, Tan Thanh, Duc Nhan, Tan Phu have invested in forestation in Lao to ensure the legal source of their materials. Many firms such as Truong Thanh, and Dai Thanh were applied and accepted as members of the Vietnam Forest and Trade Network (VFTN), meaning that they pass the VFTN membership requirement demonstrating long-term commitment to

²¹ Calculated upon figure in Statistic Handbook of Import Export 2007, General Department of Vietnam Customs

responsible forest management and trade (Fripp, 2006). Currently, to deal with the issue of decreasing material supply without breaching standard regulations, Vietnamese companies have also began turning their eyes to Africa, and even America. Some enterprises like Truong Thanh, Tan Thanh are investing in forestation and saw mill in Africa to secure their supply.

Regarding other sub materials including adhesives, paints and finishing materials, producers often will buy products imported by domestic trading companies because these supporting industries have not been well developed in Vietnam.

3.3.2. Downstream activities and the moves toward functional upgrading

The industry firstly served the domestic market and began the internationalization process in early 2000s. Presently, Vietnamese wood furniture producers have become very active in downstream activities. Downstream activities are examined in connection to specific value chains with European, American and East Asian partners who are key buyers of these Vietnamese producers.

The European market has been a traditional market of Vietnam furniture producers. The European market is recognised as being a more stringent market in terms of the requirements for legality and sustainability, as compared with markets such as Japan and the USA. Across the EU, different member states are at different levels of awareness and action. Five EU member states – Denmark, France, Germany, the Netherlands and the UK – all currently have a national legal framework which require, as a minimum, proof of legal origin for purchases of wood product (Fripp, 2006, p10). To enter this market, Vietnamese producers had tried their best to comply to all the European Union's regulations on material origin and environmental standards. Almost all Vietnamese producers are active, with more than 70% coming from certified sources, in a reliable FSC (Forest Stewardship Council) chain of custodies.

Regarding the distribution channel, most Vietnamese producers have not held direct contacts with consumers in this market. They normally sell products to large retailers like IKEA, Carrfour or a medium retailer like Scancom, or even a small specialized retailer like Lapeyre. Some small firms export through other

exporting agents. Main exports to Europe are outdoor furniture and western style hard wood indoor furniture. In early times, Vietnamese producers had worked as processors under designs by European buyers, but now they can offer their buyers their own catalogs. In early times, very few producers undertook marketing activities abroad, just producing and waiting for foreign buyers to make orders but now the number of Vietnamese producers undertaking export marketing activities is increasing. With financial support from Vietnam Trade Agency, more and more furniture firms frequently participate in the biggest annual furniture trade fair in Europe, Tendance-lifestyle (Frankfurt, German) and obtain big orders. *This shows that Vietnamese furniture producers are moving toward a design and marketing function in the value chain with European buyers.*

Vietnam wood furniture exports to the USA have greatly expanded since 2004 when USA imposed import duty penalties on Chinese furniture. Vietnam is now the sixth largest exporter of wood furniture and components to USA (Dawson, 2008). This market has been moving towards systems which will require, as a minimum, proof of legal origin for purchases of wood. Although the demand for verified legal timber products in the United States is less pronounced than in Europe, some US-based retailers have announced procurement standards that favor certified wood. For example, Clarke Veneers, responsible for approximately 25 per cent of tropical plywood imports into the USA, is FSC chain-of-custody certified and prefers to buy FSC from its suppliers (Fripp, 2006, p.13). To enter the USA market, many Vietnamese firms like Truong Thanh, Duc Nhan comply to the requirement and supply USA buyers with FSC chain-of-custody.

Regarding the distribution channel, except the case of AA, almost all Vietnamese producers have not sold directly to American end users. Most of them sell product to large retailers such as Jofran, John-Richards, Wyckes, Stickley, and Wal-mart. Some small firms export through other exporting agents. Furniture exported to the USA includes both outdoor and indoor products which are mainly based on western design style and are mass-produced, flat-pack furniture. Vietnamese producers are mainly producing indoor products based on the samples provided by American buyers. Therefore they can be said to be a Copy-OEM for

these indoor products. For outdoors, Vietnamese producers produce their own designs which are copied from their designs for Europe with some modifications. They can be said to be Quasi-ODM and ODM. Regarding the marketing function, almost all Vietnamese producers obtain orders when American buyers come to the two annual international Furniture trade fairs held in Vietnam (Expo and VIFA). In addition, under support by the Vietnam Trade Center in New York, many firms have been participating in big furniture trade fairs in the USA (including International Furnishing/Merchandise in Carolina, Houston Furniture & Accessory Market in Texas, International Contemporary Furniture Fair in New York) since 2005 and obtained big orders. *It therefore can be concluded that that Vietnamese producers have been taking steps toward functional upgrading in the downstream value chain with USA buyers.*

Vietnamese exports to East Asia which includes China, Taiwan, Singapore, Japan and South Korea, are solid indoor furniture often with some details and decorations, such as eggshells, lacquer, and carvings. Such products to those markets are made mainly by Dong Ky producers who have traditional craftsmanship since the 16th century²². Some Vietnamese producers open sale offices in China to sell their products directly to Chinese consumers. While many firms sell products to specialized retailers in the Japanese and South Korean market, a few firms sell directly to consumers in these markets. East Asian buyers seem to be design takers. Vietnamese furniture producers export products to these markets under their own traditional design, dating back to old Chinese dynasties. Some firms (as illustrated by case firm AA, Hung Long thereafter) are very active in undertaking marketing activities in Japanese, Chinese and Singaporean markets. By participating in furniture trade fairs in Singapore (IFFS- International Furniture Fair Singapore) and China since the 2000s, many firms have obtained large orders from not only Singaporeans and the Chinese but also from other global buyers from Japan, Europe, USA, Canada and Australia²³. It can be concluded that there is a diversification in functions of Vietnamese producers in

²² This fact was revealed by Mr. Nguyen Van Sang, the vice chairman of Dong Quang Commune where Dong Ky village is located, during the interview with the author.

²³ http://muasam247.vn/Desktop.aspx/Tin-DN/Thi-Truong/Do_go_VN_thang_lon_tai_Singapore/

value chains with East Asian buyers. Some play as ODM while some play as OBM.

3.3.3. Position of Vietnamese wood furniture producers in GVC

Summing up downstream and upstream activities conducted by Vietnam wood furniture firms, it can be concluded that the Vietnam wood furniture industry is highly internationalized in both the upstream and downstream end of the global wood furniture value chain. The majority of the industry's inputs are imported and the majority of its outputs are exported. Design is mainly supplied by foreigners. Distribution and after sale service in export markets are mainly operated by foreign buyers. However, many Vietnamese firms have taken steps toward functional upgrading, working as ODM and OBM in some value chains. The position of a majority of Vietnam wood furniture firms in the global value chain can be drawn upon the simple value chain figure by Kaplinsky & Morris (2001) introduced in Chapter 2 as Figure 8 below

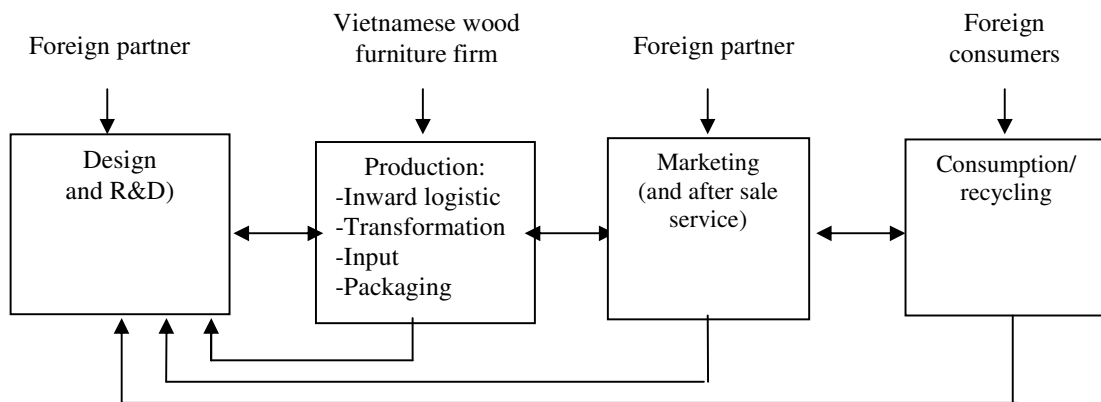
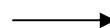
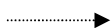


Figure 8: Position of Vietnam wood furniture firms in GVC

This figure shows that most Vietnamese furniture firms are in the manufacturing function, producing under a buyers' design or their own- copied design, delegating distribution and the after sale service function in final markets to foreign partners. However, this figure does not clearly show the link between Vietnamese producers and its partners. Based on the value chain figure by Mitsuhashi (2005) and the wood furniture value chain figure by Kaplinsky et.al

(2003) introduced in Chapter 2, and above analysis on Vietnamese producers' upstream and downstream activities, this research develops a map of linkages between Vietnamese wood furniture producers and suppliers and buyers shown in Figure 9. The major link indicates popularly used marketing and sale linkages. The minor link indicates unpopular used marketing and sale linkages. Vietnamese producers hold a major marketing and sale link with distributors in domestic market and foreign markets like Europe, USA, and East Asia. The marketing and sale with domestic buyers is a major link because almost producers have direct contact with end users through their own sale offices. The marketing and sale with foreign end users is a minor link because almost all producers sell their product through foreign distributors. However, it is worth to note that some producers hold direct sale linkage to end users through their own sale offices (opened in China and Japan) or their own trade fair participation in Europe (Tendence-lifestyle in Frankfurt, German), USA (International Furnishing/Merchandise in Carolina, Houston Furniture & Accessory Market in Texas, International Contemporary Furniture Fair in New York), and Singapore (International Furniture Fair Singapore).



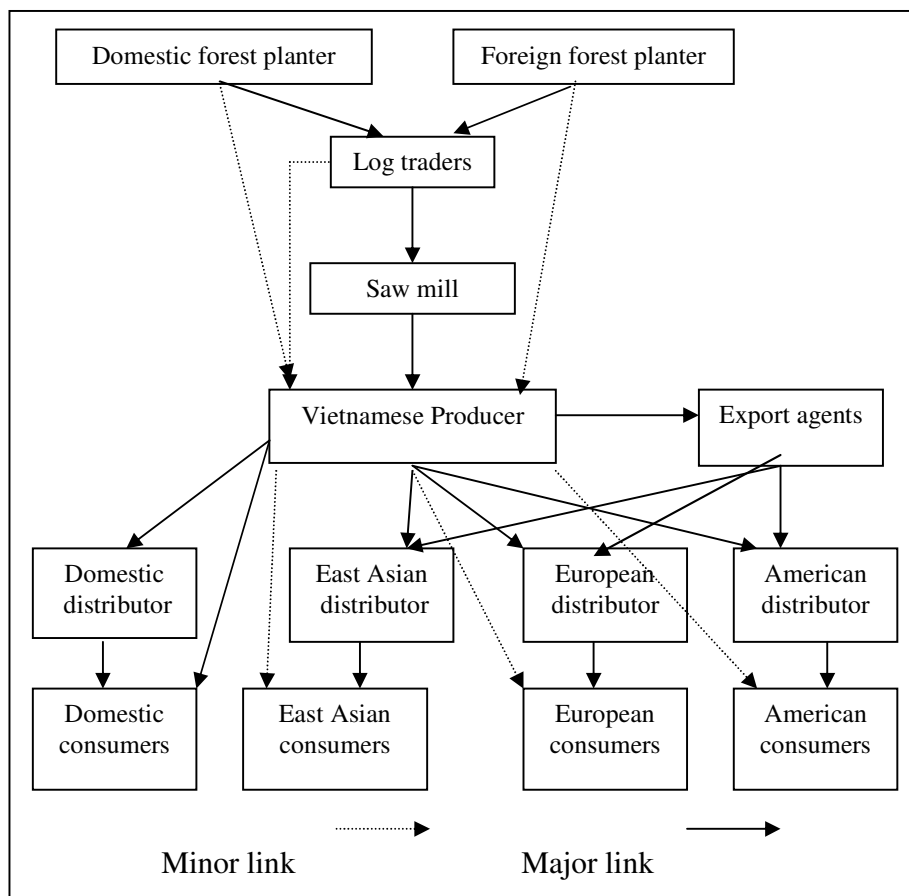


Figure 9: Map of marketing and sale linkages

3.4. Cases of successful export development

3.4.1. Development profile of case firms

The four case firms optioned for study are established firms. All of them were founded in the middle of the 1990s when the Vietnamese government's reform policy began taking into effect. Four firms come from three main wood furniture clusters: Dong Ky; Quy Nhon; Binh Duong province. All firms have demonstrated successful development as a result of their upgrading and relationship building.

*Hung Long Company*²⁴

²⁴ Hung Long Company website <http://www.hunglong.com.vn>

Hung Long Company was founded in 1994 in Dong Ky village with a small workshop. After nearly 15 years in operation, the company business has increased in scope. Its production site has been enlarged 25 times. Besides the old shop on Dong Ky Fine Art, the other three shops of the company have now opened. Its current turnover has increased thirty times compared with the initial year of opening.

It firstly served a local market, mainly supplying furniture for local province consumption. Its first export to China was conducted five years after its establishment and now its export market has expanded to South Korea, Japan and Europe.

Its initial products are solid wood carving furniture. Together with producing traditional wood carving furniture for a domestic and China market, Hung Long is now producing a western designed product for export to Europe.

*Duc Nhan Company*²⁵

Duc Nhan Company was founded in 1995 with its first factory in Gia Lai, a Central Highland province, opening a second factory in Quy Nhon and planning for a third factory opening in Binh Duong.

Its production site has been enlarged 4 times. Its current turnover has increased fifteen times compared with the initial year. It has produced exports since its establishment. Its export market firstly is Scandinavia and has now expanded to other Western European countries and the USA.

Its initial products were outdoor furniture. Presently, together with producing outdoor furniture for Scandinavian customers, Duc Nhan is now producing western designed indoor furniture for some other Western European buyers.

*Truong Thanh Furniture Cooperation*²⁶

Truong Thanh Furniture Cooperation was founded in 1993 with its first small factory in Dak lac, opening a second factory in Quy Nhon and a third factory in Binh Duong. After 15 years of operation, its production capacity has increased 15 times. Its current turnover has increased by forty times since establishment.

²⁵ Duc Nhan Company website <http://www.ducnhan.com>

²⁶ Truong Thanh Furniture Cooperation website <http://www.truongthanh.com.vn>

Founded as a private Ltd, Truong Thanh now becomes a PLC (public limited) company. Its market price of stock is five times higher than its face value even in the downturn period of the Vietnam stock market in early 2008.

Truong Thanh firstly served a local market, mainly supplying furniture for local province consumption. Its first export to France was conducted three years after its establishment and now it has expanded its market to many other Western European countries. Currently, besides serving export markets, Truong Thanh is one of the most reputed producers of indoor wood furniture in the domestic market.

AA Cooperation²⁷

AA Cooperation was founded in 1993 with its first factory in Ho Chi Minh, opening a second factory in Binh Duong. Founded as an architecture and industrial design company, AA firstly served demand for industrial decoration in a domestic market. It provides design and supplies interior decoration for hotels and apartments. After the three years since their establishment, it shifted its focus to indoor furniture. Its first export furniture was indoor furniture to Japan under the brand name of a Japanese buyer. Its current turnover has increased by twenty five times since its establishment. Currently, besides serving export markets, AA is the most well-known brand producer of indoor wood furniture in the domestic market.

3.4.2. Functional upgrading and export development

At the beginning of their international business, Duc Nhan, Truong Thanh and AA acted as processors or as an OEM (original equipment manufacturer) for some European and East Asian branded retailers. Specifically, a year after it was established, Duc Nhan began its export business as a processor for Scancom²⁸; Truong Thanh firstly worked as a processor for Lapeyre²⁹ and sold its first OEM

²⁷ AA Cooperation website <http://www.aacorporation.com/>

²⁸ ScanCom International A/S is one of the world's largest manufacturers of outdoor furniture as well as decorative accessories. <http://www.scancom.net>

²⁹ Lapeyre is the largest specialized wood furniture retailer in France. <http://www.lapeyre.fr/>

furniture to Carrefour³⁰; while six years after AA's establishment its first OEM furniture shipment to Japan was exported.

After several years working as processors and OEM, AA and Truong Thanh have been upgraded to ODM (original design manufacturer) as a result of their efforts in production and functional upgrading, including investing in machinery and design teams to maintain their competitiveness, developing their own brand name, and conducting marketing activities in export markets.

Specifically, AA is currently working as an ODM to supply Jadora, a special furniture collection for the US market, and Kecebo, a line of furniture created for the European market. Notably, unlike other export-oriented producers who often ignore the domestic market, AA has developed to become the national leading interior furniture producer with the brand name "Nha xinh"³¹. With the desire of branding "Nha xinh" as the world name, AA is conducting a series of marketing activities overseas in both the US and Europe including opening a sales office in both countries. The keys for AA's success have to do with its investment in designing (hiring a talent foreign designer to work at the company) and its multi-chain strategy (working as an ODM for export market and branded producer for domestic market).

Besides investing in advanced machinery to upgrade production capacity, Truong Thanh has invested in building designing capacity³² to work as an ODM for three of the largest British distributors³³. Although similar to AA in upgrading design capacity, Truong Thanh still supplies outdoor furniture which is considered a less design-led product while AA focuses on only interior furniture. At present, Truong Thanh is also conducting a multi-chain strategy: working both as an

³⁰ Carrefour is the world's second-largest retailer and the largest in Europe.

<http://www.carrefour.com/>

³¹ Nha xinh, meaning beautiful house, is a line of furniture which AA creates for the domestic market. Nha xinh is a well-known brand name for middle and upper class households in cities. Designs of Nha Xinh line look similar to their design in the EU and US market.

³² Some companies fund potential employees (e.g. daughter and son of the Group's president Vo Truong Thanh) to study design and marketing in the UK. During their studying in UK, they have worked as the company's marketing staff, creating business relationships with three of the largest British distributors.

³³ They are Argos&Homebase (UK), KingFisher (UK), Alexander Rose (UK)

OEM³⁴ and as an ODM for the export market as well as a branded producer for the domestic market.

Except for AA and Truong Thanh that have developed a distinctive designing capacity to work as ODMs in export markets, many producers imitate designs ordered by foreign customers or from competitors. Unlike AA and Truong Thanh who have both reached the position of a brand producer in the international market, many other companies like Duc Nhan are still OEM and ODM suppliers. They also use a mix strategy to develop an export market. One the one hand, they work as processors under the name of foreign branded firms while on the other hand they develop their own design to get higher prices.

3.4.3. Business relationships and firm's export development

Four firm cases affirm that business relationships play an important role in their success. They consider the combination of relationship marketing and transactional marketing³⁵ as a key to their success. Transactional marketing tools play an important role in attracting buyers while relationship marketing helps to maintain existing relationships. For these firms, relationship marketing is conducted through personal ties. Personal relationships are considered the most useful marketing tool not only for the small firm like Hung Long but also for the big firm like Truong Thanh. Hung Long represents a typical success case for a micro firm in Dong Ky village that often uses personal relationships (kinship or friendship or acquaintanceship) to get orders. Through kinship and friendship, Hung Long gained some contracts to supply furniture for local state organizations. First, foreign buyers came to Hung Long as a result of the recommendation by local officials with whom Hung Long holds good personal relationships. Keeping good personal relationship with buyers is Hung Long's key toward development. Hung Long who is an owner-manager is also the main person taking

³⁴ Truong Thanh works as OEM for Alexander Rose, Carrefour and ODM for Lapeyre, Argos&Homebase, KingFisher

³⁵ Relationship marketing and transactional marketing are the terms used by Grönroos's (1997) to distinguish a classical 4P marketing mix from relationship building. They are now considered two marketing approaches composing firm's marketing strategy continuum.

responsibility for face-to-face communication with foreign customers as well as big domestic customers. Besides satisfying the buyers' requirements on quality, design and delivery time, he possesses good communication and negotiation skills. All of which contribute to the firm's success in keeping buyers. Because Hung Long holds a big share of the carved wood furniture domestic market, Hung Long now has expanded into the export market starting with China, then South Korea, and now to Europe. However, this expansion is different from the first foreign business transaction brought to the company by local authority, as later foreign buyers come as result of Hung Long effort's in transactional marketing activities including export trade fair participation as well as its name and website address listed on the websites hosted by domestic trade promotion agencies including those by Vietforest and HAWA.

Similar to Hung Long in the North, Duc Nhan in Quy Nhon developed as a result of holding good business relationships with foreign buyers. Established as an export oriented firm, firstly focused on outdoor furniture, Duc Nhan gained its first foreign buyer³⁶ through the recommendation by a local authority. Keeping cooperative business relationships with Scancom, by meeting quality requirement and delivery time, Duc Nhan has accumulated a lot of production technology and market knowledge. Within additional to these marketing relationships, Duc Nhan has been significantly investing in transactional export marketing activities including participation in international furniture trade fairs annually in Frankfurt and its name and website address listed on the B2B website including Ebay and Alibaba. With effort in marketing activities both relationship and transactional marketing, Duc Nhan has now established itself as one of the leading furniture manufacturers with key buyers not only from Europe but also the USA and Korea.

3.4.4. Summary of case findings

The process of successful export development of firm cases indicates that successful firms started their export business as pure producers without any export marketing activities, gradually involving in export marketing and then

³⁶ Scancom is first foreign buyer of Duc Nhan

fully taking marketing function. The producers in Dong Ky village (Hung Long) developed from a small family business, starting its business to serve the domestic market. After being sourced by Chinese buyers, Hung Long decided to conduct export marketing to a neighboring country, China and other high income countries in the region like Taiwan, Japan, South Korea. Producers in Quy Nhon (Duc Nhan) and Binh Duong (Truong Thanh) started the export business as processors or sub-suppliers for export to Europe and America. Many of these firms had to learn to upgrade their quality to meet the requirements in high-income markets (say the UK, France). Together with working as processors or as an OEM, these firms actively developed their own design and undertook marketing activities to brand their products in the international market. The export success of these firm cases closely link up to the upgrading trajectory. Upgrading trajectory of the selected case firms is summarized in Figure 10 below.

Position in global value chain	-----OEM →-----	-----→ ODM-----	-----→ OBM-----
Case firms	Duc Nhan, Truong Thanh	AA, Truong Thanh Hung Long,	AA

Figure 10: Upgrading trajectory of the selected case firms

The studies on firm cases reveal the contribution of functional upgrading and relationship marketing to their export development. By conducting transactional export marketing activities like trade fair participation, the firms make their produce known to more potential buyers. Many buyers which the firms attracted from trade fairs become long term partners as a result of the firms' effort in relationship management. Relationship with buyers plays a significant role for the firms' export development. Besides meeting buyer's requirements on quality and price, the case firms maintain long-term relationships with buyers through personal communication.

3.5. Key findings from the explorative study

The explorative study of the Vietnam wood furniture industry points out that the firms were born in a rich context which potentially affects a firm's business behaviors and performance. The impacts are both positive and negative. Institutional context served as both a facilitator and constraint. *Facilitators* include the following: a favorable natural condition with forest; a good location close to the sea and some wood material supplying countries; a big labor force; a stable economic and political environment; a trade policy emphasizing an export-oriented strategy including such measures as a duty rebate scheme, attractive income tax rates for export producers and the usefulness of a trade supporting system. *Constraints* comprise the following: an absence of well developed infrastructure such as transport, ports, and power systems, the spontaneous and unpredictable changing in the regulatory framework; and a weak vocational training system.

The explorative study signals that the Vietnam wood furniture sector has been booming as a result of the outsourcing trend from high-income economies. Although, there are a number of firms (in Dong Ky) which develop an export business as an incremental process, many firms engage in the international market as a result of a global buyers' sourcing activities. Some become a part of the captive chain with big buyers like Scancom, some engage in the market-based chain with small specialized retailers like Lapeyre. The majority of the industry's inputs are imported and the majority of its outputs are exported. Design is mainly supplied by foreigners. Foreign buyers still operate distribution and after sale service in export markets; however, some firms are operating their own sale offices in export markets. Many Vietnamese firms have been taking steps toward functional upgrading, working as ODM and OBM in some value chains.

Although it is always hard to draw conclusion from a small number of cases, this explorative study is helpful in answering the first and second research questions as follows. For the first question, it can be concluded that functional upgrading has been implemented but not very popular in the industry. There have been some

case firms transforming from OEM to OBM in different chains. The firms undertaking functional upgrading have not experienced economic downturn but instead have demonstrated success in export development. Trade fair participation is the most popular and efficient marketing tool . For example, almost all furniture exporters obtain orders from trade fairs held in Vietnam (including EXPO, VIFA) and foreign countries (Tendance-lifestyle in Frankfurt, International Furnishing in Carolina, Houston Furniture & Accessory Market in Texas, International Contemporary Furniture Fair in New York, International Furniture Fair Singapore).

For the second question, it can be seen that relationship development is a popular practice for Vietnam wood furniture firms and plays an important role in a firm's export business. Business relationships are created and maintained through personal ties.

This explorative study suggests that some empirical basis should be taken into account when building an empirical model for testing a hypothesis. Firstly, the heterogeneous characteristics of firms in ownership structure, size, and export experience and location may be attributed to differences in a firm's performance and should therefore be controlled when testing a hypothesis on the population of firms in the Vietnam wood furniture industry. Secondly, the institutional factors are believed to contribute to Vietnam wood furniture firms' performance, hence such factors should be taken into account if one wants to refer to the findings of this research for his/her study on firms in other industries or in other countries.

Although based on a small number of observations, the explorative study signalizes the positive impact of functional upgrading and relationship development on a firm's export success. This guides the directions of the links between export marketing, relationship development and export performance. The explorative study also discloses the role of an entrepreneurs' capability to build personal relationships in a firm's performance, suggesting that a firm's relational capability can be measured through relational capability of people in charge of a transaction with business partners.

Finally, besides dealing with the two research objectives set up for the explorative study, the findings from the explorative study suggest some managerial implications. To develop in the global market, firms should be more active in design and export marketing. Combining different functions in different value chains is a good strategy for long term development. More specifically, when conducting export marketing, a firm should combine both relationship marketing and transactional marketing. Transactional marketing tools play an important role in attracting buyers while relationship marketing helps to maintain existing relationships.

CHAPTER 4: CONCEPTUAL MODEL AND HYPOTHESES

The objective of this chapter is to provide a theoretical discussion leading to the development of hypotheses regarding the relationships between functional upgrading, relational capability, and export performance. The hypotheses provide theoretical answers for the research questions. The chapter begins with section 4.1, where definitions relating to key concepts of the research are discussed. The chapter continues with section 4.2, where hypotheses are presented. It is worthwhile to note that in this section the general arguments for the role of functional upgrading in export businesses are made as the foundation for developing hypotheses on the links between specific export marketing responsibilities and export performance. The discussions on other potential predictors of export performance are included at the end of the chapter, in Section 4.3.

4.1. Concepts

4.1.1. Relational capability

In relationship management literature, researchers have used several terms to indicate a firm's capability to develop and manage business relationships. The term "relational capability" is used in Dyer & Singh (1998), Lorenzo and Lipparini (1999), and Ling-yee and Ogunmokun (2001) while Croom (2001) employs the term "relational competencies." The term network competence is used in Ritter & Gemünden (1999) and "networking capability" is applied in Jarillo (1989), and Walter et al. (2005).

These researchers define the terms in different ways. Dyer & Singh (1998) consider relational capability as the relation-building skills that are necessary to employ effective governance mechanisms, make relation-specific investments, or develop knowledge-sharing routines. Lorenzo and Lipparini (1999) regard relational capability as "the capability to interact with other companies," a capability that is based on absorption, combination, and coordination. Ling-yee

and Ogunmokun (2001) label the term “relational capability”, but they fail to define and operationalize the concept “relational capability.” In fact, what they use in their study are relational factors (including relational cooperation and changes in relational intensity). Croom (2001, p35) defines: “relational competencies are those competencies obtaining to the processes of communication, interaction, problem resolution and relationship development.” Jarillo (1989) refers to the ability to tap external resource through the building and maintaining of social relationships as an organization’s networking capability. Walter et al. (2005, p.546) define firm’s network capability as “its abilities to initiate, maintain, and utilize relationships with various external partners”.

In fact, these definitions are not very different from one to another. The definition on networking capability by Walter et al. (2005) is similar to that used by Jarillo (1989) and is built upon definitions of relational capability of previous researches including Dyer & Singh (1998) and Lorenzo & Lipparini (1999). Despite the difference in terminology used, “relational capability” or “networking capability” is, in essence, the same thing, indicating a firm’s ability to develop and manage relationships with its business partners.

Combining the definitions, this research derives a definition of a firm’s relational capability *as the firm’s capability to create, develop, and make use of relationships with its business partners.*

4.1.2. Responsibility

The noun “responsibility” is linguistically defined as the proper sphere or extent of one’s activities (in Oxford Advanced Learner’s Dictionary by Hornby and Wehmeier, 2006). In business studies, although the term “responsibility” has not been defined elsewhere, it is implicitly understood as the extent to which a firm carries out one function. For example, distribution responsibility is understood as the extent to which a firm conducts distribution function. Similarly, market intelligence responsibility, product adaptation responsibility, promotion responsibility, pricing responsibility, and after sale service responsibility are respectively interpreted as the extents to which a firm conducts market

intelligence, product adaptation, promotion, pricing responsibility, and after sale service functions.

4.1.3. Export performance (EP)

Export performance has been extensively studied in export marketing. However, despite these fruitful efforts, there is little agreement in the literature about a conceptual definition of export performance, as well as about its operational definition. Studies of export performance may differ in definitions to the extent that their definitions address different problems.

Regardless of the different problems under study, a conceptual definition of export performance should include the meaning of these two components: export and performance. Based on a summary of conceptual definitions in export marketing literatures, Shoham (1998) provided a conceptual definition of export performance as the outcome of a firm's activities in export markets. This definition covers the meaning of performance, which is reflected by the outcome, but the term "firm's activities in export markets" remains in need of clarification. In fact, many firms in developing country passively become exporters due to outsourcing trends from the developed world. In these cases, developing country firms often act as processors for the lead firm, not undertaking any activities in export market. Exporting activity, hence, should be understood as selling products to a buyer in a foreign country rather than the "firm's activities in export markets," as mentioned by Shoham (1998). *Therefore, in this research, export performance is conceptually defined as the outcome of a firm's selling products to buyers in foreign countries.*

Regarding the operational definitions of export performance, the reviews of the export performance literature (Cavusgil and Zou, 1994, Zou and Stan,1998; Leonidou et.al, 1998, 2002; Katsikeas et al. 2000; Balabanis et al., 2004) point out that the operational definitions of export performance involve economic and non-economic measurement of export outcomes. *Therefore, in this research, export performance is operationally defined as the economic (financial measures such as*

sales, profits...) and non- economic (*non-financial measures such as managerial perception of performance*) outcomes of export activities³⁷.

4.2. Development of hypothesis

4.2.1. Relationship between functional upgrading and export performance

In an increasingly globalizing economy, competition in markets of traditionally manufactured products becomes highly competitive due to increasing accession of firms from developing countries as a result of their governments' export-oriented strategies. In response to this wave, firms from high-income economies tend to consolidate core competence, delegating labor-intensive activities to partners in developing countries where labor cost is much lower. This outsourcing trend, in turn, pulls in an increasing number of producers from developing countries to work as suppliers for sourcing firms. These industrial niches have become more and more intensified. Too many enterprises from low labor cost economies are compressing onto the manufacturing stage, leading to the price and profit squeeze in manufacturing (Schmitz, 2006). Moving beyond a manufacturing function to other functions that are less competitive and of high value is a current trend in international business. The question is, then, which functions along the value chain are high value added, bringing high returns.

Kaplinsky (2000) argues that design, marketing and R&D often require intangible knowledge that is difficult to learn, imitate and hence have the potential to generate higher return. Although not adequately explaining why economic returns are high at two ends of the value chain, Mitsuhashi's (2005, p.28) figure describing the link between upgrading and economic returns³⁸ shows that design and marketing earn higher economic returns than production. The underlying idea by both Kaplinsky (2000) and Mitsuhashi's (2005) that design and marketing activities yield high economic returns can be more clearly explained by the followings. Non- production activities including design and marketing demand

³⁷ More discussions on operationalizing the construct EP are in Chapter 5-Research methodology.

³⁸ Refer back to section 2.2.2.5 in Chapter 2-Literature review.

more tacit and experiential knowledge, creating high entry barriers to these activities and hence yielding high economic returns.

Mudambi (2007) depicted the pattern of value-added along the value chain by the “smiling curve of value creation” in which high value added activities are located at two ends of the value chain: high value includes R&D and marketing while low value added activities are located at the manufacturing stage. Mudambi (2008, p.12) explains this pattern more clearly: “Mechanization and standardization have reduced the costs of manufacturing and logistics processes. Processes supporting mass customization have become widely available and subject to rapid imitation. This, in turn, has reduced the scope for the use of such processes to generate the differentiation required to support value creation. It is difficult for firms to extract high value added from manufacturing of tangible and standardized products”. In contrast, innovation, design, and marketing create un-standardized and intangible value, providing room for generating differentiation and thereby enabling high value added extraction. This suggests that design and marketing functions create higher returns than the manufacturing function.

Marketing function, more importantly, is a mechanism helping firm to achieve financial success. Mizik & Jacobson (2003) argue that a firm’s ability to create value like producing or design is necessary but insufficient to achieve financial success. They argue that marketing factors such as reputation, brand effects, and advertising are necessary isolating mechanisms, enabling a firm to appropriate more of the value it creates. In other words, the marketing function plays key role in the process of extracting profit.

When a firm joins a global value creation system, the amount of value it appropriates depends on its bargaining power, which in turn is subject to not only the firm’s value creation and appropriation ability but also its position in the global value chain. The more monopoly position a firm holds, the more bargaining power the firm has, and thereby the higher return it appropriates. For example, Chiu and Wong (2002) provide the case in which powerful buyers force the Hong Kong electronics suppliers to take the buyers’ orders even at low economic returns. They argue that “The weakness of local suppliers in marketing

and the tight control of overseas buyers in distribution are just two sides of the same coin. Underlying this business arrangement is such power asymmetry that a buyer's approval is always prior to anything done on the part of a supplier, leaving most suppliers with few choices but to take buyers' orders" (Chiu and Wong, 2002, p. 11). Gereffi (1994, p.4) explains the distribution of wealth within a chain as an outcome of the relative intensity of competition within different nodes. Kaplinsky (1998, p14) argues further "Sustainable income growth can only be assured by developing the capacity to identify and then appropriate areas of value accretion that are protected to some extent from competition. These protected spheres are characterised by economic rents." Thus, it is necessary for firms to locate their resources to the activities which provide a favourable position in the chain, protected to some extent from competition, and thus enabling high value appropriation.

Thanks to the advantages of first comers in the global market, firms from advanced market economies tend to retain control over the activities that can create and appropriate the most value and outsource low value added activities to developing countries (Mudambi, 2008). They keep design and marketing function while delegating manufacturing functions to firms in developing countries. Acting as chain leaders, such first comers coordinate value creation activities along the chain, deciding from whom to outsource and at which price. This governing power enables chain leaders to appropriate a large amount of value, even gaining more value than what they create. The gap between their value appropriation and value creation is what chain leaders seize from other members of the chain, e.g., from their suppliers in developing countries. Improving production capability through process and product upgrading³⁹ enables developing country producers to create more value, but such improvement does not guarantee that the producers will capture the whole value they create. Instead, the bargaining power of chain members decides the amount of value which they can appropriate. Process and product upgrading are necessary but not sufficient conditions for firms in

³⁹ Process upgrading is transforming inputs into outputs more efficiently by re-organizing the production system or introducing superior technology (Schmitz, 1999). Product upgrading is moving into more sophisticated product lines in terms of increased unit values (Gereffi, 1999)

developing countries to appropriate more value. Meanwhile, moving into more skilled activities like design and marketing or conducting functional upgrading enables developing country firms to reach high value added positions and thereby catch more value. Appropriating more value provides a firm with positive cash flow that can be used for expanding its export business, gaining more profit due to economics of scale, thereby sustaining export development. In other words, value creation capability strengthens a firm's value appropriation capability, which in turn facilitates a firm's export success in long run.

Giuliani et al. (2005) develops a detailed argument that functional upgrading brings about more enduring and solid competitiveness. They argue against the use of the theory of comparative advantage, which regards relative productivity as a determinant of patterns of inter-industry specialization. To analyze the performance of firms in less developed and developing countries within such a theoretical approach, which assumes perfectly competitive markets, firms would need to target only production efficiency while in fact there are other factors which must be recognized: (i) the existence of imperfect competition in domestic and international markets, and (ii) the presence of different degrees of externalities in different sub-sectors and stages of the value chain. In non-perfectly competitive markets, rents and niches of extra-normal profits often emerge, and this explains the efforts to enter selectively specific segments rather than simply focusing on efficiency improvements, regardless of the prevailing productive specialization (as advocated by the theory of comparative advantage). Moreover, different stages in the value chain offer a different scope for dynamic externalities; for example, in traditional manufacturing, the stages of design, marketing, and distribution may all foster competitiveness increases in related activities and sectors. The advantage of functional upgrading is in reducing the fragility and vulnerability of an enterprise's productive specialization. Giuliani et al. (2005, p 10) conclude that "Competition from new entrants—i.e., firms from developing countries with lower production costs, crowding out incumbents—is stronger in the manufacturing phases of the value chain than in other more knowledge and organization-intensive phases (e.g., product design and

innovation, distribution and retail, etc.). Therefore, functional upgrading may bring about more enduring and solid performance.”

Theoretically, based on these above arguments, one can conclude that that functional upgrading brings about more enduring competitiveness, leading to better performance in international markets.

However, empirically, Bazan and Navas-Aleman (2003, 2004) raise counter evidence that functional upgrading of the firms in the Sinos Valley footwear cluster in Brazil was blocked by their US buyers, leading to a downturn in export turnover.

The research argues that the downturn in export turnover in the empirical evidence provided by Bazan and Navas-Aleman (2003, 2004) happens only in the short run, not the long run. Developing design and marketing capabilities provide a producer with more sustainable competitive advantages because design and marketing require intangible knowledge that is difficult to learn or imitate. If a producer can improve itself in design and marketing capability, he can differentiate his products from standardized and easy to imitate producing activities in traditional manufacturing sectors, leading to more sustainable competitive advantage and, thereby, high economic return. Hence functional upgrading provides potential for a producer to generate high economic returns in the long term. Moreover, functional upgrading is a process that can be undertaken in different value chains. Buyers in captive chains may block producer’s moving toward design and marketing, but it does not mean that buyers in market-based chains also obstruct a producer’s undertaking design and marketing. In fact, there is empirical evidence by Bazan and Navas-Aleman (2003, 2004) showing that a firm can overcome powerful buyers’ blockage against its functional upgrading with a multi chain strategy⁴⁰. Bazan and Navas-Aleman (2003, 2004) found that firms in the Sinos Valley footwear cluster become successful in functional

⁴⁰ This term is borrowed from Schmitz (2006) to indicate the case that the firm takes different functions in different value chains.

upgrading in the Latin American market although they were obstructed from upgrading in value chains with USA buyers.

Given the above theoretical argument and empirical evidence, this research therefore argues that if a producer can move from a pure manufacturing function toward a design and marketing function, he can acquire new capabilities, breaking out of the captive relationship, obtaining a more favorable position to claim more economic returns.

Due to sourcing activities by developed country firms, firms in developing countries popularly begin export business as pure producers. It can be assumed that firms in a developing country began export business as producers without any export marketing responsibility. Given this assumption, the above argument can be interpreted as functional upgrading into marketing leads to better export performance or export marketing responsibility positive affects export performance of developing country producers.

In fact, marketing is a broad concept, including many activities. It will be more meaningful if specific marketing activities are investigated in relationship with export performance because marketing activities do not hold the same effect on export performance. For example, order searching activities may positively impact on export turnover immediately while after sale service activities that foster customer satisfaction do not boost export sales immediately but promote turnover in the long term. *Therefore, for more precise prediction on how each marketing responsibility influences export performance, I decompose marketing function into sets of activities along an export marketing process.*

Based on the definition that marketing is the business function that identifies customer needs and wants, determines which target markets the organization can serve best, and determines the appropriate products, services, and programs to serve these markets (Kotler and Armstrong, 2005), the marketing process can be said to consist of such activities as market research or market intelligence, product development, promotion, pricing, distribution, and after sale service. In international marketing, the key determining factor affecting marketing strategy includes the decision to standardize or adapt to the conditions of foreign markets

(Cavusgil and Zou, 1994). Hence, the export marketing process can be divided into six main groups of activities: export market intelligence, export product adaptation; export promotion; pricing for export product; distribution in export market; after export sale service.

4.2.1.1. Relationship between export market intelligence and export performance

Market intelligence includes market researching activities such as market forecasting, competitor analysis, order searching, etc. It is difficult for a firm to increase turnover if it passively waits for customers to knock on their door. Moreover, market forecasting and competitor analysis provide a firm with knowledge of market conditions, thus helping the firm better understand market demand, supply, and price; thereby, the firm does not miss chances to appropriate high returns, leading to better performance in international markets. Cavusgil (1984a) suggests that market intelligence is one among various organizational capabilities that are determinants of export performance. Madsen (1987) reviews that a firm's use of international marketing research positively affects export sales, growth, and composite measures of export performance. Aaby and Slater (1989) affirm that export market intelligence is a "critical success factor," discriminating successful from unsuccessful SME exporters. Therefore, the research hypothesizes that the greater extent that the firm conducts export market intelligence, the better export performance the firm demonstrates or in other words:

H1a- Export market intelligence responsibility positively affects export performance

4.2.1.2. Relationship between export product adaptation and export performance

Product adaptation is defined in terms of the degree to which the firm's actual and augmented product elements are adapted for export markets to accommodate differences in environmental forces, consumer behavior, usage patterns, and competitive situations (Leonidou et.al, 2002). Product adaptation involves

modifying products to be suitable for the habits and tastes of consumers in export markets. It includes such activities as identification and specification of product modifications needed to serve export market customers. Zou & Stan (1998) review that product adaptation is concluded by several studies to be a significant determinant of export sales, profits, and growth, but some studies found insignificant effects of product adaptation while a few studies reported negative effects. He recommends that product adaptation deserves further research attention, though their overall effects seem to be positive. This research explains the few negative correlations reviewed in Zou & Stan (1998) by the cost of adaptation. This research argues that if there exists negative correlations between export product adaptation and export performance., it happens in a short time, at the beginning process of modifying the product for being suitable with consumers in export markets. In the long term, the initial cost of adaptation may diminish because fixed costs often depreciate over time while turnover may increase because of customer satisfaction with the adapted products, leading to improvement in not only export revenue but also profit. The later review of export performance literature by Leonidou et al. (2002) deals with the un-finalized issue relating to the negative correlation raised by Zou & Stan (1998) by confirmation that the product adaptation is positively linked to export performance. Going in line with Leonidou et al.'s (2002) confirmation, this research further argues that an adapted product can satisfy foreign consumers' needs and preference better and that a strong product allows a firm to transfer it more easily to the foreign markets. If a producer can supply products that better meet customer demand, this can lead to greater profitability because a better product–market match can result in greater customer satisfaction, which can give greater pricing freedom vis a vis competitors. Therefore, the more responsibility a firm takes in respect to export product adaptation, the better export outcome the firm yields. It then can be proposed that:

H1b- Export product adaptation responsibility positively affects export performance

4.2.1.3. Relationship between export promotion and export performance

Export promotion consists of such activities as advertising, personal visits and calls to potential customers, emailing, website communication, trade fair participation, etc. The promotional activities make a firm and its product known to customers and distinguish it from other products. Promotion activities create image and brand and thereby strengthen bargaining power, leading to more value appropriation.

Zou and Stan (1998) review that promotion intensity seems to positively affect export sales, export profits, and satisfaction with export. Leonidou et.al (2002) confirms that all six promotion-related variables including advertising, sales promotion, personal selling, trade fairs, personal visits, and promotion adaptation, were empirically confirmed for their effects on export performance. The more extent that a firm conducts export promotion activities, the better firm perform in international market. It is hereby hypothesized that:

H1c- Export promotion positively responsibility positively affects export performance

4.2.1.4. Relationship between export pricing and export performance

Pricing as the only marketing mix variable that generates revenue. It is a mean to appropriate value or to earn profit. Zou & Stan (1998) assess that price adaptation seems to positively influence export sales, export profits, and export growth in some studies, but appears as insignificant in others. They suggest that the weak and uncertain findings on pricing require more research to be done on the effect of price-related factors. Leonidou et al. (2002) review studies that show that among six pricing-related activities including price setting method, pricing strategy, sales terms, credit policy, currency strategy, and price adaptation, which were examined by export literatures for their potential influence on a firm's export performance, only sales terms and currency strategy are not empirically supported to positively associate with any export performance measures. This research

argues that pricing, including such activities as price setting, quantity discounts, provision of export financing, is only a means to appropriate value or to earn profit. It directly affects export turnover and profit. The greater the extent that a firm can do pricing, the higher price the firm gains, leading to a better export outcome. The research, therefore, proposes that:

H1d- Export pricing responsibility positively affects export performance

4.2.1.5. Relationship between export distribution and export performance

Distribution in the export market comprises such activities as operating sales outlets, communicating with local distributors in the export market, and employing logistics in the export market. These efforts may generate negative cash-flow in the short run because resources are withdrawn from low margin contract manufacturing and assembly to build distribution channels in developed country markets; this requires a huge effort and financial investment, often beyond a developing country firms' resources and capability (Mudambi, 2008). In addition, the effort of developing country firms to create their own brands and distribution channels in advanced economies may be blocked by lead firms who control the distribution in the export market (as suggested by the empirical evidence raised by Bazan and Navas-Aleman, 2003; 2004), even leading to retaliation by the lead firms, causing a downturn in export turnover and profit. However, the research argues that the downturn in export turnover and profit happens in the short run not in the long run. In the long run, these short run losses are considered investments in developing crucial competences and sustaining the competitive advantage. Directly dealing with distribution channels in the export market reduces the commission cost paid for agents, enabling developing country firms to capture more value, thus increasing profit. Leonidou et al.'s (2002) review found that the use of an export sales representative/office and direct buying were empirically found to be related positively to export sales intensity, while the adoption of overseas distributors/agents and merchants showed weak associations with this performance measure. Zhang et al. (2003) argued that

exporting manufacturers' strong relationships with their foreign distributors are an enduring source of advantage because in an increasingly competitive global economy, classical marketing tools such as price and product quality are susceptible to competition by rivals. Strong channel relationships enhance international venture performance through reduced transaction costs, a rich market, and process information exchange (Zhang et.al, 2003). Therefore, the research proposes that the greater the extent that a firm conducts distribution activities in the export market, the better export outcome the firm gains, or in other words:

H1e- Export distribution responsibility positively affects export performance

4.2.1.6. Relationship between after export sale and export performance

After-sales services including such activities as customer servicing, warranty service, spare part delivery service, etc, bring about customer satisfaction. After sale services are value creation activities. Improving this value creation ability positively affects the firm's image and brand, thereby improving bargaining power which enables for more value appropriation. The provision of a warranty has been postulated to augment the value of the product exported, since this can offset foreign customers' reservations regarding product performance and reduce their risk perceptions pertaining to the purchase of such goods. This element is particularly important when a firm enters a new overseas market or exports to geographically distant markets. International customers are particularly concerned about the exporter's ability to offer the necessary services (Terpstra and Sarathy, 1997). Leonidou et al. (2002) note that customer service (i.e., provisions for pre- and after-sales services) has been cited as a critical success factor in international markets. Therefore, the research theorizes that the greater the extent that a firm conducts after-sales service, the better the firm performs in international markets, or in other words:

H1f- After-sales service responsibility positively affects export performance

4.2.2. Relational capability and export performance

Developing and maintaining mutually beneficial relationships with business partners have been increasingly recognized as important determinants of a firm's performance.

Resource based perspective studies (Barney 1991; Wernerfelt 1984; Grant 1991; Peteraf, 1993), which propose a firm's resources and capabilities as determinants of its performance, views a firm's relationship with business partners as its assets, belonging to organizational capital resources⁴¹. Upon this perspective, it can be argued that given other resources and capabilities, firms perform differently due to the difference in the business relationships they hold. In other words, the firm with the higher ability to develop and manage business relationships performs better. Moreover, the dynamic capability approach (Teece et.al 1997) argues that the winners in the global marketplace have been firms that possess dynamic capabilities to demonstrate timely responsiveness and flexible product innovation and the ability to effectively coordinate and redeploy internal and external competences. As Teece et al. (1997) defines it, "Dynamic capability is ability to develop new resources and capabilities," but they did not provide examples of dynamic capability. This research argues that relational capability *is* a dynamic capability because it helps a firm develop new resources and capabilities. Relational capability enables a firm to connect its own resources to those of other firms. With good relational capability, a firm can reach resources held by others. In addition, information exchange within relationships is a vehicle for new organizational learning. This leads to the development of a new capability. Such capability clearly belongs to Teece et.al.'s (1997) dynamic capability.

In marketing literature, the industrial marketing approach views marketing as an interactive process that takes place in a social context, where relationship building and management is a vital cornerstone. Close relationships with business partners enable firms to use resources (e.g., market information, ideas, venture funding,

⁴¹ Barney (1991) distinguished three categories of firm resources including physical capital, human capital and organizational capital, and list organizational capital resource as the composition of firm's formal reporting structure, its formal and informal planning, controlling and coordinating systems, informal relations among group swithin a firm, and between a firm and those in its environment

and financial resources) held by other actors (see Haakansson and Snehota, 1995; Johannisson and Monsted, 1997; Gulati *et al.*, 2000, Hoang and Antoncic, 2003), leading to the enhancement of competitiveness that is required to succeed in the international market. However, engaging in a business relationship, a firm gains benefits, but it also has to pay costs (e.g., cost of time and resources to develop and maintain business relationships). The firm may also get involved in “lock-in and lock-out” effects, where ties formed with one actor place constraints on ties with others, causing them to be locked in unproductive processes where know-how and other resources are wasted (Gulati *et al.*, 2000), especially when partners engage in opportunistic behavior only to outlearn each other (Williamson, 1981). Therefore, having an effective ability to develop, manage, and make use of business relationships is vital for a firm’s positive performance.

Actually, relationship development and management has been considered as an alternative approach to marketing. It even has been proposed as a premium solution in a business-to-business situation, where firms are often reliant on a small number of customers and suppliers and where maintaining existing relationships is essential to on-going business success (Zolkiewski and Turnbull, 2002). Export business for physical products is often a business-to-business transaction, where customers are often distributors or wholesalers. In such a business-to-business market, exporting firms are commonly dependent on a small number of customers (Turnbull and Cunningham, 1981). The addition or loss of a major customer or supplier can have dramatic effects on the firm's export turnover.

Empirical research performed by Piercy *et al.* (2001) emphasizes the need to focus more attention on relationship building in export marketing than on conventional marketing export tools, such as export support service, because the result from his research survey on British importers shows that besides product quality and competitive price, collaborative relationships are their selection criteria for suppliers.

Moreover, relational capability helps export producers to enhance efficiency of not only downstream activities but also upstream activities. In an increasingly

competitive global market, reducing cost in value adding processes is a source of competitive advantage. A firm needs to improve the efficiency and effectiveness of not only sale but also procurement efforts. “Just in time” delivery system and computerized order placement technologies require more close relationships between firms and their suppliers (Cannon and Pereault, 1999). Stable, timely, and qualified material supply at a reasonable cost, which is vital in the export business where production is based on contracted arrangement, can not be obtained without an effective practice of supply chain management. Thus, the ability to develop and manage relationships with suppliers plays a critically important role in an export manufacturers’ success. Upon the above argument, it is hereby proposed that:

H2: Relational capability positively affects export performance

4.2.3. Moderating effects of Relational capability

4.2.3.1. The role of relational capability on the relationship between export market intelligence and export performance

Market knowledge and information are critical components in making effective and efficient marketing decisions (Leonidou and Theodosiou, 2004), and it is even more crucial in the case of firms expanding business across national boundaries (McAuley, 1993). Market knowledge and information can be exchanged during transactions between business partners (Haakansson, 1987; Haakansson and Snehota, 1995). Sellers that have a wide breadth of contacts have multiple sources to identify and refine sales opportunities (Palmatier, 2008). With good relational capability, sellers can exploit useful information on market opportunities that are optimum for maximizing value appropriation. In other words, relational capability facilitates a firm’s ability to conduct market intelligence activities more efficiently. Therefore, the research hypothesises that:

H3a- Relational capability strengthens relationships between export market intelligence responsibility and export performance.

4.2.3.2. The role of relational capability on the relationship between export product adaptation and export performance

Anticipating preferences is vital for adapting or developing a new product. Producers can obtain information about market preference and trend through interaction with buyers and suppliers as well. Athaide and Stump (2003) argue that close and frequent interaction with buyers plays an important role in a manufacturer's product development process. Walter (2003) cited the importance of relationship development as a precursor to effective supplier involvement in the product development process. He adds that close relationships with suppliers enable manufacturing customers to learn about rapid technological changes and enhance their ability to deal with novelty, thereby accelerating innovation. Close relationship with buyers and suppliers from advanced economies may provide a firm with information about not only market preference but also technology and innovation trends important for the appropriate adaptation of its export products. This is particularly important when a manufacturer produces exports to advanced economies. The positive capability to create, develop relationships, and use information exchange brings to a firm the chances to capture useful information on market preference and trends, thereby enabling them to conduct more efficiently the process of modifying products adapted to export markets. Relational capability facilitates a firm's implementing the export product adaptation process and conducting export product adaptation responsibility more efficiently. Hence, the research hypothesizes that

H3b- Relational capability strengthens relationships between export product adaptation responsibility and export performance

4.2.3.3. The role of relational capability on the relationship between export promotion and export performance

Because inter-firm relationships often involve groups of people who represent both buying and selling organizations (Bonoma and Johnston, 1978), a firm with a

marketing staff that has good communication skills can efficiently conduct relationship marketing tools including personal visits or calls to potential customers or communication with them via e-mails. In addition, efficiency of export promotion activities like advertising or trade fair participation depends on their suitability to the export market. Having market knowledge and information enables a firm to adapt a promotion policy suitable to the export market. A good relational capability facilitates a firm ability to capture information needed to apply a promotional policy suitable to the export market. In other words, relational capability facilitates firms to conduct export promotion activities more efficiently. The research, hence, proposes that

H3c- Relational capability strengthens relationships between export promotion responsibility and export performance.

4.2.3.4. The role of relational capability on the relationship between export pricing and export performance

A key goal of any selling organization is to understand a customer's needs and problems in order to position its product offering appropriately in terms of price and, thus, to maximize the seller's profitable sales. Sellers that have a wide breadth of contacts have multiple sources to identify and to price the offering optimally for maximum value creation and appropriation (Palmatier, 2008). Moreover, with a good relational capability, which includes, for example, communication and negotiation skills, a firm's manager can conclude a good price for a transaction. In other words, the better relational capability, the more efficiently a firm can conduct pricing responsibility. Therefore, the research theorises that

H3d- Relational capability reinforces relationships between export pricing responsibility and export performance

4.2.3.5. The role of relational capability on the relationship between export distribution and export performance

When a firm decides to conduct distribution responsibility, it has to manage relationships with other members of distribution channel in the export market. Export channel partnerships are often motivated by the need to form relationships that deliver “experiential knowledge” about a market (Johanson & Vahlne, 1977) and to convert such tacit knowledge into explicit knowledge in ways that provide competitive advantage (Nonaka and Takeuchi, 1995). Ling-yee and Ogunmokun (2001) cite that theorists (Bello and Gilliland, 1997; Katsikeas and Dalgic, 1995) claim that how exporters and importers handle inter-firm relationship maintenance problems contributes directly to the success of the channel relationship. Relationships are particularly seen as important in an export channel environment that requires participation of both trading partners to perform activities jointly. Developing a mutually beneficial relationship and avoiding conflict with a distribution channel member in the export market can not be practiced without good relational capability. In other words, the higher the relational capability, the more effective a firm deals with members of a distribution channel in export markets. Thus, the research proposes hereby that:

H3e- Relational capability positively strengthens relationships between export distribution responsibility and export performance

4.2.3.6. The role of relational capability in the relationship between after export sale and export performance

Paying attention to customers after the sale with responsive proactive service and support can set a company apart from its competitors (Galbreath and Rogers, 1999). Conducting after sale service responsibility requires a firm to deal with such problems of claiming, customer care, warrantee, spare part delivery. Without a customer relationship management practice, a firm may lose track of customers, thereby not satisfying its customers. With a strong ability to manage customer relationships, a firm can identify its customers and solve their after sale claim more effectively, making them so satisfied that they will buy more products from the firm. In other words, the higher the relational capability, the more effective a

firm conducts after sale service responsibility. Therefore, the research suggests a hypothesis that:

H3f- Relational capability reinforces relationships between after sale service responsibility and export performance

4.3. Other predictors of export performance

A review of export literature points out two sets of predictors of export performance: (i) the background variables including managerial, organizational, and environmental factors, and (ii) the intervening variables that are often hypothesised in empirical research to directly affect export performance. The background variables need to be controlled when predicting the effect of other intervening variables. Variables relating to organizational factors such as firm size, international experience, ownership or relations to environmental factors, such as a firm's location, are background variables which potentially influence a firm's export performance and should be controlled when conducting empirical research on other intervening variables.

Firm's size

Firm size is traditionally used as a proxy for organizational resource availability (Pedersen and Petersen 1998). It is widely accepted in export literature as a determinant of international expansion (Cavusgil 1984a, Johanson and Vahlne 1977). Due to economy of scale⁴² and scope⁴³, the larger a firm is, the smaller unit cost the firm has to pay, and therefore the higher profit the firm captures. Small firms, with resource constraints, generally produce small volumes (scale) of few products (scope), and hence are at a disadvantage with respect to unit costs, limiting their export profit. Large firms are believed to have a greater ability to expand resources and absorb risks than smaller ones (Erramilli and Rao, 1993;

⁴² Economy of scale is defined as the decline of average costs (per unit of product) with an increase of production volume per unit of time, where production capacity is variable (Nootboom 1993).

⁴³ Effect of scope is defined as a reduction of average costs (per unit of product) by the addition of another product to the portfolio of production. (Nootboom 1993)

White *et al.*, 1998). They are thought to possess an above-average ability to seize profit, to leverage in a lower cost of capital, and to diversify their operation portfolios and internationalize more easily (Cavusgil 1984a; Calof 1994). Therefore, firm size is used as a control variable in the research model.

Firm's export experience

Export experience is popularly cited in export performance literature as a determinant of export performance (Madsen, 1989). According to the stage internationalization theory (Johanson and Vahlne 1977), the more international experience a firm has, the better the firm grows in international markets. Therefore, firm's export experience can be a predictor of export performance and should be used as a control variable in the research model.

Ownership

Ownership has rarely been cited as control variable in export literature. However, cooperate governance literature (Demsetz and Lehn, 1985;Hermalin and Weisbach, 1991; Himmelberg et al,1999; Zhou, 2001) argue that managerial ownership incentives are important for firm performance. Upon this reasoning, it can be argued that the different ownership structure impacts on a firm's behaviour and performance in the export business. Therefore, ownership should be used as a control variable in the research model.

Location

A firm's location seems to have not to have been used as one of the control variables in export literature. However, location of the firm closely links to environmental factors such as infrastructures, business atmosphere, and government policy, which were reviewed as background variables influencing export performance by Leonidou (1995a; 1995b), Zou and Stan (1998), Leonidou et al., (1998, 2002), Katsikeas et.al, (2000), Balabanis et.al (2004). Location therefore is potentially a predictor of export performance. A firm located in a

good business environment with a good infrastructure, available materials, and supporting industries certainly is in a more favourable condition to develop than a firm in a worse business environment. Therefore, location should be used as a control variable in the research model.

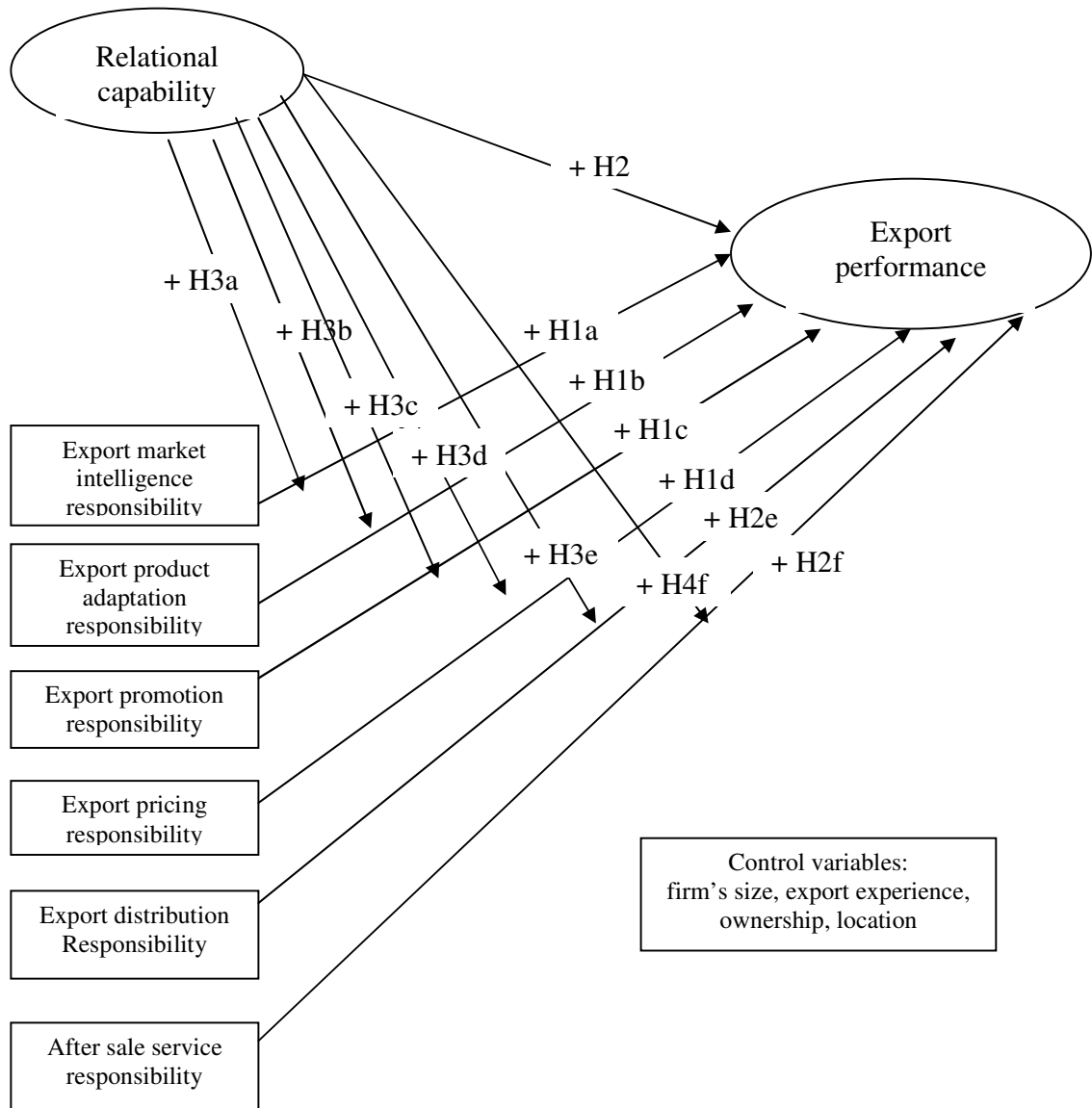


Figure 11: Conceptual model

CHAPTER 5: RESEARCH METHODOLOGY

This chapter presents methodology employed to test hypotheses built in Chapter Four. The chapter begins with a presentation of the empirical model and the measurement procedure where variables are operationalized. Scales were developed and tested by a pretest survey and by in-depth interviews with respondents. The chapter continues with issues relating to this research design, including choices of statistical tools as well as data collection methods including sampling, process, and respond rate. The chapter ends with an analysis of data reliability.

5.1. Empirical model

Recent reviews of literature on the determinants of export performance (Leonidou, 1995a; 1995b; Zou and Stan, 1998; Leonidou et al., 1998, 2002; Katsikeas et al. 2000; Balabanis et al., 2004) converge to two distinct sets of predictors for export performance. The background group includes variables relating to managerial, organizational, and environmental factors that serve as background or antecedent forces since they indirectly affect export performance. The intervening group comprises intervening variables that are thought to directly affect export performance. Background variables are often thought of as certain causes of export performance and therefore should be controlled when predicting the effects of intervening variables. As discussed earlier in the conceptual model, this research takes background variables including firm size, export experience, ownership, and location as its control variables. The conceptual model suggests that the empirical model should take the form of linear multiple regression models.

Model 1: With control variables only

Control variables are estimated by putting them into the function of EP. The model with only control variables is written as below.

$$EP = \alpha_0 + \alpha_1 Si + \alpha_2 IE + \alpha_3 Os + \alpha_4 Lo$$

Model 2: With direct effects

Direct effects of the hypothesized predictors are estimated by including them into the EP function. Therefore, the model with direct effects of hypothesized predictors is formulated as below.

$$EP = \alpha_0 + \alpha_1 Si + \alpha_2 IE + \alpha_3 Os + \alpha_4 Lo + \beta_1 MI + \beta_2 Proad + \beta_3 Pro + \beta_4 Pri + \beta_5 Dis + \beta_6 Ass + \beta_7 RC$$

Model 3: With moderating effect of relational capability

Moderating effect, of a moderator, on the relationship between a predictor and a dependent variable is estimated by including the product of the predictor and the moderator into the function of the dependent variable (Chin et.al 1998, Hair et.al 2005). Therefore, the model with moderating effects of RC is formulated as below.

$$EP = \alpha_0 + \alpha_1 Si + \alpha_2 IE + \alpha_3 Os + \alpha_4 Lo + \beta_1 MI + \beta_2 Proad + \beta_3 Pro + \beta_4 Pri + \beta_5 Dis + \beta_6 Ass + \beta_7 RC + \beta_8 RC * MI + \beta_9 RC * Proad + \beta_{10} RC * Pro + \beta_{11} RC * Pri + \beta_{12} RC * Dis + \beta_{13} RC * Ass$$

Of which

Si: firm size IE: firm’s export experience Os: firm’s ownership structure Lo: firm’s location EP: export performance MI: Export market intelligence responsibility Proad: Export product adaptation responsibility	Pro: Export promotion responsibility Pri: Export pricing responsibility Dis: Export distribution responsibility Ass: After export sale service responsibility RC: Relational capability
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5.2. Measurement procedure

5.2.1. Development of measurement scales

5.2.1.1. Independent variables

Relational capability

Although there exist several conceptual definitions on relational capability as mentioned in Chapter 4, the measurement method for relational capability has not been developed. However, as analyzed in part 4.1 regarding the overlap of

meaning to some extent between the two concepts of “relational capability” and “networking capability,” it is fruitful to refer to previous studies which have developed a measurement scale for networking capability. There seem to be only two published studies developing a measurement scale for networking capability: Anand and Khanna (2000) and Walter, *et al* (2005). Anand and Khanna (2000) measure “network capability” with the number of previous alliances. The measurement scale by Anand and Khanna (2000) does not fit with the concept of “relational capability” as defined in this research, hence it is not used as a reference source for developing a measurement scale of relational capability.

Walter, *et al* (2005) developed a measurement scale for networking capability as a composite construct that is made up of four components including coordination activities, relational skills, partner knowledge, and internal communication. Some indicators used by Walter, *et al* (2005) to indicate relational skills are relevant since they reflect a firm’s capability to create, develop, and make use of relationships with its business partners, hence these indicators can be used as reference sources when developing a measurement scale for relational capability.

In brief, this research develops a measurement scale for relational capability by making use of the reflective indicators employed by Walter, *et al* (2005) (see Appendix 1 for comparison between reflective indicator for relational skill in Walter, *et al* (2005) and reflective indicators for relational capability developed in this research).

To measure a firm’s relational capability, it is firstly necessary to have the concept of “capability” more clearly and specifically defined. The early generic description by Nelson and Winter (1982) categorized capability as either lower-order organizational knowledge and skills or higher-order coordinating mechanisms. Based on this description, a number of definitions have been made. Day (1994, p. 38) defines this concept as the “complex bundles of skills and accumulated knowledge, exercised through organizational processes, that enable firms to coordinate activities and make use of their assets.” Helfat (2003, p. 1) refers to a firm’s capability as “the ability to perform a coordinated task, utilizing organizational resources, for the purpose of achieving a particular end result.”

O'Regan and Ghobadian (2004) cite capabilities as “a firm’s capacity to deploy its assets, tangible or intangible, to perform a task or activity to improve performance.” These definitions are still so abstract that they make empirical measurement difficult. For example, those by Helfat (2003), O'Regan and Ghobadian (2004) are actually deconstructed into other abstract terms such as “ability” and “capacity.” Although Nelson and Winter (1982) do employ the abstract term “skill,” they deconstruct this term into its specific components making it more relevant for empirical measurement. Fortunately, Nelson and Winter (1982, p. 104) further clarify that a “firm’s skill can be cast in term of its routine or process of activities”. Therefore, capability is operationalized in this research as lower-order organizational knowledge and routine. Relational capability, hence, is operationalized as a first-order construct reflected by items that indicate firm’s capability to create, develop, and make use of relationships with its business partners.

Table 4: Indicators for Relational capability scale

RC1-We have the ability to build good personal relationships with partners
RC2- We analyze what we would like and desire to achieve with each partner.
RC3-We almost always solve problems constructively with our partners.
RC4-We know how to make use of our partners’ strength
RC5-We know how to exploit information when communicating with partners.
RC6-We know how to persuade partners to agree with our suggestions

Indicators will be measured on 5-point Likert - scale, ranging from 0 to 4, with 4 defined as completely true and 0 as completely untrue.

Export market intelligence responsibility

Based on the concept of export market intelligence responsibility introduced earlier, this research develops export market intelligence responsibility as a single item scale. This scale indicates the extent at which the firm handled export market intelligence activities (including export order searching, competitor analysis, export sales forecasts, etc). The indicators will be measured on 5-point Likert - scale, ranging from 0 to 4, with 4 defined as completely done by the firm and 0 as completely done by its business partners.

Export product adaptation responsibility

Building on this concept mentioned in the preceding chapter, export product adaptation is operationalized in this research as a single item scale. This scale indicates the extent at which the firm conducts design functions which include the modifications and developments for the firm's export products. The indicators will be measured on 5-point Likert - scale, ranging from 0 to 4, with 4 defined as completely done by the firm and 0 as completely done by its business partners.

Export promotion responsibility

Based on this concept discussed earlier, export promotion responsibility is represented as a single item scale,. This scale indicates the extent at which the firm conducts export promotion activities – including personnel visits and calls to potential customers, emailing, website communication, trade fair participation, etc. The indicators will be measured on 5-point Likert - scale, ranging from 0 to 4, with 4 defined as completely done by the firm and 0 as completely done by its business partners.

Export pricing responsibility

Drawing on this concept explained earlier, export pricing responsibility is also represented as a single item scale. This scale indicates the extent at which the firm conducts export pricing (including price setting, quantity discounts, provision of export financing, debt collection, etc.) The indicators will be measured on 5-point Likert - scale, ranging from 0 to 4, with 4 defined as completely done by the firm and 0 as completely done by its business partners.

Export distribution responsibility

Export distribution responsibility is also represented as a single item scale. This scale indicates the extent at which the firm conducts distribution activities in the export market (including operating sales outlets, communication with local distributors in export market, logistics in export market). The indicators will be measured on 5-point Likert - scale, ranging from 0 to 4, with 4 defined as completely done by the firm and 0 as completely done by its business partners.

After export sale service responsibility

After export sale service responsibility is represented as a single item scale This scale indicates the extent at which the firm handles after-sales service activities

including customer service, warranty service, spare part delivery service, etc. The indicators will be measured on 5-point Likert - scale, ranging from 0 to 4, with 4 defined as completely done by the firm and 0 as completely done by its business partners.

5.2.1.2. Dependent variables

Export performance

Export performance is defined as the outcome of a firm's activities in export markets (Shoham 1996). Reviews of the export performance literature (Cavusgil and Zou 1994, Zou and Stan,1998; Leonidou et.al, 1998, 2002; Katsikeas et.al 2000; Balabanis et.al, 2004) summarize two principal ways of measuring export performance: economic (financial measures such as sales, profits, and market share) and non-economic (non-financial measures relating to product, market, experience elements, etc.). Most of the background and intervening variables were associated with economic measures of performance, particularly export sales intensity (export-to-total sales ratio), export sales growth, and export profitability (Katsikeas et.al, 2000).

Export sale intensity

Previous researches popularly use the export-to-total sales ratio as an indicator of export performance. However, when applied in this research, this indicator is in need of modification. In a developing country like Vietnam, export turnover is calculated in the foreign currency while domestic turnover is calculated in the domestic currency. Respondents may be confused when asked to generate the export-to-total sales turnover ratio. However, for accounting purposes, profits from all business activities are always calculated in domestic currency. It is easier for respondents to figure out the export to domestic sales profit ration than the ratio of export-to-total sale. Therefore, the indicator on export sale intensity is modified in this research as the relative export profit per domestic profit.

Export profitability

Financial outcomes can be measured objectively as well as subjectively. Objective financial data may provide exact values but this data is not easily

revealed. Subjective managerial perception may not provide exact value but this data is more accessible and also important because it affects future strategies. Cavusgil and Nevin (1981) and Sehlegelmilch (1986) indicate that managerial aspirations about export profit and export profit relative to domestic will directly affect a firm's decision to further involve themselves in export. The use of this subjective variable encourages more firms to respond because respondents need not provide confidential export profitability figures (White *et al*, 1998).

The direct question regarding absolute dollar figures on sales or profits will lower response rates to an unacceptably low level. A number of previous empirical studies have not used direct financial performance measures (e.g Kundu and Renko 2005, Koh, 1991) but asked questions that refer to the firm's profit growth rate. Therefore, in this research, profitability is to be measured by subjective managerial perception which is export profitability aspiration level.

Export growth

Export growth is often measured by the ratio of the export turnover or profit of the existing year to that of the previous year. It is measured in this research as an exact figure and normalized into a five point Likert-scale.

The use of a multiple item scale was popular in measuring export performance because different measures of export performance capture different facets of the strategic and operational phenomena that underlie export performance (Katsikeas et.al, 2000). Export performance, thus can be operationalized in this research as scale reflected by three reflective indicators: export growth, relative export profit, export profit aspiration fulfillment. Items will be measured on 5-point Likert scale.

Table 5: Indicators for export performance

Indicators	Scale
EP1-What was the export growth rate in 2006	Measured as a continuous variable and normalized on 5 point Likert-style scale
EP2-To what extent has your company's export profitability aspiration level been fulfilled	Measured on a 5 point Likert-style scale of ranging from 0 to 4, with 4 defined completely fulfilled and 0 defined as incompletely fulfilled

EP3-How do you perceive your company's export profitability compared to the profitability of domestic sales	Measured on a 5 point Likert-style scale of ranging from 0 to 4, with 4 defined very high and 0 defined as very low
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5.2.1.3. Control variables: size, export experience, ownership, location

Firm's size

Firm size is measured in terms of the number of employees and is normalized as a logarithmic function of the number of employees.

Firm's export experience

Export experience is measured by the number of years a firm is involved in the export business and is normalized as a logarithmic function of number of exporting years.

Ownership

As analysed in Chapter 3, there is an existence of heteroscedasticity in how firms are run in Vietnam's economy. Vietnamese firms belong to one of three groups: state-owned enterprise (SOE), private, and foreign invested enterprises (FDI).

The different governance structure between FDI firms and domestic firms leads to different behaviours in export business activities. Because FDI firms have inherited distribution channel relationships as well as international experience from their foreign stakeholders, FDI firms are in a more favourable condition than domestic firms when performing export business. Therefore, including FDI firms into a sample may cause bias and therefore these firms should be excluded from the testing sample.

Different economic incentives exist between the manager of a private firm and that of a SOE and thus affect a firm's decisions in the export business. The manager of a private firm is often an owner, who acts for his own profit while a manager of a SOE is an employee of the State, who acts for his salary. The manager of a SOE is believed to be less enthusiastic and more passive in doing business than a manager of a private firm, a distinction which leads to different performances in the export business.

Therefore, this research operationalizes the qualitative variable “ownership” in two categories⁴⁴. A dummy variable (Os) is coded ' 1 ' if a firm is private owned, and '0' if a firm is SOE.

Location

As analysed in Chapter 3, Vietnam wood furniture producers are in three main regions: North (in and around Dong Ky), Centre (in and around Quy Nhon), South (in and around Binh duong). The three regions differ in historical and cultural conditions as well as economic infrastructure. These differences in environmental factors obviously lead to some differences in business performance among firms of different regions. A qualitative variable Location has three categories. Hence, the research introduces two dummy variables Lo1 and Lo2⁴⁵.

If a firm is in the North, a dummy variable Lo1 is coded ' 0 ' and Lo2 is coded '1'.

If a firm is in the Center a dummy variable Lo1 is coded ' 1 ' and Lo2 is coded '0'.

If a firm is in the South a dummy variable Lo1 is coded ' 0 ' and Lo2 is coded '0'.

Table 6: Summary of measurement scales for the empirical model.

Variables	Measurement method	Indicators used
<i>Dependent variable</i>		
Export performance	Multiple items	EP1-What was the export growth rate in 2006 EP2-To what extent has your company’s export profitability aspiration level been fulfilled EP3-How do you perceive your company’s export profitability compared to the profitability of domestic sales
<i>Independent variables</i>		
Export market intelligence responsibility	Single item	To what extent has your company handled export market intelligence activities (including export order

⁴⁴ Gujarati (2004, p.302) guides “If a qualitative variable has m categories, introduce only (m – 1) dummy variables”

⁴⁵ Gujarati (2004, p.302) guides “In our example, since the qualitative variable “region” has three categories, we introduced only two dummies. If you do not follow this rule, you will fall into what is called the dummy variable trap, that is, the situation of perfect collinearity or perfect multicollinearity, if there is more than one exact relationship among the variables”.

Variables	Measurement method	Indicators used
		searching, competitor analysis, export sales forecasts, etc)
Export product adaptation responsibility	Single item	To what extent has your company handled export product modifications and development (including identification, specification and negotiation of product modifications required by export market customers)
Export promotion responsibility	Single item	To what extent has your company handled export promotion activities – including personnel visits and calls to potential customers, emailing, website communication, trade fair participation, etc
Export pricing responsibility	Single item	To what extent has your company handled export pricing (including price setting, quantity discounts, provision of export financing, debt collection, etc.)
Export distribution Responsibility	Single item	To what extent has your company handled distribution activities in the export market (including operating sales outlets, communication with local distributors in export market, logistics in export market)
After export sale service responsibility	Single item	To what extent has your company handled after-sales service activities including customer servicing, warranty service, spare part delivery service, etc.
Relational capability	Multiple item	RC1- We analyze what we would like and desire to achieve with each partner. RC2-We have the ability to build good personal business relationships with business partners RC3-We almost always solve problems constructively with our partners. RC4-We know how to make use of

Variables	Measurement method	Indicators used
		our partners' strength RC5-We know how to exploit information when communicating with partners. RC6-We know how to persuade partners to agree with our suggestions.
<i>Control variable</i>		
Size	Single item	Number of employee
Export experience	Single item	Year of export
Ownership	Dummy	Ownership types
Location	Dummy	Location of firm

5.2.2. Pre-test of questionnaire

In-deep interview

A preliminary questionnaire was designed using the above measurement scale and was translated into Vietnamese. Discussions with managers from ten exporting firms⁴⁶ were conducted to get their comment on the questionnaire's content and language used in the Vietnamese version. Most comments indicate that the questionnaire is understandable. Four managers said that they could not provide answer for Question 15⁴⁷ because their company did not sell in domestic market.

A pre-test survey

After revising based on the comments gained from in-depth interviews, a pre-test survey was conducted to check the validity of the questions. There are 30 questionnaires filled in by managers⁴⁸ from several manufacturing industries (five in the garment, two in the shoe, six in the ceramic, five in the handicraft and twelve in the furniture sectors).

⁴⁶ Six of them are in the wooden furniture sector and four in the fine art and handicraft sector. All of them are private and small and of medium size. Eight firms are located in the north, two firms are in the South.

⁴⁷ Question 15: "How do you perceive your company's export profitability compared to the profitability of domestic sales"

⁴⁸ Managers who took the short course in Export Management held by Hanoi Foreign Trade University in November 2006. Their firms are located in the North of Vietnam.

Although there are six responses came without answering Question 15⁴⁹, descriptive statistics on the pre-test survey do not show an extreme mean value of indicators or missing values. This suggest that generally, respondents do not face difficulty in reading, understanding and answering the questionnaire and mass survey can be proceeded despite the fact that some firms may not serve domestic market and are unable to answer Question 15.

Decision after pre-test questionnaire

The results from in-depth interviews and pre-test surveys show that the questionnaire is legible and understandable. The questionnaire was therefore used in the mass survey.

5.3. Research design

This research is aimed to test the theory of the causal model. To test the theory of the causal model, a cross-sectional design and a longitudinal design are often employed. Each of these research designs has certain limitations. In longitudinal design, the time and cost of conducting data collection with a large enough sample in two or more separate periods is too consuming, and might not be suitable for a PhD project. Cross-sectional designs, despite the disadvantage of being statistical and thus unable to measure change, have many advantages because they are able to collect data on many variables, including a large number of subjects, dispersed subjects, and attitudes and behaviors. Therefore, cross sectional design is more appropriate and is used in this study.

5.4. Selection of statistical tools

The empirical model takes the form of linear multiple regression. Therefore, the multiple regression method is employed in this research. In addition, some variables in this study are latent variables which are measured only through multiple indicators, hence confirmative factor analysis (CFA) and explorative factor analysis (EFA) are conducted to check the validity of the latent constructs.

⁴⁹ Question 15: "How do you perceive your company's export profitability compared to the profitability of domestic sales"

SPSS 14 and AMOS version 6.0 are used for data analysis in this research. SPSS is used for the purpose of statistical description, data screening and multivariate normality, linearity, homoscedasticity, multiple regression and EFA. AMOS is used for CFA.

5.5. Data collection

5.5.1. Data collection method

Single industry selected

Data was collected from firms in a single industry. Choice of a single industry will exclude and reduce the confounding factors that relate to a specific industry. Selecting one industry will ensure that an export business is more or less homogenous and thereby secure a higher level of internal validity (it is possible to isolate third variables) and statistical conclusive validity (less random error variance) (Cook and Campbell, 1979).

One key informant technique

Key informant technique is the most popularly used technique in inter-organization research. The technique uses one or a few more informants to describe the critical factors for the unit of analysis. These informants should have specific knowledge regarding the unit of analysis and capability to describe and communicate the phenomenon of interest as well as be independent from that phenomenon of interest (Campbell, 1955; Phillips, 1981).

Collection of primary data on a large scale requires huge effort. The best solution to handle the large scale survey research is to use one key informant upon structure questionnaire (Cook and Campbell, 1979). The justification for using one key informant technique in this research is due to its advantages and suitability.

Data collection from just one informant has both an advantage and a disadvantage. The disadvantage is the risk that an informant is not knowledgeable and not trustful. However, despite this risk, researchers, almost without exception, collect data from just one informant (Sunde, 2007) because of the advantages. Some advantages are that the one informant technique consumes less time and resources

than the several informant technique. Moreover, the several informant technique thereby requires more time and resources to collect data and analyse data. Sunde (2007, p.101) explain “When a researcher has many observation for the same phenomenon (Kumar et al 1993), data must be analysed for convergence and joint understanding should be reported. The interpretation of these results is ambiguous and not straightforward. When single informant is used, the results are reported directly, thus saving both time and money. No further analysis of possible divergent data is necessary.” The several informant technique is therefore not a better option than the one key informant technique if the research is constrained in time and resources. In this research, one key informant technique is practical and realistic approach due to limitations in time and resources.

To overcome the disadvantage of the one key informant technique, the research obeys the requirements by Campbell (1955) and Phillips (1981) to select informants with specific knowledge regarding the unit of analysis, a capability to describe and communicate phenomenon of interest, and an independence from the phenomenon of interest. In this study, I contacted directors of the firms in the sample frame, asking them to appoint manager in charge of wood furniture export to answer the questionnaire.

5.5.2. Sampling procedure

Identification of sample

According to Hair et al (2005, p.196), the guideline for determining my ideal sample size⁵⁰ would be 165 observations. Although my empirical model consists of eleven independent variables and could be generalized with a sample size from just 55 observations; the sample size should be larger when interaction effects are included. Hair et al (2005, p.873) guide that if a model includes interaction effects, the sample size should be at least 300 observations. Therefore, this research attempts to obtain sample size from at least 300 observations.

Strategy for contacting subjects

⁵⁰ General rule is that to gain generalizability of the results, the ratio of observations to independent variables should be at least 5:1 and ideal ratio is 15:1

Informants are export managers of firms that were selected from business directories. Informants were contacted firstly by mailing and then phoning. A recommendation letter by the Rector of Hanoi Foreign Trade University and two USD monetary premiums as well as a pre-paid stamped envelope were used to encourage response.

Given the fact that the mail survey response rates often varied from 10 to 65 percent (Armstrong, 1975) and the rule of thumb that there is a one percent decrease in the non-response rate for each one cent increase in the prepaid incentive up to 40 percent, I expected the response rate for this research mail survey to be 30%. With the expected response rate of 30%, the sample frame would be around 1000 firms.

Sampling description

The objects of the investigation are firms involving in export business regardless direct⁵¹ or indirect export⁵². In Vietnam, General Department of Custom (GDC) takes registration of firms directly exporting because a firm directly selling its product to a buyer in a foreign country is required to register with GDC. However, the sampling can not be based on the list of exporting firms recorded by GDC as it will omit the case of firms indirectly exporting. Therefore, the sampling strategy is contacting firms which are sorted upon sector⁵³, ownership⁵⁴ and location⁵⁵ from business directories to ask for answers back if they involve in export business regardless direct or indirect export. In Vietnam, there are several business directories each authored by a different group, these include the General Statistic Office⁵⁶ (GSO), the Ministry of Planning and Investment⁵⁷ (MPI), the Vietnam chamber of Commerce and Industry⁵⁸ (VCCI).

⁵¹ Direct export is understood as a firm directly sells its products to a buyer in foreign country.

⁵² Indirect export is understood as a firm sells its products to a buyer in foreign country through a local export agency.

⁵³ Wooden furniture processing sector.

⁵⁴ FDI firms are excluded

⁵⁵ As described in chapter two regarding the context of Vietnam wooden furniture industry, wooden furniture producers are concentrated in three main regions: The Red River delta in the North including Hanoi, Bac Ninh, Ha Tay, the central highland including Binh Dinh, Gia Lai, Dac Lac, Kontum and the Southeast including Ho Chi Minh City, Dong Nai, Binh Duong.

⁵⁶ GSO is the Vietnamese official organization which regularly conducts statistical surveys on the country's economic and social activities

Directories by GSO, MPI, VCCI provide lists of firms in registered business areas. The directory by GSO seems more updated than that by the MPI. The directory by GSO is more comprehensive than that by VCCI. Sorting firms by sector from the GSO directory provides a list of wooden furniture firms. This list was checked against the directories by VCCI and the directories by two wood processing associations⁵⁹.

The sorted list includes 1503 firms in the wooden furniture industry national-wide and then more firms were sorted out based on ownership structure and locations. The firms that were clearly indicated by the GSO's directory that they were foreign invested capital were excluded. The firms which are located in the provinces that are too far from the three concentrated wooden processing clusters (Dong Ky village- Bac Ninh province, Quy Nhon city- Binh Dinh province, Binh Duong industrial parks) are also excluded. The final list includes 1047 firms.

5.5.3. Data collection process and respond rate

Data was collected through a structured questionnaire, which was mailed to one key informant in a selected firm. A mail survey is a popular data collection technique in business and management sciences because of the advantages it offers to a researcher (Cavusgil et al., 1998). These advantages include wider distribution, less distribution bias, better likelihood of thoughtful replies, no interviewer bias, central control, as well as time and cost savings (Erdos, 1974). Mail survey however has the weakness of low response rate. To overcome the disadvantage, previous researchers employ such methods as providing advance notice to respondents, sending follow-up mailings to non-respondents, utilizing different forms of postage, and a variety of monetary and non-monetary premiums (Cavusgil et al., 1998). Jobber and Saunders (1988, p. 365) explain that “the norm of reciprocity states that people are more likely to help those who provide favors for them. The act of providing favors (assistance, gifts, etc.) builds a

⁵⁷ MPI is the Vietnamese governmental organization which monitors business firms' registration

⁵⁸ VCCI is the non-government organization promoting for trade and industry.

⁵⁹ Vietforest (Vietnam Wood and Forestry Product Association) and Hawa (Handicraft and Wood industry Association)

psychological obligation to reciprocate. Within the context of mail surveys, a recipient of a questionnaire may feel an obligation to reciprocate by completing and returning a questionnaire if that person has received a gift from the research”. I used the above mentioned methods as a guideline to conduct my mail survey for this research.

Data collection was conducted into three phases: mailing, follow up mailing, and then directly phoning the informant. First mailing was conducted to 1047 firms in the sample frame and 162 answers were returned. Follow-up mailing was conducted to 895 non-respondents and 30 more answers were returned. Direct contact by phoning to managers of non- responding firms in follow-up mailing (randomly picked up from non-respondents remained after follow up mailing). The questionnaires were then sent again to the ones who agreed to joint survey. 132 answers were mailed back. Phoning to respondents was conducted to check missing information.

Table 7: Data collection process

Phase	Time	Activities	Number of returned answer
1	May 2007	Mailing to 1047 firms in the sample frame	162
2	July 2007	Follow-up mailing to 895 non-respondents	30
3	Sep 2007 to Jan 2008	Phoning to non- respondents in follow-up mailing (randomly optioned) to ask for answers returned Phoning to respondents to check missing information	132
Total			324

Total response rate is 31% (= 324/ 1047). Given the fact that the mail survey response rates often varied from 10 to 65 percent (Armstrong, 1975), this total response rate in my survey of 31% can be considered successful. However, more attention should be paid to possible bias appearance due to late response. The bias test therefore should be conducted when processing data to exclude bias problem.

5.5.4. Reliability of data

As analyzed above, to overcome unreliable and biased answers, the research using one key informant should follow the guidelines by Campbell (1955) and Phillips (1981). This research selects key informants as the manager who is in charge of wood furniture export, which satisfies the requirement of knowledgeable informant.

Although managers responsible for export are dependent on the phenomenon of export activities, they would have no interest in not telling the truth to the researcher since they are independent of the researcher and the research. In this sense, their self-benefit is considered independent from the research issues. In deed, all critical constructs relating to export marketing responsibility, relational capability, and export performance do not involve the informants' self benefit. Therefore informants have no motive of not telling the truth. It can be believed that they provide objective answers.

In addition, there is no possibility that informants are encouraged to provide biased answers to obtain financial premiums. Monetary premium of two USD is a very small amount money and is paid in advance without any binding of answers back. Therefore, there is no motivation for informants to provide answers just because of money. The monetary premium paid in advance only aims at offsetting the time which the informant will spend on answering, motivating them to answer in a prudent manner.

Moreover, according to Erdos (1974), by using a mail survey, the research will experience less distribution bias, a higher likelihood of thoughtful replies, and no interviewer bias.

In sum, the informants are knowledgeable, holding no motive to not telling the truth, and are motivated to provide serious and thoughtful replies. Therefore, it can be concluded that the data provided by the informants does not suffer from unreliability and bias. It is important to note that the above analysis of data reliability is descriptive in nature and based on qualitative assessment. More precise conclusions on reliability and validity of data were made by statistical analysis which is presented in the next chapter.

CHAPTER 6: ANALYSIS OF RESULTS

This chapter provides results of data analysis in the hypothesis testing study. The chapter starts with description of data screening which dealing with data missing, outliers in Section 6.1, and followed by the testing for non response bias in Section 6.2, the testing for assumption of linear regression in Section 6.3, the testing for the validity of the measurements in Section 6.4. Descriptive statistics which provide an overview of the frequency, mean, standard deviation of the variables measured from the sample are presented in Section 6.5. The chapter proceeds with the results of hypothesis testing and stops short of summarizing the testing results.

6.1. Data screening

6.1.1. Sorting out FDI firm

As mentioned earlier in Section 5.2.1 that FDI firms inherited capability and resource from parent companies in advanced economies which are supposed to hold good design and marketing capability, it may cause bias if testing sample includes FDI firms. FDI firms were excluded from sampling. However, among 324 returned answers, there are still 22 answers indicating the firm's ownership is FDI. Although the research tried to exclude FDI from the GSO directory, there are still some cases whose ownership structure can not detected upon the GSO directory. The research therefore decides to further exclude 22 FDI firms from the response sample. Sample of 302 domestic firms including private and state owned firms are used for running the empirical model and hypothesis testing.

6.1.2. Missing data

Missing data, where valid values on one or more variables are not provided, reduces the sample size available for analysis, possibly cause bias if much data missing. The research firstly dealt with data missing by trying to contact respondents omitting answers to fill in missing data. However, after further effort, there is still existing some few observations with missing data. Hair et al (2005)

suggest the most popular method for missing value of metric variables is mean substitution. Missing data detected and remedies for them are shown in the Appendix 4.

6.1.3. Outliers

Outliers are cases with value well above or well below the majority of other cases (Pallant, 2001, p.59). Many of statistic techniques are sensitive to outliers. Hair et al (2005, p.76) suggest outliers should be retained unless demonstrable proof indicates that they are not representative of any observation in the population. Outliers detected by graphical analysis and remedies for them are shown in the Appendix 4.

6.2. Testing for the non response bias

When the answers by whom who respond are substantially different from those by whom who do not respond, it is incorrect to interpret that the result of entire sample can be represented for the population.

A standard test of non response bias must be made to detect and exclude non bias problem if any. It is popularly assumed in empirical studies that late respondents are similar to non respondents because both of them do not feel interested in the survey and tend to decline to respond (Amstrong and Overton 1977).

In the sample, 50 percent of respondents are willing to answer in the first phase while 50 percent obtained after several efforts. Therefore, the group of late responds was tested against the early responds group with respect to means equality. The test is t test of null hypothesis that there is no mean difference between two groups. Based on the significant level of two tail t- test, the results of Independent Samples Test for equality of Means between the early response group and the late response group (in the Appendix 3) show that at 95% confident there is no difference between the two groups. Hence, non response bias does not appear a problem in this sample.

6.3. Testing for the basic assumptions in linear regression

6.3.1. Normality

Skewness and Kurtosis are two dimensions used to examine normality. They describe how much the distribution is different from normal distribution. If the distribution is perfectly normal, skewness and kurtosis are zero. However, from practical perspective, it seems evident that normality must necessarily be defined within a range that spans either side of zero (Byrne, 1998). There are two approaches for assessing normality through these two dimensions: one based on graphic presentation and the other based on statistical value.

Byrne (1998) suggests using Monte Carlo's thresholds for categorization of distributions as normal, moderately non-normal and extremely non-normal. If absolute value of skewness ranges from 0 to 2 and absolute value of kurtosis range from 0 to 7, distribution of variable can be considered normal.

Tabachnick and Fidell (1996, p.73) recommend inspecting the shape of distribution (e.g using histogram). Innes (2001) recommends assessing normality through Upper bound and lower bound of skewness and kurtosis. At 95% confidence interval, if lower and upper bounds are in the range from -1.96 to + 1.96 and zero is within the bounds then the null hypothesis that the distribution is not significantly different from a normal distribution can be accepted.

Following these guides, it can be concluded that variables EP1, EP3 are perfectly normal; variable Size and IE are significantly different from normal and the rest variables are approximately normal (see the Appendix 4). Variable Size and IE will be transformed to logarithmic form to fix normality. The rest items are kept at original value because they will not significantly affect analysis⁶⁰.

⁶⁰ Tabachnick & Fidell (1996, p.73) suggest that with reasonably large sample (more than 200 observations), skewness will not make substantive difference in the analysis and the risk of underestimate of the variance is also reduced .

6.3.2. Homoscedasticity

Homoscedasticity refers to the assumption that dependent variables exhibit equal levels of variance across the range of independent variables (Kline, 2005). Upon the results of Levene's Test for equality of variance across range of independent variables (see Appendix 4), it can be concluded that at 95% confidence, there is no sign of heteroscedasticity in the sample.

6.3.3. Linearity

Graphical test is applied for checking nonlinear relationship between independent variables and dependent variables. The result shows that there is no sign of nonlinear relationship existing.

6.3.4. Multicollinearity

To assess multicollinearity, collinearity statistics were conducted on each independent variable and other independent variables. The VIF values calculated for each pair of 12 independent variables range from 1.21 to 2.21 (see Appendix 5), lower than maximum acceptable value⁶¹. Tolerance values range from 0.452 to 0.834, higher than minimum acceptable value⁶². The 12 independent variables do not expose to problem of multicollinearity.

6.4. Testing for the validity of measurements

The validity of measurement model is assessed upon two criteria including construct validity and model fit.

6.4.1. Construct validity

Construct validity is defined broadly as the extent to which an operationalization measures the concept it is supposed to measure (Cook and Campbell, 1979, Bagozzi et.al, 1991, Hair et.al, 2005). Construct validity is made of four

⁶¹ VIF maximum acceptable value is 0.5 (Belsley (1990); Hair et al, 2005, p.227)

⁶² Tolerance minimum acceptable value is 0.2 (Hair et al, 2005, p.227)

components: convergent, discriminant and nomological and face validity of which nomological and face validity (Hair et.al. 2005). The CFA (confirmative factor analysis) model is popularly applied to assess convergent, discriminant and nomological validity while EFA (explorative factor analysis) is used to assess face validity (Bagozzi et.al, 1991).

Convergent validity

Convergent validity is the extent which indicators of specific construct share high proportion of variance in common (Hair et.al, 2005, p 776). One construct demonstrates convergent validity when it has all factor loadings at least 0.5, variance extracted⁶³ (VE) at least 0.5 (Hair et al, 2005, p779) and reliability coefficient alpha at least 0.7 (Santos, 1999; Hair et.al, 2005, p137).

EP scale

Conducting CFA for EP, only item EP3 has factor loadings lower than 0.5 (see Appendix 8). To get convergent validity, EP3 with the factor loading lower than 0.5 is excluded. The statistical result that EP3 has factor loadings lower than 0.5, indicates that EP3 is not good enough to represent for the construct export performance. This can be explained in accordance with the result of pre-test survey presented in Chapter 5 that some firms could not provide answer for Question 15⁶⁴ because their company did not serve domestic market. Therefore, indicator EP3 will be no longer used to measure export performance.

EP scale is finalized with two indicators EP1, EP2 with all factor loadings greater than 0.5; VE equal 0.576 and Cronbach alpha equal 0.734, meeting all requirements for convergent validity. EP is validity measured by two indicators EP1, EP2. *It is therefore computed as a summated scale of these two items.*

⁶³ Variance extract is computed as an average sum of square multiple correlation of items of the construct

⁶⁴ Question 15: "How do you perceive your company's export profitability compared to the profitability of domestic sales"

RC scale

CFA for RC scale was conducted. All six indicators have factor loading greater than 0.5, VE is 0.511 and Cronbach alpha is 0.863, meeting all requirement for convergent validity. RC is validity measured by six indicators RC1, RC2, RS3, RS4, RS5, RS6. *It is therefore computed as a summated scale of these six items.*

Discriminant validity

Discriminant validity is "the extent to which a concept differs from other concepts" (Zaltman, Pinson, and Angelmar 1973, p. 44). Measurement model demonstrate discriminant validity when VE for any constructs greater than SIC⁶⁵ between this construct and any another construct (Hair et.al, 2005, p.778). SIC for the pair of constructs was computed as square of correlation between two constructs. The table 26 (Appendix 7) shows the value of SIC and VE of three constructs EP, RC. They are truly distinct from each other because their VE are greater than SIC between them and another construct. These two constructs, therefore, demonstrate discriminant validity.

Nomological validity

Nomological validity refers to the adequacy of the theoretical framework, and in particular, to the subsystem of hypotheses, and assumptions which relate the construct to observable behavior (Cronbach and Meehl 1955). To demonstrate nomological validity the constructs must be positively related (Hair et.al, 2005, p.779). The correlations among the two constructs are positive and well below the .90 threshold (see Appendix 7), suggesting that two constructs are distinct from each other. The two constructs are positively correlated, at p value not later than 0.001 (see Appendix 7). Therefore, the measurement model has nomological validity.

⁶⁵ SIC- Square Interconstruct correlation. Measurement model has discriminant validity when VE for any construct greater than SIC between this construct and any another construct (Hair et.al, 2005, p778).

Face validity

Face validity also refers to the extent that indicators rightly represent for their hypothesized construct rather than other constructs. A principal components factor analysis (also called explorative factor analysis-EFA) was performed. All items load on their respective constructs with much higher factor loadings than all cross loadings (see Appendix 7). Therefore the measurement scales demonstrate face validity.

6.4.2. Common method bias

Common method bias (i.e., variance that is attributable to the measurement method rather than to the constructs the measures represent) causes measurement error which threatens the validity of the conclusions about the relationships between measures (Podsakoff et al. 2003).

The severity of common method bias was assessed with two tests. *Firstly*, Harman's one-factor test was conducted by including all items in a principal components factor analysis (Podsakoff et al. 2003). Evidence for common method bias exists when a single factor emerges from the analysis or when one general factor accounts for the majority of the covariance in the interdependent and dependent variables. The result from principal components factor analysis show two components emerge rather than a single factor. Therefore, the data does not indicate evidence of common method bias (see Appendix 8). *Secondly*, test for the effects of a single unmeasured latent method factor was conducted (Podsakoff et al. 2003). An additional construct called common method bias (CMB) is added in the model. This construct is hypothesized to cause all the items in the two existing constructs RC and EP. All the statistic coefficients of indicators on CMB are insignificant (see Appendix 8), indicating that the data does not experience common method bias. These two tests suggest that common method bias does not happen in this research.

6.5. Descriptive statistical data analysis

Firms in the sample located in the South account for 56.6%, 31.5% in the Centre and 11.9% in the North. 83.1% firms are private firms. Firms in the sample are at average size of 216 employees, ranging from 7 to 1200 employees. They have average export experience of 5.75 years, ranging from 1 to 20 years.

Table 8: Frequency of non-metric variables

Location	Frequency	Percent	Ownership	Frequency	Percent
North	36	11.9	SOE	51	16.9
Center	95	31.5	Private	251	83.1
South	171	56.6	Total	302	100.0
Total	302	100.0			

The means, standard deviation and bivariate correlations for all variables are presented in table 9 and table 10.

Table 9: Descriptive Statistic

Variables	Minimum	Maximum	Mean	Std. Deviation
Si	7	1200	216.02	261.409
IE	1.00	20.00	5.7550	3.70322
Proad	.00	4.00	2.3245	1.16738
MI	.00	4.00	2.2384	1.17961
Pro	.00	4.00	2.4172	1.24082
Ass	.00	4.00	2.2185	1.32892
Pri	.00	4.00	1.9305	1.20290
Dis	.00	4.00	1.8709	1.33190
RC	.00	4.00	2.4354	.67271
EP	.00	4.00	2.1772	.93612

Table 10: Bivariate correlations

	LgSi	IgIE	Proad	MI	Pro	Ass	Pri	Dis	RC	EP
IgSi	1									
IgIE	.03	1								
Proad	.04	-.01	1							
MI	.03	.05	.06	1						
Pro	-.05	-.04	.05	.05	1					
Ass	-.09	-.00	.05	.04	.05	1				

Pri	-.09	-.03	.06	.04	.05	.06	1			
Dis	-.08	-.088	.037	.028	.036	.05	.04	1		
RC	.13(*)	.14(**)	.02	.03	.02	.02	.02	.01	1	
EP	.02	.02	.6(**)	.60(**)	.62(**)	.53(**)	.59(**)	.39(**)	.43(**)	1

**, * Significant at the 0.01 and 0.05 respectively (1-tailed),

The results of bivariate correlations presented in Table 10 show there are correlations among some independent variables and dependent variables. Although it may be interesting to look at and to discuss the results of at insignificant correlations among some independent variables (e.g insignificant correlations among MI, Proad, Pro, etc), for the purpose of this research, the thesis only focuses on conceptualizing and explaining relationships between independent and dependent variables, not on significant or insignificant correlations among the above independent variables.

6.6. Hypothesis testing results

Multiple-regression analysis was used to test the hypotheses, as suggested by Aiken and West (1991). The control variables (lgIE, lgSi) and dummy variables (Os, Lo1 and Lo2) were entered in step 1. The independent variables (RC, Proad, MI, Pro, Pri, Dis, Ass) were included in step 2, followed by the product terms of RC and these other six independent variables in step 3.

Analysis of hypothesis testing result must be based on significances of coefficients of independent variables and model fit. In the multiple regression model, model fit can be assessed upon five indexes including R square, adjusted R square, standard error of estimate, F ratio and its significant level (Gujarati 2004; Hair et al.2005) of which adjusted R square is critical index which should be at least 0.5.

6.6.1. Control variables

The model with control variables only demonstrates low goodness of fit. R Square and Adjusted R Square fall below the threshold 0.5 (see below table), indicating that control variables are not enough to explain for EP.

Table 11: Model 1's fitness

Model	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.241	.228	.82160	18.590	.000(a)

Table 12: Model 1's coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.028	.275		7.361	.000
lgSi	.121	.093	.076	1.294	.197
lgIE	.220	.155	.076	1.417	.158
Lo1	1.023	.107	.511	9.568	.000
Lo2	.414	.156	.144	2.647	.009
Os	.146	.141	.059	1.040	.299

6.6.2. Testing direct effect

When the hypothesized independent variables are put into the model, the model fit increases well above threshold (see below table), suggesting that the model is good enough to predict relationships among variables.

Coefficients of Proad, MI, Pro, Pri, RC on EP are significant at 0.01, indicating that the effects of Proad, MI, Pro, Pri, RC on EP are confirmed. Moreover, these coefficients are all positive, implying that hypothesis H1a, H1b, H1c, H1d, H2 are supported.

Coefficients of Dis and Ass on EP are not significant at 0.05, indicating that hypothesis H1e, H1f are not supported.

Table 13: Model 2's fitness

Model	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
2	.664	.650	.55320	47.007	.000(a)

Table 14: Model 2's coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.109	.221		.494	.622
lgIE	.055	.107	.019	.518	.605

lgSi	.011	.065	.007	.168	.866
Lo1	.294	.085	.147	3.454	.001
Lo2	.154	.112	.054	1.378	.169
Os	.014	.097	.006	-.149	.882
MI	.124	.036	.156	3.461	.001
Proad	.107	.038	.137	2.845	.005
Pro	.170	.034	.223	4.951	.000
Pri	.211	.038	.262	5.555	.000
Dis	.016	.030	.023	.549	.583
Ass	.029	.034	.041	.863	.389
RC	.268	.054	.193	4.926	.000

6.6.3. Testing moderating effects

Testing moderating effect of RC on the relationships Proad- EP; MI- EP; Pro-EP; Pri-EP; Dis-EP; Ass-EP is to test whether the product of RC and the six other independent variables significantly regress on EP. To reduce possible problems with multi-collinearity resulting from interaction terms, all indicators reflecting predictors and the moderator were standardized⁶⁶ before interaction terms are computed (Aiken and West 1991, Chin et.al, 1996; Hair et al 2005).

When RC*MI, RC*Pri, RC*Proad, RC*Pro, RC*Dis, RC*Ass are included in the EP function, the model fit increase, suggesting that Model 3 is better than Model 2. The fitness indexes of Model 3 are well above threshold, meaning that the model is good enough to predict relationships among variables.

Table 15: Model 3's fitness

Model 3	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
	.689	.669	.538	34.349	.000(a)

Coefficients of MI, Pro, Pri, RC on EP are significant at 0.01 and coefficients of Proad on EP is significant at 0.05, indicating that the effects of MI, Pro, Pri, RC,

⁶⁶ The approach of standardizing the indicators would be reasonable for ordinal to interval level items such as Likert scaled attitude items. Standardizing is accomplished by calculating the mean and s.d. for each indicator. Then for each indicator score, the corresponding mean is subtracted and divided by the respective s.d. (Chin et.al, 1996, p.26)

Proad on EP are confirmed. These coefficients are all positive, implying that hypothesis H1a, H1b, H1c, H1d, H2 are supported.

Coefficients of Dis and Ass on EP are not significant at 0.05, indicating that hypothesis H1e, H1f are not supported.

Coefficients of RC*MI, RC*Pri are significant at 0.05 while those of RC*Proad, RC*Pro, RC*Dis, RC*Ass, are not significant, suggesting that hypothesis H3a and H3d are confirmed while H3b, H3c, H3e, H3f are not supported.

Table 16: Model 3's coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.183	.239		.765	.045
lgIE	.067	.104	.023	.642	.522
Lgsize	.073	.066	.046	1.118	.265
Lo1	.266	.086	.133	3.101	.002
Lo2	.184	.110	.064	1.672	.096
Os	.024	.095	.010	.253	.800
MI	.123	.035	.156	3.528	.000
Proad	.076	.038	.097	2.011	.045
Pro	.146	.035	.192	4.224	.000
Pri	.190	.038	.236	5.073	.000
Dis	.003	.029	.005	.115	.908
Ass	.050	.034	.070	1.468	.143
RC	.324	.062	.234	5.232	.000
RC*MI	.143	.059	.109	2.445	.015
RC*Proad	.043	.067	.030	.645	.520
RC*Pro	-.036	.033	-.052	-1.082	.280
RC*Pri	.100	.048	.092	2.088	.038
RC*Dis	-.033	.037	-.036	-.907	.365
RC*Ass	.004	.034	.006	.115	.909

6.7. Summary of testing results

Table 17: Summary of hypothesis testing results

<i>Hypothesis</i>	<i>Content of hypothesis</i>	<i>Testing result</i>
H1a	Proad positively relates to EP	Supported at 0.05
H1b	MI positively relates to EP	Supported at 0.01
H1c	Pro positively affects EP	Supported at 0.01

H1d	Pri positively relates to EP	Supported at 0.01
H1e	Dis positively affects EP	Not Supported
H1f	Ass positively relates to EP	Not supported
H2	RC positively affects EP	Supported at 0.01
H3a	RC strengthens relationship between MI– EP	Supported at 0.05
H3b	RC strengthens relationship between Proad– EP	Not supported
H3c	RC strengthens relationship between Pro– EP	Not supported
H3d	RC strengthens relationship between Pri– EP	Supported at 0.05
H3e	RC strengthens relationship between Dis– EP	Not supported
H3f	RC strengthens relationship between Ass– EP	Not supported

CHAPTER 7: DISCUSSION AND IMPLICATIONS

This chapter provides discussions on and implications from the hypothesis testing results. The chapter begins with Section 7.1 which contains discussion on the effects of variables, and stops at Section 7.2 where implications including both theoretical and managerial aspects are presented.

7.1. Discussion of the results

7.1.1. The main effects and moderating effect

The hypothesis testing result shows that there exist positive relationships between export product adaptation, export market intelligence, export promotion, export pricing and export performance. This result is relevant to the qualitative findings in chapter 3 which show the link between functional upgrading and export development of some Vietnamese wood furniture firms. The successful firms are the ones which do not stay as processors or OEMs only, but the ones who are active in marketing activities to brand their name in the international market. However, the hypothesis testing result suggests that not all marketing activities will lead to export success. The extents to which a firm conducts distribution and an after sale service function are not related to export success. The contribution of export pricing is biggest among the transactional marketing tools. This signals that a firm can upgrade in quality or design, but the most significant determinant of a firm's export performance is its pricing autonomy. A firm needs to increase its pricing autonomy to obtain more economic returns. This result fits well with the theoretical discussion on chapter 4 of bargaining power that pricing autonomy determines a firm's economic return. The result that the coefficient of export product adaptation is the smallest (0.076) suggests that export product adaptation is least contributor to a firm's export outcome.

The hypothesis testing result confirms that relational capability significantly contributes to export performance. This result provides empirical evidence for the resource based view (Barney 1991) and the dynamic capability perspective (Teece

et.al 1997) that relational capability is an important organization capability and determines a firm's development in a dynamic global marketplace.

It is worth to note that the contribution to export performance from relational capability is higher than those from other variables. The coefficient effect of relational capability is 0.32 while that from other export marketing responsibilities are less than 0.2 (in Model 3- full model). This indicates that in export business, relationship marketing is a more efficient tool than the transactional marketing. Actually, transactional marketing and relationship marketing⁶⁷ are two marketing approaches composing firm's marketing strategy continuum. Subject to the characteristics of business which a firm runs, the focus of marketing strategy shift from transactional marketing to relationship marketing or vice versa. In export business, due to long distance of transportation, firms often deal with a small number of distributors or wholesalers rather than with a large number of consumers. Transactional marketing tools play an important role in attracting buyers but not efficient to keep buyers in the highly competitive markets. Relationship marketing helps to maintain existing relationships. Hence, relationship marketing is more vital than transactional marketing in on-going export success.

The hypothesis testing results support the moderating effects of relational capability on the relationship between export marketing intelligence and export performance. This means that with good relational capability, a firm can conduct order searching and market researching activities more efficiently and thereby has access to better export opportunities. The significance of the moderating effect of relational capability on the relationship between pricing and export performance indicate that relational capability strengthens a firm's bargaining power which can be seen from the extent a firm can decide and conclude a transaction price. The relational capability, however, does not accelerate the efficiency of export product adaptation. This can be explained that although relational capability brings about market knowledge and information needed for modifying a product suitable to the

⁶⁷ The terms used by Grönroos's (1997) to distinguish 4P marketing mix tools from relationship building and management

export market, product adaptation depends more on production capability than does the market information. Similarly, the relational capability does not accelerate the efficiency of export promotion, export distribution, or after export sale service. This is maybe because of the fact that the extents to which a firm can conduct export promotion, export distribution and after export sale service functions depend more on the firm's financial resources than market information or a relationship brought about by relational capability. In short, relational capability does not help to enhance the efficiency of export product adaptation, export promotion, export distribution and after export sale service.

7.1.2. Effect of control variables

Firm's export experience

The result that the international experience does not significantly regress on export performance challenges stage internationalization theory (Johanson and Vahlne 1977)- a theory which considers international experience as the determinant of a firm's international performance. However, this result does support the literature of born global or born international. A born global is a company that has reached a share of foreign sales of at least 25 percent within three years after its birth and seeks from its inception to derive significant competitive advantage from the use of its resources and the sales of its outputs in multiple countries (Andersson and Wiktor 2001). A born global firm leapfrogs into internationalization rather than moves cautiously through a series of incremental steps as suggested by stage theories (Knight and Cavusgil 1996). This happens despite the fact that the companies are constrained since they have little or no experience in the international market (Vissak, 2003). Causes to born-global have been cited as changes in the market demand such as specialized and customized products, larger domestic and international competition, global networks, advances in process and communication technology (Coviello and Munro 1995; Knight and Cavusgil 1996); the background of the founder (family background, education, experience from living abroad, experience from previous internationally oriented jobs); product and industry characteristics; the local

environment (Madsen and Servais 1997; McAuley 1999); firm competence including unique resources such as reputation and network (Zahra and George 2002). Referring back to the qualitative findings in chapter 3, it can be seen that among the above mentioned causes, the fact that many firms in the Vietnam wood furniture industry started exporting at such a young age⁶⁸ included the development of a global network (like the case of Duc Nhan), the background of the founder (like the case of Tan Phu in Binh Duong whose owner managers used to work for an exporting state owned enterprise) and the internationalization of a local environment like Dong Ky village. Through business relationship, firm can accumulate export knowledge and experience before engaging in export business. Therefore, the firm can still perform well even when it is fresh in export market.

Firm's size

The finding that the firm size is not significant challenges the popular belief that there exists an effect of size on export performance. This finding is in line with findings from other qualitative studies (Rabellotti, 1993; Nadvi,1995; Humphrey and Schmitz 1995; Ceglie and Dini, 1999; Ghauri et.al., 2003) that conclude small firms can still perform well in an international market if they can tap into the external resources through business relationships during internationalization. This finding is relevant to the findings in Chapter 3 that Hung Long is small firm with less than 50 permanent workers but is still successful in the export business thanks to its business relationships.

Firm's ownership

The finding that the coefficient of dummy variable Ownership (labelled as Os) is not significant indicates that there is no difference in export performance between private and SOE firms. This challenges the common belief that a private firm performs more efficiently than a SOE firms. The popular belief that SOEs are not efficient as private firms seems untrue. It may be due to the fact that in Vietnam presently, the management of SOE is under the reform in which benefit and responsibility of managers are made to be closely linked. Managers of SOE are

⁶⁸ 67% (=203/302) firms in the research sample start export within three first years of establishment.

also as active and responsible as managers of private firms in market decision. Thus, ownership does not significantly affect firm's export performance.

Firm's location

The result that the dummy variable "Lo1" is significant while dummy variable "Lo2" is not significant implies that only some, not all, locations matter for a firm's export success. To distinguish which location has a significant effect on a firm's export performance, the coding method of dummy variables is recalled here. Lo1 is coded '1' if the firm is located in the Center and '0' otherwise. Lo2 is coded '1' if the firm is in the north and '0' if otherwise⁶⁹.

The result that the dummy variable "Lo2" is not significant indicates that the location of the northern region does not contribute to a firm's export success. The result that dummy variable "Lo1" is significant (at 0.01) implies that the location of the central region contributes to a firm's export success. The result that the constant is significant (at 0.05) indicates that the location of the Southern region contributes to a firm's export success⁷⁰. This finding fits with the qualitative findings in chapter 3 that Quy Nhon and Binh Duong are located in good infrastructures with favourable policies. These favourable conditions facilitate a wood processing firm's export development. This finding supports previous studies on the role of an industrial cluster on a firm's export performance (Goodman and Bamford (1990); Nadvi and Schmitz, 1994; Nadvi, 1995). The finding that the coefficient of Lo1 (0.266) is higher than the constant (0.183) is also worth some discussion since Binh Duong industrial parks offer enterprises a good infrastructure as well as a favourable policy by the local authority (Binh Duong authority is said to be the most helpful to enterprise in Vietnam). Many firms came to Binh Duong due to the attractiveness of the local government's policy such as the low rate of renting land. But why are those favourable conditions not contributing as much to the wood furniture firm's export

⁶⁹ If a firm is in the North, a dummy variable Lo1 is coded '0' and Lo2 is coded '1'.

If a firm is in the Center a dummy variable Lo1 is coded '1' and Lo2 is coded '0'.

If a firm is in the South a dummy variable Lo1 is coded '0' and Lo2 is coded '0'.

⁷⁰ Gujarati (2004, p.301) guides that the significance of the mth category can be checked via the significance of the constant. The contribution of the mth category is assumed to load on the constant.

performance as the conditions in Quy Nhon? This may be due to the fact that Binh Duong is not as close to the seaport as Quy Nhon. Let's recall to the finding in chapter 3 that a large proportion of material used to produce wood furniture is imported and shipped by sea, and a large proportion of finished product is exported and shipped by sea as well. Therefore, the closer to the sea port, the less cost the firm has to pay. This makes the location of Quy Nhon a greater contributor to a firm's export economic success.

7.2. Implications

7.2.1. Theoretical implication

Upgrading issue

The hypothesis testing result that the export marketing responsibilities positively relate to export performance supports the view that functional upgrading will make firms in a developing country better off. The findings challenge the theories of competitive advantage which suggests that a firm should specialize in activities where they would have a competitive advantage. Actually, a firm in a low income country holds competitive advantage in cheap labor cost but the competitive advantage may fade out in the future if many other firms from lower income countries join the playing ground or if penalties are introduced by importing countries on their cheap exports. Specializing in production helps a developing country firm in the short run to learn to produce better and makes the most use of its current comparative advantage in cheap labor cost. But in the long run, this specialization causes firms to be stuck in the vulnerable position of a threatening price war and profit margins being ever narrowed down. Building new capabilities through functional upgrading is a dynamic process, creating new comparative advantages.

The research provides an answer to the query raised by Schmitz (2006) that whether moving beyond manufacturing to a marketing function will lead to a firm's export success. The research provides large scale empirical evidence that has not existed in previous literatures of the global value chain approach

(Gereffi, 1999a; Kaplinsky et.al, 2003; Humphrey, 2004) to support an implication that for sustainable development, a developing country firm should undertake functional upgrading. Previous GVC literatures are conceptual discussions based on empirical evidence in only a small number of observations. These studies recommend functional upgrading, but do not clearly indicate how each specific marketing responsibility contributes to a firm's development in the international market. This thesis shows in more detail the contributions of each marketing responsibility contribute to a firm's export performance.

In short, this thesis not only provides empirical support for the view that functional upgrading makes a developing country's firms better off but also indicates the extent to which marketing responsibilities contribute to a firm's export performance.

Relational issue

The testing result that relational capability positively relates to a firm's export performance provides empirical evidence to support the dynamic capabilities approach (Teece et.al 1997) proposition that dynamic capabilities determine a firm's success in the international marketplace. Moreover, this thesis shows that relational capability is a kind of dynamic capability while Teece et.al (1997) does not specify which capability is dynamic.

The result that relational capability is one determinant of export performance makes an interesting contribution to export literature. Export literatures indicate a variety of determinant factors of export performance including external and internal factors. However, among firm's internal factors, relational capability has not been touched (see Cavusgil & Zou 1994; Zou & Stan 1998; Shoham, 1998; Katsikeas et.al 2000, Leonidou et.al 2002; Balabanis et.al 2004).

The result that relational capability strengthens the efficiency of price setting suggests the important role relational capability plays on a firm's success. With good relational capability, a firm can gain more autonomy in price setting thereby capture greater economic returns. Even, without undertaking distribution in an export market but with good relational capability, a firm can still appropriate high economic returns. This shows that it is vital for a firm to enhance its relational

capability when it joins the global production network. Relational capability can help a developing country's firms balance power asymmetrically, enabling a firm's move from captive to market based governance and facilitating a higher value appropriation. The research provides an example of the factors that directly influence the fourth parameter of Gereffi et.al (2005)'s theory of global value chain governance- the degree of explicit coordination and asymmetrical power.

The result that the construct "relational capability" with six indicators demonstrates high convergent validity points out that six indicators developed in this research are appropriate and reliable indicators to reflect the concept "relational capability." The research hence can be said to be contributable to relationship management literature with a validity measurement method for relational capability.

7.2.2. Managerial implications

To develop in the international market, firms should be more active in their export marketing. Undertaking export marketing responsibility enables firms to brand themselves in the international marketplace therefore increasing their bargaining power to gain more profit. More specifically, a firm should undertake export product adaptation, export promotion, export market intelligence. While the priority should be given firstly to export pricing, export promotion and export market intelligence are also important. A firm can delegate distribution and after sale service in the export market to a partner. The delegation of distribution activities does not affect a firm's export profit provided that a firm holds good relational capability, enabling such a firm to negotiate a good price for transaction.

Relationship marketing plays an important role in the export business. Firms should take advantage of their current business relationships to exploit market knowledge and information needed for their export opportunities, encouraging efficiency of export market intelligence activities. More importantly, relational

capability should be developed to the extent that it helps to negotiate a good price or favorable condition for transactions with business partners. Relational capability can be improved through improving relational skills of export managers.

CHAPTER 8: CONCLUSION

8.1. Summary of the research

8.1.1. Research issues, backgrounds and methodologies

Being motivated by the debate on whether developing country producers should become involved in design and marketing functions or instead delegate them to their international partners as well as the omission of export literatures on the role of relational capability in a firm's export business, this research was developed to deal with the central research issue "*the role of functional upgrading and relational capability in export performance of developing country firms*" by solving four specific questions:

1. How does functional upgrading – involvement in downstream activities - take place in a specific industry selected for this study (the furniture industry in Vietnam)?
2. How do business relationships develop in the industry selected for study?
3. How does functional upgrading affect developing country firms' export performance?
4. Does developing country firms' relational capability relate to their export performance?
5. Does developing country firms' relational capability moderate the relationships between their functional upgrading and export performance?

The debate is two sides of the same coin. From the economic efficiency point of view, a developing country firm should focus on what it does well and give away the activities which it has a less competitive advantage. Compared to developed country firms, developing country firms have more advantage in producing labor-intensive products due to low labor costs while a lesser advantage in marketing functions because of the lack of managerial skills, marketing knowledge and a capacity to brand in consuming markets. This means that for economic efficiency, developing country firms should not become involved in design and marketing where developed country firms hold a strong position. However, from an

economic return perspective, such international division of labor creates the chance for powerful actors to act as leaders, taking the authority in deciding economic returns for other members of the value chain, possibly leading to inequality in value distribution among the chain leader and producers. Improving market power is thus the only way to balance such asymmetrical power. Market power can be improved by moving to more highly skilled functions such as design and marketing. The research gives voice in the debate by developing theoretical arguments supporting the economic return perspective (specifically GVC literatures which were used as a key framework) and against the economic efficiency perspective.

Indeed, developing relational capability is another way to improve market power. By applying three literature streams including the resource based view, dynamic capability perspective and relationship management perspective, the research points out that if a firm holds good coordinating capability or relational capability to manage its relationship with its foreign partners, it can increase its market power and catch high economic return.

The research therefore can be regarded as an integration of several literatures streams: export literature, competitive advantage theory, value chain literature including value chain analysis and global value chain analysis, resource base perspective, dynamic capability perspective, and relationship management literature.

To solve the problems posed in the main research questions, the research conducted two studies: the explorative study and hypothesis testing study. The explorative study was set up to find the answer to the first and second research questions, and discover an empirical basis needed for the model specifications built in the hypothesis testing study. The hypothesis testing study was set up to draw answers both theoretically and empirically for the third, fourth, and fifth questions.

The research employed a qualitative methodology with interviews, direct observations and descriptive analysis in the explorative study. The quantitative

methodology used statistical methods such as Confirmative Factor Analysis and multiple regression in the hypothesis testing study.

The selection of Vietnam's wood furniture industry for empirical studies is legitimate because the wood furniture industry is a traditional labor-intensive sector, experiencing highly sourcing activities by global buyers. Moreover, Vietnam provides a good context for a study relating to business relationships because it roots from a collective culture where relationships are considered important.

Apart from the Introduction and Conclusion chapters, this thesis consists of six chapters. Chapter 2 reviews theoretical backgrounds for both explorative and hypothesis testing study. Chapter 3 presents the explorative study on the Vietnam wood furniture industry. Chapter 4 is a theoretical discussion leading to the development of the hypothesis on the relationships between functional upgrading, relational capability and export performance. Chapter 5 describes research methodology employed in the hypothesis testing study. Chapter 6 presents the results of the data analysis in the hypothesis testing study. Chapter 7 supplies discussion and implications found by the hypotheses testing study.

8.1.2. Summary of findings

8.1.2.1. Findings from the explorative study

The explorative study reveals that Vietnam's wood furniture sector has been booming as a result of the outsourcing trend from high-income economies. Many firms engage in the international market as a result of a buyers' sourcing activities, starting their export business as processors or pure producers, making products on design by foreign buyers while almost marketing activities in export markets handled by foreign buyers. Some producers enter the chain with captive buyers, while some engage in a market-based chain with small-specialized retailers. A majority of the industry's inputs are imported and a majority of its outputs are exported. Design is mainly supplied by foreigners. Distribution and after sale service in export markets are operated by foreign buyers. However, many Vietnamese firms have been taking steps toward functional upgrading,

working as ODM and OBM in some value chains. Although being based on small number of observations, the explorative study signal the positive impact of functional upgrading and relationship development on firm's export success. This guides the directions of the relationship between marketing and export performance. In addition, the explorative study found that combination of relationship marketing and transactional marketing is one of the keys to export success of Vietnamese wood furniture producers and their export success partly comes from participating trade fairs held in both domestic and abroad.

The case studies also disclose the role of entrepreneur's capability to build personal relationship and firm's performance, suggesting the direction of the link between relational capability and export performance. Moreover, firm's relational capability can be measured through relational capability of people in charge of transaction with partners.

The descriptive analysis of industry context suggests that institutional factors should be taken into account when referring the result of this research's empirical model. The descriptive analysis of Vietnam wood furniture industry development shows that firms in the industry are not homogenous in ownership structure, size, and export experience. Firms gather in three clusters which hold different institutional factors like infrastructure, local government policy and business atmosphere. These background factors should be taken into account when developing empirical model in the hypothesis testing study. The other institutional factors including natural condition, culture and macro context of Vietnam wood furniture industry discovered in this study are worth of consideration in other studies on firms in other industries or in other countries.

8.1.2.2. Findings from the hypotheses testing study

Discussing theoretical arguments both for and against arguments the role of functional upgrading in developing country firm's export success, the research concludes at the main theoretical proposition that if a producer can move from pure manufacturing function toward marketing functions, he can acquire new

capabilities, breaking out of the captive relationship, obtaining more favorable position to claim for more economic returns.

From this argument, one can propose that export marketing responsibility positively impacts on export performance. However, marketing is a broad concept, including many activities. For more precise prediction on how each marketing responsibility affects on export performance, I decomposed marketing function into sets of activities along export marketing process and provide more theoretical discussion on the links between each specific export marketing responsibility⁷¹ and firm's export performance. The research's theoretical arguments presented in section 4.2 lead to the development of thirteen hypotheses below:

H1a- Export market intelligence responsibility positively affects export performance

H1b- Export product adaptation responsibility positively affects export performance

H1c- Export promotion positively responsibility affects export performance

H1d- Export pricing responsibility positively affects export performance

H1e- Export distribution responsibility positively affects export performance

H1f- After-sales service responsibility positively affects export performance

H2: Relational capability positively affects export performance

H3a- Relational capability strengthens relationships between export market intelligence responsibility and export performance.

H3b- Relational capability strengthens relationships between export product adaptation responsibility and export performance

H3c- Relational capability strengthens relationships between export promotion responsibility and export performance.

H3d- Relational capability strengthens relationships between export pricing responsibility and export performance

⁷¹ including export market intelligence, export product adaptation, export promotion, pricing for export product, distribution in export market, after export sale service

H3e- Relational capability strengthens relationships between export distribution responsibility and export performance

H3f- Relational capability strengthens relationships between after sale service responsibility and export performance.

The results of data analysis point out that hypotheses H1e, H1f, H3b, H3c, H3e, H3f are not empirically confirmed while hypotheses H1a, H1b, H1c, H1d, H2, H3a, H3d are empirically supported.

The hypotheses testing results show that there exist positive relationships between export product adaptation, export market intelligence, export promotion, export pricing and export performance. The extent which firm conducts distribution and after sale service function does not relate to export success. Moreover, the hypotheses testing result suggest that among four types of marketing responsibility including export product adaptation, export market intelligence, export promotion, export pricing, export pricing contributes most while export product adaptation does least to firm's export success.

The hypotheses testing result confirms that relational capability significantly relates to export performance. It is worth to note that the contribution to export performance from relational capability is higher than that from other variables. This indicates that in export business, the relationship marketing is a more efficient tool than transactional marketing. The hypotheses testing result support the moderating effect of relational capability on the relationship between export marketing intelligence and export performance as well as the relationship between export pricing and export performance. The relational capability, however, does not accelerate the efficiency of other activities including export product adaptation, promotion, distribution, after sale service.

Additionally, the hypothesis testing result also indicates that except for control variable "location", other control variables like firm's size, ownership, export experience are not significant. The findings challenge popular beliefs that firm's size, export experience and ownership affect firm's export success.

All discussions relating to these interesting findings were presented in Section 7.1, Chapter 7.

8.2. Answers for the research questions

The answer for the first research question is as follow. Functional upgrading has been implemented by some case firms but not very popular in the industry. There have been some case firms transforming from OEM to OBM in different chain. The firms undertaking functional upgrading have not experienced reduction in export outcome but demonstrate successful export development.

The answer for the second research question is that relationship development is popularly practiced by Vietnam wood furniture firms and play important role in firm's export business

The answers for the third, fourth and fifth research questions are as follow. The findings confirm that functional upgrading correlates to firm's export success. However, not all marketing responsibility holds the same effect on firm's export performance. Notably, while export market intelligence, export promotion, export product adaptation, export pricing responsibility significantly contribute to firm's export performance, export distribution and after export sale service do not. Relational capability is a determinant of export performance, positively relate to export success. It strengthens the efficiency of export market intelligence and export pricing.

8.3. Contributions of the research

The thesis provides some theoretical and managerial contributions. For theoretical aspect, the research challenges theories of competitive advantage which suggest that a firm should specialize in activities which it has competitive advantage. The research admits that specializing in production helps a developing country firm in short run to learn to produce better, making most use of its current competitive advantage in cheap labor cost. But in long run, this specialization causes firms stuck in vulnerable position of threatening price war and profit margin being narrowed down. Therefore, the research affirms that building new capabilities through functional upgrading is a dynamic process, creating new competitive advantage, leading to sustainable export development. The research provides

answer for the query raised by Schmitz (2006) that whether moving beyond manufacturing to marketing function lead to firm's export success. The research provides empirical evidence in a larger scale that has not existed in previous literatures of global value chain approach (Gereffi,1999; Kaplinsky et.al, 2003; Humphrey, 2004) to support for their implication that for sustainable development, a developing country firm should undertake functional upgrading. Previous GVC literatures are conceptual discussion based on descriptive empirical evidence often based on limited number of observations. Moreover, these studies recommend on functional upgrading but do not clearly indicate how each specific marketing responsibility contributes to firm's development in international market. This research shows in more details the contributions of each marketing responsibility to firm export success. It can be said that this research not only provides empirical support for the view that functional upgrading make developing country firms better off but also indicates the extent which marketing responsibility contribute to firm export success.

In addition, the research supports for the proposition by the dynamic capabilities approach (Teece et.al 1997) by specific empirical evidence. The thesis makes dynamic capabilities approach more applicable in the extent that it specifies that dynamic capabilities include relational capability. The thesis bring a new light to export literature that relational capability is an important determinant factor on export success.

The research provides an example of the factors directly influencing on the fourth parameter of Gereffi et.al (2005)'s theory of global value chain governance- the degree of explicit coordination and power asymmetry.

The research provides the relationship management literature with a validity measurement method for relational capability.

For managerial aspects, the research suggests that to develop in the global market, firms should be more active in functional upgrading. Combining different functions in different value chains is a good strategy for long term development. Attempt in export marketing responsibility helps firms to brand themselves international market, thereby increasing bargaining power to gain more profit.

When conducting export marketing, a firm should combine two marketing approaches: relationship marketing and transactional marketing. Transactional marketing plays an important role in attracting buyers while relationship marketing helps to maintain existing buyers. More specifically, export pricing, export promotion, export market intelligence and export product adaptation should be given priority when a firm designs export marketing strategy. Notably, trade fair participant should be more focused because it has demonstrated as the most useful promoting tool in export business. The delegation of distribution and after sale service in export market to its global partners does not affect firm's export profit provided that a firm holds good relational capability which enables firm to negotiate a good price for transaction.

Finally, the research also points out which marketing activities firm should focus more and which skills contributing to relational capability that a firm should develop.

8.4. Limitation of the study and future research recommendation

8.4.1 Theoretical issue

The objective of this research is to study the effects of functional upgrading and relational capability on a firm's export performance. To obtain this research objective, this research has integrated several different literature streams including export performance, value chain analysis, global value chain analysis, resource based view, dynamic capability, relationship management into one conceptual framework. Although trying to figure out the overlaps as well as the gaps among these literature streams, the research may not synthesize the different assumptions and underliers provided by these literature streams. The research might be better if it covered and synthesized some more relevant literature streams including literature with cluster approach (e.g, Nadvi and Schmitz,1994; Navdi,1995) and literature on "late comer firms" (e.g Mathews, 2002). To overcome the diversification in of these different literature streams, a more rigorous conceptual framework might be needed.

The research points out that the export performance of Vietnamese firms includes a number of features that require more consideration. These concern the institutional contexts which reflect a business environment. Although the research touches to the role of location in a firm's export success, more consideration should be paid to other location factors including infrastructure, regulatory frameworks, business links, atmosphere and entrepreneurship. The scope of the study should be extended by including these mentioned contextual factors in the research model.

The research studies the issue of functional upgrading from the perspective of developing country firms joining global value chains. The research would be better if it covered the reaction of global buyers to a firm's functional upgrading. Thus future research should include the type of global buyers and their reaction into research model.

8.4.2. Methodological issue

As pointed out in the review of export literature, export development is a dynamic process which is affected by a number of determinants. However, due to limited data availability, the research incorporated limited variables and could only conduct a cross-sectional analysis. Such an analysis does not adequately capture the dynamic nature of the variables examined. In fact, upgrading is a process: undertaking export marketing responsibility this year may contribute to export performance rightly in that year but possibly not in later years.

The research would be better if better measurement for export performance was developed. The research followed the current practice in the field of export performance literature which adopts a composite construct in assessing export performance, combining economic performance indicators with managerial perception. Although performance should be seen in terms of top- management goals and ambitions, one could argue that an indicator with managerial perception of performance is not strong enough to measure and compare outcomes of different firms because each manager could perceive performance differently. I therefore suggest a further research on export performance use more economic

indicators, especially, financial indicators including export profit growth rate, growth rate of profit per capital.

The research would be more significant if more meaningful indicators for relational capability were developed. Although statistical result shows that all indicators for relational capability used in this research are significant and validity, one could argue on the broad and vague of the indicator like RC1 "We know how to build good personal relationship with business partner". I therefore suggest that more in-depth interview and discussion with businessmen on their relational activities and skills are needed to develop more significant indicators for a firm's relational capability.

This research also limits itself to the context of wood furniture firms in Vietnam, an emergent economy. The findings if applied to other industries in Vietnam or other firms in other developing countries should be interpreted with caution to the institutional context of the population. Vietnamese wood furniture firms develop in the period which Vietnam economy is already highly export oriented. The generalizeability of the findings can be strengthened if other industries are included. The generalizeability of the findings can be more reinforced in a study with population of firms from different developing countries.

I therefore recommend a further research on functional upgrading as determinants of firm development in the international market should deal with panel data across industries and across countries. This type of research will consolidate the for or against arguments for the current debate on whether or not developing country firms should undertake export marketing responsibility. Such a study if taken, caution to institutional factors discovered in this research should be made.

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Appendix 1: Comparing indicators for relational capability

Indicators for relational skill by Walter, <i>et al</i> (2005)	Indicators for relational capability used in this research
We have the ability to build good personal relationships with business partners. We can put ourselves in our partners' position. We can deal flexibly with our partners. We almost always solve problems constructively with our partners	We have ability to build good personal relationship with business partners We analyze what we would like and desire to achieve with which partner. We almost always solve problems constructively with our partners. We know how to make use partners' strength We know how to exploit information when communicating with partners. We know how to persuade partners to agree with our suggest

Appendix 2: Questionnaire

Please answer if your company started exporting including indirect export before 2006. Information provided by you is to be used for the objectives of the study aiming at exploring and finding solutions and recommendations for improving export performance of Vietnamese enterprise. Any details relating to identification of your firm is to be kept secrete and undisclosed to any other people. Thank you very much for your answer.

Company name: (may not be provided if you do not want to reveal).....

Head quarter add:

Type of product:

Type of ownership:

Number of employee:

Registered capital:

Year of establishment:

Year of first export (including indirect export):

Position of respondent:

Please indicate by circling (or highlighting if answer on soft-copy) one of the 0-4 numbers to what extent do the following statements apply to your company regarding the relationships with your business partners (business partners can be customers or suppliers or partners in the same industry which your company have business relationship on multiple transactions and dual exchange of business information)?

		0	1	2	3	4
Not apply at all		←————→				Totally true
1	RC1-We know how to build good personal relationship with business partner	0	1	2	3	4
2	RC2- We analyze what we would like and desire to achieve with which partner.	0	1	2	3	4
3	RC3-We almost always solve problems constructively with our partners.	0	1	2	3	4
4	RC4-We know how to make use partners' strength	0	1	2	3	4
5	RC5-We know how to exploit information when communicating with partners.	0	1	2	3	4
6	RC6-We know how to persuade partners to agree with our suggest	0	1	2	3	4

Please indicate by circling one of the 0-4 numbers to what extent, in the period from 2005 to 2006, you are carrying out the following activities by yourself or handing them over to other parties

In case your company has several different export product lines please fill in the following questions only for your key export product line, i.e. the product line that in 2006 was generating the greatest export revenue.

		0	1	2	3	4
Entirely by others		←————→				Entirely by your company
7	<i>Export market intelligence</i> The extent your company has handled export market intelligence activities (including export order searching, competitor analysis, export sales forecasts, etc)	0	1	2	3	4
8	<i>Export product adaptation</i> The extent your company has handled export product modification (including	0	1	2	3	4

	identification, development, specification and negotiation of product modifications required by export market customers)					
9	<i>Export promotion</i> The extent your company has handled export promotion activities (including personnel visits and calls to potential customers, emailing, website communication, advertising, trade fair participation, etc)	0	1	2	3	4
10	<i>After export sale service</i> The extent your company has handled after-sales service including customer servicing, warranty service, spare part delivery service, etc.	0	1	2	3	4
11	<i>Export pricing</i> The extent your company has decided on export pricing (including price setting, provision of export financing)	0	1	2	3	4
12	<i>Export distribution</i> The extent has your company handled distribution activities in the export market (including operating sales outlets, communication with local distributors in export market, logistics in export market)	0	1	2	3	4

If answered 4, since when have you carried out export these activities single-handedly and where - or from whom - did you learn how to carry out these activities?

		<i>Year</i>	<i>Learnt from</i>
7a	Export market intelligence		
8a	Export product modifications		
9a	Export promotion		
10a	After export sale service		
11a	Export pricing		
12a	Export distribution		

If answered 1-3, to what extent do the following parties carry out these activities for your company?

7b	Export market intelligence	intermediary in buyer country: <i>Not at all 0 1 2 3 4 To full extent</i> intermediary in third country <i>Not at all 0 1 2 3 4 To full extent</i> intermediary in Vietnam <i>Not at all 0 1 2 3 4 To full extent</i>
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		partner in same industry: <i>Not at all 0 1 2 3 4 To full extent</i> local supplier: <i>Not at all 0 1 2 3 4 To full extent</i> foreign supplier: <i>Not at all 0 1 2 3 4 To full extent</i> government body <i>Not at all 0 1 2 3 4 To full extent</i> industry body: <i>Not at all 0 1 2 3 4 To full extent</i> other party <i>Not at all 0 1 2 3 4 To full extent</i>
8b	Export product adaptation	intermediary in buyer country: <i>Not at all 0 1 2 3 4 To full extent</i> intermediary in third country <i>Not at all 0 1 2 3 4 To full extent</i> intermediary in Vietnam <i>Not at all 0 1 2 3 4 To full extent</i> partner in same industry: <i>Not at all 0 1 2 3 4 To full extent</i> local supplier: <i>Not at all 0 1 2 3 4 To full extent</i> foreign supplier: <i>Not at all 0 1 2 3 4 To full extent</i> government body <i>Not at all 0 1 2 3 4 To full extent</i> industry body: <i>Not at all 0 1 2 3 4 To full extent</i> other party <i>Not at all 0 1 2 3 4 To full extent</i>
9b	Export promotion	intermediary in buyer country: <i>Not at all 0 1 2 3 4 To full extent</i> intermediary in third country <i>Not at all 0 1 2 3 4 To full extent</i> intermediary in Vietnam <i>Not at all 0 1 2 3 4 To full extent</i> partner in same industry: <i>Not at all 0 1 2 3 4 To full extent</i> local supplier: <i>Not at all 0 1 2 3 4 To full extent</i> foreign supplier: <i>Not at all 0 1 2 3 4 To full extent</i> government body <i>Not at all 0 1 2 3 4 To full extent</i> industry body: <i>Not at all 0 1 2 3 4 To full extent</i> other party <i>Not at all 0 1 2 3 4 To full ext</i>
10b	After export sale service	intermediary in buyer country: <i>Not at all 0 1 2 3 4 To full extent</i> intermediary in third country <i>Not at all 0 1 2 3 4 To full extent</i> intermediary in Vietnam <i>Not at all 0 1 2 3 4 To full extent</i> partner in same industry: <i>Not at all 0 1 2 3 4 To full extent</i> local supplier: <i>Not at all 0 1 2 3 4 To full extent</i> foreign supplier: <i>Not at all 0 1 2 3 4 To full extent</i> government body <i>Not at all 0 1 2 3 4 To full extent</i> industry body: <i>Not at all 0 1 2 3 4 To full extent</i> other party <i>Not at all 0 1 2 3 4 To full extent</i>
11b	Export pricing	intermediary in buyer country: <i>Not at all 0 1 2 3 4 To full extent</i> intermediary in third country <i>Not at all 0 1 2 3 4 To full extent</i> intermediary in Vietnam <i>Not at all 0 1 2 3 4 To full extent</i> partner in same industry: <i>Not at all 0 1 2 3 4 To full extent</i> local supplier: <i>Not at all 0 1 2 3 4 To full extent</i> foreign supplier: <i>Not at all 0 1 2 3 4 To full extent</i> government body <i>Not at all 0 1 2 3 4 To full extent</i> industry body: <i>Not at all 0 1 2 3 4 To full extent</i> other party <i>Not at all 0 1 2 3 4 To full extent</i>
12b	Export distribution	intermediary in buyer country: <i>Not at all 0 1 2 3 4 To full extent</i> intermediary in third country <i>Not at all 0 1 2 3 4 To full extent</i>

	intermediary in Vietnam	<i>Not at all</i>	<i>0 1 2 3 4</i>	<i>To full extent</i>
	partner in same industry:	<i>Not at all</i>	<i>0 1 2 3 4</i>	<i>To full extent</i>
	local supplier:	<i>Not at all</i>	<i>0 1 2 3 4</i>	<i>To full extent</i>
	foreign supplier:	<i>Not at all</i>	<i>0 1 2 3 4</i>	<i>To full extent</i>
	government body	<i>Not at all</i>	<i>0 1 2 3 4</i>	<i>To full extent</i>
	industry body:	<i>Not at all</i>	<i>0 1 2 3 4</i>	<i>To full extent</i>
	other party	<i>Not at all</i>	<i>0 1 2 3 4</i>	<i>To full extent</i>

Please indicate by circling one of the 0-4 numbers how you evaluate your company's export performance in 2006 (Please do this for your key export product line in case your company has several different export product lines).

13. EP1-What was your company export growth rate in 2006:

0. growth $\leq 0\%$	3. $25\% < \text{growth} \leq 100\%$
1. $0\% < \text{growth} \leq 10\%$	4. $100\% < \text{growth}$
2. $10\% < \text{growth} \leq 25\%$	

14. EP2-To what extent has your company's export profitability aspiration level been fulfilled

Not fulfilled at all 1 2 3 4 5 More than fulfilled

15. EP3-How do you perceive your company's export profitability compared to the profitability of domestic sales

Much lower 0 1 2 3 4 Much higher

Appendix 3: Non respond bias test

Independent Samples Test for equality of Means between early respond group and late respond

		t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
							Lower	Upper
De	Equal variances assumed	-1.84	300.00	0.07	-0.25	0.13	-0.51	0.02
	Equal variances not assumed	-1.84	292.47	0.07	-0.25	0.13	-0.51	0.02
MI	Equal variances assumed	-0.75	300.00	0.46	-0.10	0.14	-0.37	0.17
	Equal variances not assumed	-0.75	297.85	0.46	-0.10	0.14	-0.37	0.17
Pro	Equal variances assumed	1.06	300.00	0.29	0.15	0.14	-0.13	0.43
	Equal variances not assumed	1.06	293.21	0.29	0.15	0.14	-0.13	0.43
Pri	Equal variances assumed	1.27	300.00	0.20	0.18	0.14	-0.10	0.45
	Equal variances not assumed	1.29	299.49	0.20	0.18	0.14	-0.09	0.45
Dis	Equal variances assumed	-0.44	300.00	0.66	-0.07	0.15	-0.37	0.24
	Equal variances not assumed	-0.44	299.02	0.66	-0.07	0.15	-0.37	0.23
Ass	Equal variances assumed	1.01	300.00	0.32	0.15	0.15	-0.15	0.46
	Equal variances not assumed	1.02	299.96	0.31	0.15	0.15	-0.14	0.45
RC1	Equal variances assumed	-0.75	300.00	0.46	-0.10	0.14	-0.37	0.17
	Equal variances not assumed	-0.75	297.85	0.46	-0.10	0.14	-0.37	0.17
RC2	Equal variances assumed	1.06	300.00	0.29	0.15	0.14	-0.13	0.43
	Equal variances not assumed	1.06	293.21	0.29	0.15	0.14	-0.13	0.43

		t	df	Sig. (2- tailed)	Mean Differ- ence	Std. Error Differ- ence	95% Confidence Interval of the Difference	
							Lower	Upper
RC3	Equal variances assumed	-0.44	300.00	0.66	-0.07	0.15	-0.37	0.24
	Equal variances not assumed	-0.44	299.02	0.66	-0.07	0.15	-0.37	0.23
RC4	Equal variances assumed	1.01	300.00	0.32	0.15	0.15	-0.15	0.46
	Equal variances not assumed	1.02	299.96	0.31	0.15	0.15	-0.14	0.45
RC5	Equal variances assumed	-0.75	300.00	0.46	-0.10	0.14	-0.37	0.17
	Equal variances not assumed	-0.75	297.85	0.46	-0.10	0.14	-0.37	0.17
RC6	Equal variances assumed	-0.73	300.00	0.47	-0.09	0.13	-0.35	0.16
	Equal variances not assumed	-0.73	291.53	0.47	-0.09	0.13	-0.35	0.16
EP1	Equal variances assumed	-1.09	300.00	0.28	-0.12	0.11	-0.35	0.10
	Equal variances not assumed	-1.09	282.16	0.28	-0.12	0.11	-0.35	0.10
EP2	Equal variances assumed	-0.73	300.00	0.47	-0.09	0.13	-0.35	0.16
	Equal variances not assumed	-0.73	291.53	0.47	-0.09	0.13	-0.35	0.16
EP3	Equal variances assumed	-0.44	300.00	0.66	-0.07	0.15	-0.37	0.24
	Equal variances not assumed	-0.44	299.02	0.66	-0.07	0.15	-0.37	0.23

Appendix 4: Data screening

Table 18: Outliers report

VARIABLES	Outliers	Remedy
RC1	Case 143	Retained
RC2	Case 66	Retained
RC3	Case 120	Retained
RC6	Case 11	Retained
EP1	Case 87	Retained
IE	Case 176, 177, 186, 107	Retained

Appendix 5: Checking multivariate assumptions

Table 19: Description of Normality distribution

Item Nr	VARIABLES	SKEWNESS			KURTOSIS			Description of distribution	Remedy
		Statistic	Upper bound	Lower bound	Statistic	Upper bound	Lower bound		
1.	RC1	-0,603	-0,289	-0,917	-0,062	0,562	-0,686	Approximately normal a bit asymmetric to the right	Let it be
2.	RC2	-0,475	-0,161	-0,789	-0,194	0,43	-0,818	Approximately normal a bit asymmetric to the right	Let it be
3.	RC3	-0,616	-0,302	-0,93	-0,369	0,255	-0,993	Approximately normal a bit asymmetric to the right	Let it be
4.	RC4	-0,343	-0,029	-0,657	-0,554	0,07	-1,178	Approximately normal a bit asymmetric to the right	Let it be
5.	RC5	-0,591	-0,277	-0,905	-0,039	0,585	-0,663	A bit asymmetric to the right	Let it be

Item Nr	VARIABLES	SKEWNESS			KURTOSIS			Description of distribution	Remedy
		Statistic	Upper bound	Lower bound	Statistic	Upper bound	Lower bound		
6.	RC6	-0,468	-0,154	-0,782	-0,119	0,505	-0,743	Approximately normal a bit asymmetric to the right	Let it be
7.	MI	-0,056	0,258	-0,37	-1,054	-0,43	-1,678	Approximately normal a bit flatter	Let it be
8.	De	-0,111	0,203	-0,425	-0,974	-0,35	-1,598	Approximately normal a bit flatter	Let it be
9.	Pro	-0,224	0,09	-0,538	-1,037	-0,413	-1,661	Approximately normal a bit flatter	Let it be
10.	Ass	-0,137	0,177	-0,451	-1,175	-0,551	-1,799	Approximately normal a bit flatter	Let it be
11.	Pri	0,007	0,321	-0,307	-1,171	-0,547	-1,795	Approximately normal a bit flatter	Let it be
12.	Dis	0,234	0,548	-0,08	-1,113	-0,489	-1,737	Approximately normal a bit flatter	Let it be
13.	EP1	-0,301	0,013	-0,615	-0,297	0,327	-0,921	Normal	
14.	EP2	-0,312	0,002	-0,626	-0,887	-0,263	-1,511	Approximately normal a bit flatter	Let it be
15.	EP3	-0,204	0,11	-0,518	-0,609	0,015	-1,233	Normal	
16.	IE	3,116	3,43	2,802	17,531	18,155	16,907	Peaked asymmetric to the left	Log IE
17.	size							Peaked asymmetric to the left	Log size

Table 20: Collinearity Statistics

	Tolerance	VIF		Tolerance	VIF
RC1	.525	1.906	MI	.526	1.902
RC3	.504	1.983	De	.529	1.891
RC4	.563	1.778	Pro	.513	1.951
RC5	.476	2.100	Ass	.492	2.034
RC6	.452	2.210	Pri	.518	1.930
			Dis	.608	1.645

a Dependent Variable: RC2

Table 21: Levene's Test for Equality of Variances

Variables	F	Sig.	Variables	F	Sig.	Variables	F	Sig.
De	.714	.399	RC1	.652	.420	EP1	2.755	.098
MI	.652	.420	RC2	.002	.965	EP2	.171	.679
Pro	.002	.965	RC3	3.458	.064	EP3	3.458	.064
Pri	.652	.420	RC4	.714	.399			
Dis	3.458	.064	RC5	.652	.420			
Ass	2.755	.098	RC6	.171	.679			

Appendix 6: Measurement validity**Table 22: Standardized Regression Weights (RC scale)**

			Estimate				Estimate
RC6	<---	RC	.772	RC3	<---	RC	.709
RC5	<---	RC	.761	RC2	<---	RC	.660
RC4	<---	RC	.685	RC1	<---	RC	.707

Table 23: Squared Multiple Correlations (RC scale)

	Estimate		Estimate
RC1	.500	RC4	.470
RC2	.435	RC5	.580
RC3	.503	RC6	.596
		VE (RC)	.514

Table 24: Standardized Regression Weights (EP scale)

			Estimate
EP1	<---	EP	.701
EP2	<---	EP	.834
EP3	<---	EP	.386

Table 25 : Squared Multiple Correlations (EP scale)

	Estimate
EP2	.696
EP1	.492
VE (EP)	.576

Table 26 : Value of SIC and VE

Factor	VE	SIC
EP	0.553	0.342, 0.215
RC	0.511	0.067, 0.342

Table 27: Correlations between RC and EP

		RC	EP
RC	Pearson Correlation	1	.430(**)
	Sig. (2-tailed)		.000
EP	Pearson Correlation	.430(**)	1
	Sig. (2-tailed)	.000	

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

Table 28: Component Matrix

	Component			Component	
	1	2		1	2
RC1	.732	-.251	RC5	.773	-.233
RC2	.736	-.005	RC6	.771	-.278
RC3	.754	-.132	EP1	.563	.669
RC4	.741	-.109	EP2	.542	.711

Appendix 7: Common method bias test

Table 29 : Rotated Component Matrix(a)

	Component			Component	
	1	2		1	2
RC1	.767	.104	RC5	.795	.138
RC2	.660	.326	RC6	.814	.097
RC3	.733	.221	EP1	.203	.851
RC4	.712	.235	EP2	.165	.878

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a Rotation converged in 3 iterations.

Table 30: Regression Weights of model with CMB

			Estimate	S.E.	C.R.	P
EP	<---	RC	.671	.161	4.174	***
EP1	<---	EP	1.000			
EP2	<---	EP	1.104	.286	3.860	***
RC1	<---	RC	1.000			
RC2	<---	RC	.954	.227	4.203	***
RC3	<---	RC	.988	.103	9.578	***
RC4	<---	RC	.970	.134	7.227	***
RC5	<---	RC	1.000			
RC6	<---	RC	1.137	.130	8.732	***
RC1	<---	CMB	1.000			
RC2	<---	CMB	-13.416	257.819	-.052	.958
RC3	<---	CMB	-1.728	48.503	-.036	.972
RC4	<---	CMB	-5.003	106.947	-.047	.963
RC5	<---	CMB	7.914	124.817	.063	.949
RC6	<---	CMB	12.925	213.258	.061	.952
EP1	<---	CMB	-7.880	153.512	-.051	.959
EP2	<---	CMB	-22.036	409.257	-.054	.957

*** p< 0.001