CHAPTER TWO
LITERATURE REVIEW

Literature Review

This chapter covers a broad range of topics because the model presented in this research is comprehensive. First, there will be a review of the literature related to the type of business arrangement. Next, a resource-based view of the firm is reviewed. This review includes most of the resource-based view of the firm literature in the international business field. This literature review emphasizes on the capabilities that generates the firm-specific advantages and later contributes to firm success.

In general, firms can engage in various types of business arrangements to exploit firm-specific resources and maximize profits, by either increasing sales revenues, cutting costs, or both. Firms want to enter international markets to meet these objectives because their domestic markets are saturated, international markets generate higher return, or foreign countries possess essential raw materials. In these contexts, expansion into international markets maximizes the return on their resource base (Dunning, 1993).

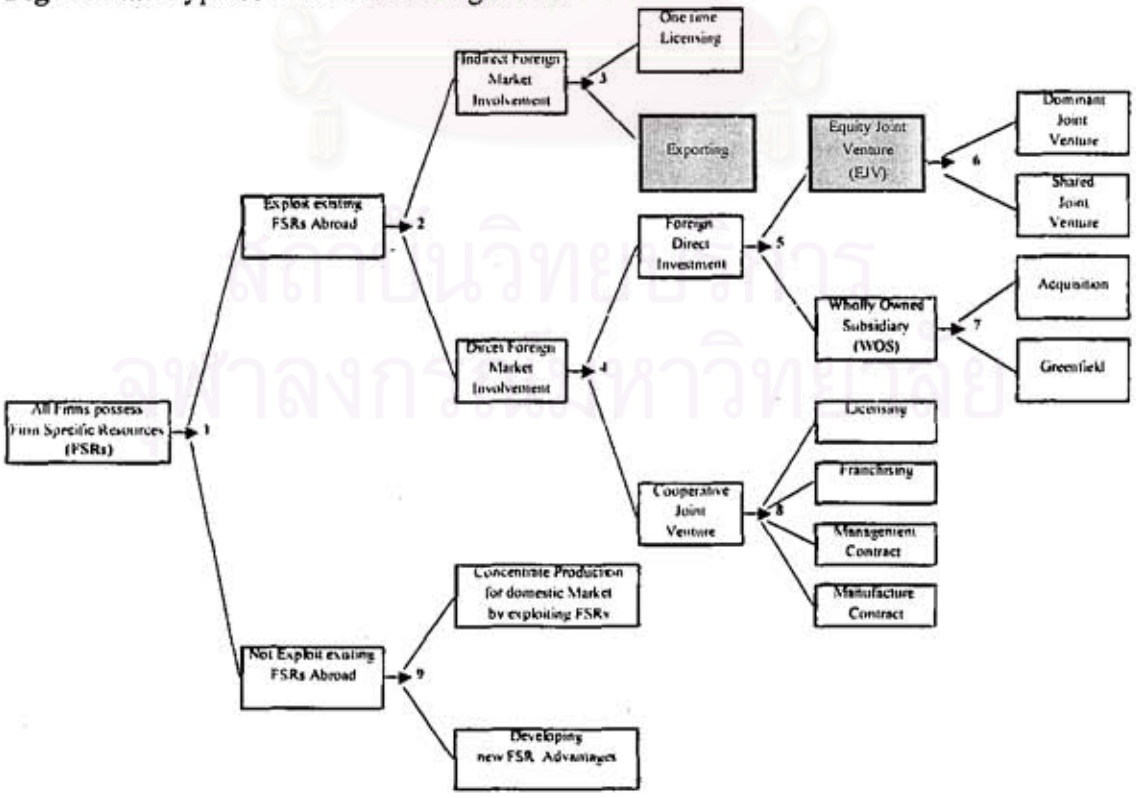
Firms with firm-specific resources (FSRs) can choose to exploit existing FSRs abroad at an early point in their life cycle (Czinkota, Ronkainen, and Moffett, 1992). Some firms will choose to be domestic oriented. However, firms choosing to be involved in foreign markets must decide if they want to do directly, indirectly or using a mixed approach. Indirect approaches involve export or one time licensing. Direct foreign market involvement requires a foreign direct investment (FDI) or cooperative joint venture (See Figure 2.1).

Firms deciding to control assets abroad, through a FDI (Hill, Hwang and Kim, 1990) can employ either Equity Joint Ventures (EJV) or Wholly Owned Subsidiaries (WOS). EJVs involve creation of a new organizational entity with shared ownership and separate management (Tallman and Shanker, 1994). EJVs are classified as dominant or shared joint venture (Tallman and Shanker, 1994; Killing, 1983), and represent a mid-way choice between wholly owned subsidiaries and licensing (Banks and Beamish, 1987). A review of the literature (Hill, Hwang, and Kim, 1990;

Anderson and Gatignon, 1986) suggests that while WOS can be characterized by a relatively high level of control and resource commitments, the opposite can be said of licensing agreements. With respect to joint ventures, although the levels of control and resource commitments admittedly vary with the nature of the ownership split, their extent can nevertheless be said to lie between that of WOS and licensing (Kim and Hwang, 1992).

In general, a firm will prefer wholly owned operations or want to acquire majority ownership in an overseas operation in order to protect and fully exploit its ownership advantages (Yiyang, 1996). However, some firms will want to license in order to minimize transaction costs (Hill, Hwang and Kim, 1990). WOS can be classified into either Acquisition or Greenfields (Czinkota, Ronkainen, and Moffett, 1992). The decision choice rests on relative costs and risks. Normally, since it is a tailor-made design, greenfield investments are larger. However, no adjustment costs are required after the facility begins operations while these costs can be substantial when buying an existing facility settlement but taking over an existing facility (Czinkota, Ronkainen, and Moffett, 1992).

Figure 2.1: Type of Business Arrangement



Cooperative Joint Venture (CJV) are also a direct foreign market involvement, but differ from FDI because they can involve licensing, franchising, management contracts, and manufacturing contracts (Tallman and Shanker, 1994). Cooperative joint ventures are viewed as the easiest and cheapest way to establish an overseas market presence, because the firm is assisting production overseas through the use of their technology and know-how. This represents some risk, where the knowledge is intangible, because their overseas partner can easily acquire their knowledge. In some cases this leads firms to produce domestically.

Expanding the business overseas is also risky because firms are not familiar with the foreign environment (Rugman, Lecraw and Booth, 1985). A step by step approach is to often used minimize risk. Firms can hire consultants as a way to acquire initial knowledge, and then move on to other steps such as licensing.

The most commonly modeled entry modes are FDI, JV, and licensing, which are based on equity controlled. However, other modes such as franchising, strategic alliances, and partnering, which are based on risk sharing, have yet to be systematically considered in comprehensive models that have characterized research in the first group.

In this research, joint venture ownership structure will be my main focus and be compared with 100% Thai ownership structure to investigate the difference of firm performance between these two types of ownership structures as shown later in the model in Chapter Three.

The Resource-Based View of the Firm

The resource-based view of the firm is an important view in clarifying why a firm can outperform another firm. This view includes three important issues that are as follows: 1). how resources are accumulated; 2). what kinds of resources are accumulated, and 3). how resources and capability interact in order to build competitive advantages for firms. Moreover, this view emphasizes the relationship between firm-specific resources and performance.

This resource-based view focuses on unique firm-specific resources (FSRs), rather than industry structure, and addresses both competitive advantages and strategies intended to exploit such advantages (Tallman and Fladmoe-Lindquist,

1994). Governance structural efficiency, the key to transaction cost economics models of the multinational, is also compatible with resource-based models. The resource-based strategy suggests that the complex organizational systems are the bases for strategic advantage derived from the unique historical backgrounds of individual firms (Tallman and Fladmoe-Lindquist, 1994). The key source of these unique resources for multinational firms is home country competitive context. In order to sustain a competitive advantage in its industry, there are two basic types of competitive advantage: cost leadership and differentiation. Also, firm-specific resources and capabilities provide much stronger predictors of performance than industry characteristics (Rumelt, 1991; Cool and Schendel, 1988).

This resources-based view also indicates that firm structure is not important or critical, but what is important is the combination of resources or abilities to learn and adapt by incorporating information from outside efficiently back into organization and using this information to realign itself. Therefore, this implies that the resource-based view incorporates environment in explaining why a firm can perform better than the others.

The resource-based view of the firm posits that a firm's internal processes create a resource bundle which can become the means of creating and sustaining a competitive advantage (Bates and Flynn, 1995). This approach views the firm as a collection of productive resources (Wenerfelt, 1984; Penrose, 1959) and as a set of critical resources (Azzone, Bertele, and Rangone, 1995). These resources are worth more to the firm than their individual market values because of specialized linkages between them within the firm (Barney, 1986a; Penrose, 1959). This resource-based view also emphasizes the application of underutilized productive resources to new business (Chang, 1995).

Many central aspects of strategic reasoning have been reinterpreted in light of a resource-based perspective (Tallman and Fladmoe-Lindquist, 1994; Amit and Schoemaker, 1993; Peteraf, 1993; Collis, 1991; Connor, 1991; Grant, 1991), and the resource-based view of the firm has offered important new insights into corporate strategy (Barney, 1991; Peteraf, 1993). In spite of much conceptual work, the resource-based view has rarely been operationalized or tested (Miller and Shamsie,

1995). As a consequence, one major weakness of the resource-based view is that there are few empirical tests of its validity.

Scholars believe that the value of assets such as technology and marketing resources does not depreciate through use in other markets, and therefore generate natural economies of scope (Chang, 1995; Magee, 1977; McManus, 1972; Johnson, 1970). The resource-based model of business strategies focuses on how strategic choices and sustained competitive advantages are generated, by the unique bundles of resources that are specific to a firm (Tallman and Fladmoe-Lindquist, 1994). Firm-Specific Resources (FSRs) are critical factors enabling firms to achieve superior performance (Selznick, 1957).

Traditionally, the resource-based view of the firm focuses on exploiting competitive advantages rather than building organizational capabilities. This traditional view can explain why firms invest overseas, but it does not provide any insights into how firms accumulate capabilities (March, 1991).

Firms' competitive advantages are increasingly based on the level and structure of their assets and capabilities (Dunning, 1993). Furthermore, in Dunning's paradigm (1988), ownership advantages refer to a firm's possession of superior assets, such as its size and multinational experiences (Terpstra and Yu, 1988; Yu and Ito, 1988), and its superior skills, which includes its ability to develop better and differentiated products (Gatignon and Anderson, 1988; Hamel, and Prahalad, 1990).

Markides and Williamson (1996) argue that related diversification enhances performance only when it allows a business to obtain preferential access to strategic assets advantages. This access affords decays because of asset erosion and imitation by single-business rival. In the longer run, only abilities that enable a firm to build new strategic assets more quickly and efficiently than competitors will allow it to sustain supernormal profits.

This provides the link to organizational learning, which can be a source of competitive advantage (Stata, 1989). Organizational learning represents the capability of an organization to adapt to its environment (Hedberge, 1981), and occurs when any of an organization's units acquires knowledge that the unit recognizes as potentially useful to the organization. The resource perspective views firms as learning organizations that improve their capabilities through experiences (Nanda, 1996).

Hamel and Prahalad (1990) argue that organizational learning can occur from firms' acquiring new and complementary competences. The capability-building perspective emphasizes organizational learning as an important feature in the evolution of rent-generating capabilities (Stata, 1989).

At the business strategy level, explorations of the relationships between resources, competition, and profitability include the analysis of competitive imitation (Rumelt, 1984; Lippman and Rumelt, 1982; Reed and DeFillippi, 1990), the appropriability of returns to innovations (Teece, 1988), the role of imperfect information in creating profit (Barney, 1986a), and the means by which the process of resource accumulation can sustain competitive advantages (Dierickx and Cool, 1989). Together, these contributions constitute the resource-based view of the firm.

The implications of this resource-based view for strategic management are unclear because the various contributions lack a single integrating framework and the practical implication of this view are not well developed (Grant, 1991). Grant made progress by proposing a framework for a resource-based approach to strategy formulation that integrates a number of the key themes arising from the various streams of literature. Grant's organizing framework has a five-stage procedure for strategy formulation: analyzing the firm's resource-base; appraising the firm's capabilities; analyzing the profit-earning potential of firms' resources and capabilities; selecting a strategy and extending, and upgrading the firm's pool of resources and capabilities.

To overcome differences, subunits should not have different strategies in subunits, the firms must maintain a system of integration that minimizes overlap and conflict among its varied subunits, while allowing them the necessary flexibility to adapt to their particular environment (Cray, 1984). The integration of subunits into large organizations depends mainly on the manipulation of 2 processes: control and coordination (Hage, Aiken, and Marret, 1971).

Control is a process that brings about adherence to a goal or target through the exercise of power or authority (Etzioni, 1965). The purpose of control is to minimize idiosyncratic behavior and to hold individuals or groups to enunciated policy (Tannenbaum, 1968). Coordination is seen more as an enabling process, which provides the appropriate linkage between different task units within the organization

(Tuggle, 1978). Coordination networks require communication among the coordinating parties to maintain an even flow of goods, services, and information (Cray, 1984).

Resource-based approaches to the theory of competitive advantage point towards four characteristics of resources and capabilities that are likely to be particularly important determinants of the sustainability of competitive advantages. They are durability, transparency, transferability, and replicability (Grant, 1991). Grant's analysis of the rent-generating potential of resources and capabilities concludes that the firm's most important resources and capabilities are those that are durable, difficult to identify and understand, imperfectly transferable, not easily replicated, and in which the firms possess clear ownership and control.

According to Dierickx and Cool (1989), imitability is the link to the characteristics of the asset accumulation process that exhibits the following properties: time compression diseconomies, asset mass efficiencies, interconnectedness, asset erosion, and causal ambiguity. All of these factors affect how effectively and efficiently a firm accumulates assets. Dierickx and Cool (1989) also show that firms, possessing the initial stocks of the resources require for competitive advantage may be able to sustain their advantages over time. The essence of strategy formulation, then, is to design a strategy that makes the most effective use of these core resources and capabilities.

Currently, research on the resource-based view is going on in several directions. On the theory side, some scholars are developing a better understanding of specific resources such as culture (Barney, 1986b), and the fact that rigidities in acquiring resources may be different from the rigidities in shedding resources, such as mergers and acquisitions (Montgomery, 1995; Rumelt, 1984). For instance, large conglomerate companies acquired many companies in the decade of 1970 to 1980. However, they found it was very difficult to sell these firms when their performance deteriorated. Some of these resources had negative value to the conglomerate (e.g. Leonard-Barton, 1992). This has resulted in research on better measures of specific resources (Davis and Thomas, 1993; Farjoun, 1994; Helfat, 1994; Henderson and Cockburn, 1994) are making practicing managers more aware that firms have

different resource endowments and that it takes time and money to change these endowments (Wernerfelt, 1995).

The resources and capabilities of the firm are the foundation for its long-term strategy because internal resources and capabilities provide the basic direction for a firm's strategy and they are also the primary sources of profit for the firm (Grant, 1991). Grant's finding that competitive advantage rather than external environments is the primary source of inter-firm profit differentials between firms focuses attention upon the sources of competitive advantage. More recently, Wernerfelt (1984) and Barney (1991) have proposed that analysis of a firm's resources and capabilities is of greater strategic value than analysis of its competitive environment.

Although the competitive strategy literature has tended to emphasize issues of strategic positioning in terms of the choice between cost and differentiation advantage, and between broad and narrow market scope, fundamental to these choices is the resource position of the firm. For example, the ability to establish a cost advantage requires possession of scale-efficient plants, superior process technology, ownership of low-cost sources of raw materials, or access to low-wage labor. Similarly, differentiation advantage is conferred by brand reputation, proprietary technology, or an extensive sales and service network.

Grant (1991) identifies a key distinction between resources and capabilities. Resources are as the basis for profitability, and are inputs into the production process. The individual resources of the firm include items of capital equipment, skills of individual employees, patents, brand names and finance. But on their own, few resources are productive. Productive activity requires the cooperation and coordination of teams of resources. A capability is the capacity for a team of resources to perform some task or activity. While resources are the sources of a firm's capabilities. capabilities are the main source of its competitive advantage. The primary task of a resource-based approach to strategy formulation is maximizing rents over time by exploiting resources through capabilities.

According to Collis and Montgomery (1995), the resource-based view of the firm explains how a company's resources drive its performance in a dynamic competitive environment. The resource-based view combines the internal analysis of phenomena within companies with the external analysis of the industry and the

competitive environment. Furthermore, the resource-based view sees companies as very different collections of physical and intangible assets and capabilities. No two companies are alike because no two companies have had the same set of experiences acquired the same assets and skills, or built the same organization cultures. These assets and capabilities determine how efficiently and effectively a company performs its functional activities.

Critical resources are accumulated rather than acquired in strategic factor markets, which are "markets" where the resources necessary to implement a strategy are required (Barney, 1986a). For example, the market for market share is cited as a relevant strategic factor market for implementing a cost leadership strategy. Culture can also be a source of competitive advantage if it is valuable, rare, and imperfectly imitable (Barney, 1986b). This is not to suggest that a firm's culture stays the same since it certainly does evolve over time (Zucker, 1977 and Selznick, 1957). A firm's culture is one of several attributes that differentiate firms one from another (Alchian, 1950; Alchian and Demsetz, 1972). Firms with valuable, rare, or imperfectly imitable cultures should nurture these cultures. Each of these cultural traits can result in a positive economic gain for firms. Innovativeness, productivity through people, and the other cultural factors cited by Peters and Waterman (1982) also have positive economic consequences. Miller and Shamsie (1995) find out that both property-based and knowledge-based resources that are hard to buy or imitate contribute to various measures of performance.

Barney's research (1986b) also suggests that not all firms have cultures with these three attributes (Martin, Feldman, Hatch and Sitkin, 1983; Tichy, 1983), and thus organizational culture is not a source of competitive advantage for all firms. Indeed, some have argued that although cultures may appears to be unique or specific to a given firm, they sometimes actually reflect an underlying commonality and function, and thus are not rare at all (Martin, Feldman, Hatch and Sitkin, 1983). Furthermore, Barney (1986b) indicates that firms possessing unique resources, whether it be by chance or design, are rewarded. For example, inimitable cultures, such as management skill, know-how, and learning capability, are difficult to duplicate or imitate. These unique cultures are accumulated over times and attached to individual through learning process.

Valuable resources should be able to provide excess profits or quasi-rents to the firms. Rare resources are possessed by no more than a few firms in an industry. Uncertain imitability is necessary to protect sustainable competitive advantage and preserve the value of assets. Finally, imperfect substituability of resources also is a key to sustain competitive advantage. As supported by Dierickx and Cool (1989), critical or strategic asset stocks are those assets that are nontradeable, nonimtable and nonsubstituable.

According to Jacobson (1992), profits will decay to the competitive level as competitors imitate successful practices and market condition change. Further, by pure chance, an unexpected event may arise that generates abnormal returns for a firm. This is because flexibility in these inimitable resources allows firms to adapt to rapidly changing environment. Gatignon and Anderson (1986) define flexibility as the ability to change system and methods quickly and at a low cost.

Flexible firms adapt and respond to changing condition. As such, flexibility becomes a critical strategic factor. Indeed, a number of firms have effectively used flexibility as a key to their strategy (Jacobson, 1992). For example, Motorola customized pocket pagers go into production 17 minutes from the time the order is received are shipped within 2 hours, and received by customers the next day.

The resource-based view of the firm has underlined imperfectly imitable and imperfectly mobile firm resources as the roots of sustainable competitive advantage. This unique bundle of resources can be both tangible and intangible and a source of differentiation (Barney, 1991; Conner, 1991; Dierickx and Cool, 1989; Grant, 1991; Mahoney and Pandian, 1992; Wernerfelt, 1984).

Yuchtman and Seashore (1967) note that all organizations are in a generalized competition for scarce resources. Hofer and Schendel (1978) identify six major categories of resources. They are physical resources, human resources, technological resources, organizational resources, financial resources, and reputation. Barney (1991) also suggests three types of rent-yielding firm-specific resources (FSRs): physical capital, human capital, and organizational capital. The resource-based view is considered firm-specific resources lead specific advantages to the firm (Tallman and Fladmoe-Lindquist, 1994). There are many scholars who have discussed about the FSRs (Chi, 1994; Tallman and Fladmoe-Lindquist, 1994; Barney, 1991; 1986a;

Wenerfelt, 1984), but they define them differently. Therefore, these firm-specific resources more likely to generate sustainable advantage are discussed below:

1). Physical resources include plants and equipments, geographic location, access to raw materials and the physical technology used by the firm (Barney, 1991). Physical technological resources such as patents or proprietary designs are more difficult to diffuse across national and cultural borders (Kogut, 1991b; Korbin, 1991). Barney (1991) contends that these physical resources seldom generate sustainable advantage because they are relatively easy to copy or work around.

2). Human resources includes training, experience, technical skills, relationships among managers, and insight of employee (Barney, 1991). This choices rely on the background, education, and managerial relationships that are key to the human resource category. For instance, a US trained engineer in Korea is an important source of know-how (Hobday, 1994).

The Gomez-Mejia's (1988) contends that knowledge barriers may be substantially reduced through an aggressive human resource management strategy that emphasizes an international orientation in staffing, employee development, performance evaluation, and reward distribution within the firm. As a scarce strategic resource, human capital must be allocated carefully within the exporting organization. The staff process plays an essential role in creating the stock of human capital necessary to deal with the external contingencies posed by overseas markets that call for specialized knowledge and experience requirements in the work force.

3). Technological resources create opportunities for companies to exploit and can lead to competitive advantages, especially internationally. High technology goods contains a significant element of proprietary and firm-specific knowledge (Kumar and Siddharthan, 1994), which led McGuinness (1978), Cavusgil (1976) and Hirsch (1970) to conclude that in technological firms, R&D and product advantages are highly associated with export intensity. Gruber, Mehta and Vernon (1967) found that the technology factor was important in explaining international trade. They also have observed that US industries associated with a relatively high research effort also tend to export a relatively high proportion of their output.

4). Organizational resources develop from diverse legal, political and cultural traditions and create different administrative heritages among firms from different

nations (Bartlett and Ghoshal, 1989; Collis. 1991; Porter, 1990). Barney (1991) suggests that organizational resources include a firm's reporting structure, formal and informal planning system, controlling and coordinating systems, and informal relations among groups within a firm and among different firms. These resources are considered to be a major source of sustainable competitive advantage (Dierickx and Cool, 1989). Younger and smaller firms often have more flexible organizational cultures than older and larger firms (Tichy, 1983).

Organizational capability is defined as the ability of an organization to achieve desired results or output (Fulwiler, 1995). Organizational resources affect firms' strategic choices concerning their product markets and their ability to coordinate globally dispersed operations (Porter, 1990), and their use of alliance arrangements.

5). Financial resources would include capital availability, and financial institutional requirements on debt and expected performance measure (Tallman and Fladmoe-Lindquist. 1994). An absence of financing would limit the strategic choices of multinational firms, and firms might use alternate approaches to reduce their required capital investment. These approaches include joint ventures, licensing, franchising, and strategic alliances and typically rely on outside sources of funding. However, strategic alliances are only one of a larger set of organizational resources in a resource-based model of the multinational.

6). Reputation is realizing value from one's corporate images (Gebhart, 1996). The only way to gain a good reputation is to create it. In today's marketplace, with so little distinction between prices, technologies, or product capabilities, a company's reputation can be the overriding basis for a consumer's purchasing decision. Despite this, few companies take the idea of reputation management seriously, preferring instead to talk about image marketing. In long run, reputation will always supersede image (Caudron, 1997). According to Weylman (1996), to develop a reputation for honesty, integrity and fairness, these principles should be practiced: 1) associate with trustworthy people, 2) have a code of ethics, 3) have a purpose, 4) practice self-discipline versus self-indulgence, and 5) focus on thankfulness versus entitlement.

Organizational reputation has been widely referred to in the literature, but it has not been consistently defined nor its determinants investigated systematically. According to Hammond and Slocum (1996) is linked with firm financial performance.

The implication for management is that a firm's reputation is affected by lowering financial risk and controlling costs. I believe the theme of their research was that reputation did not measure much in larger firms.

Financial performance, including measures like total return and earnings growth, correlates strongly with reputation (Clark and Bartolomeo, 1965). In the same study, they found no relationship between the size of company's assets and the sheen on its reputation. In Fortune's annual survey of corporate reputation, Fisher (1996) indicates that eight key attributes that determine the reputation are quality of management, quality of products and services, ability to attract, develop, and keep talented people, use of corporate assets, innovativeness, value as a long-term investment, community and environmental responsibility, and financial soundness. Reputation is difficult to measure because it is subjective. In order to measure reputation outsider who are industry experts do the measurement and ranking.

Snow and Hrebiniak (1980) examine capabilities (in their terminology, "distinctive competencies") in relation to the ten functional areas, such as marketing, production, or finance. For most firms, however, the most important capabilities are likely to be those that arise from an integration of individual functional capabilities. For instance, Kentucky Fried Chicken's processes outstanding functional capabilities within product development, market research, human resource management, financial control, and operation management. However, critical to Kentucky Fried Chicken's success is the integration of these functional capabilities to create Kentucky Fried Chicken's remarkable consistency of products and services in thousands of restaurants spread across the globe. Therefore, it is the capability to combine individual resources that provides firms with competitive advantages that are valuable and difficult to imitate.

Winter (1987) also explains the difference between codification and tacitness. Codification refers to knowledge that is in explicit forms such as manuals or software whereas tacitness is embedded in organizational routines and cannot be easily transferred, even with training of recipient organization.

"Strategic capability" is a capability that can be a source of competitive advantage (Moingeon and Edmondson, 1996). Hamel and Prahalad (1990) use the term "core competencies"- collective organizational learning - to describe these

central, strategic capabilities. A key problem in appraising capabilities is maintaining objectivity, because there is often a wide variation in senior managers' perceptions of their organizations' distinctive competencies (Stevenson, 1976).

An effective strategy builds invisible assets, such as information-based resources, a particular technology, accumulated consumer information, brand name, reputation, corporate culture, and management skill (Itami and Roehl, 1987). The expanded stock enables the firm to plan and implements its future strategy. Moreover, the future strategy must make effective use of the resources that have been amassed. Jacobson (1992) found that these invisible assets are key success factors because they are difficult to obtain and the accumulation of these assets requires ongoing, conscious, time-consuming, and uncertain efforts. There is no easy way to obtain a desired corporate culture (Barney, 1986a) and competitors, even those with substantial resources, can not buy or readily obtain (Jacobson, 1992). Therefore, these invisible assets are likely to have the greatest and longest lasting impact on performance (Reed and DeFillipp, 1990; Winter, 1987).

Competitive imitation and resource mobility slowly reduce rents. In addition, the assets generating the rent-streams depreciate over time because the technology and the market change (Barney, 1986c). Although resource-based theorists generally agree that imperfect imitabilty and imperfect mobility are two prerequisites for a resource to sustain any competitive advantage, there has been continuing debate over their ramifications for a resource's tradability. Barney (1986a) maintains that there exist reasonably competitive markets for strategic resources; Dierickx and Cool (1989), however, argue that truly unique and valuable resources such as reputation can not be readily acquired on a market and are thus not really tradable. According to Peteraf (1993), such unique resources are in limited supply and thus can generate consistent sustained quasi-rents. He also describes the conditions underlying sustainable competitive advantage as resource heterogeneity, ex-post limits to competition, and imperfect resource mobility, ex-ante limits to competition.

A resource is imperfectly imitable if other firms face uncertainty in replicating the resource on their own (Lippman and Rumelt, 1982) and is imperfectly mobile if other firms encounter difficulty in acquiring the resource from its present employer (Peteraf, 1993). No firm can have resources with these two features, of course, unless

the resources of different firms in an industry are heterogeneous (Rumelt, 1984; Wernerfelt, 1984). Rumelt (1984) has been interested in the role of stochastic factors in determining firm performance. Firms may start out homogeneous but, ex post, they are different and cannot perfectly imitate each other. He also provides one explanation for the heterogeneous resources endowments, which are assumed in the resource-based view. However, homogeneous resources yield rents if they are scarce, for instance, diamond mines or control over oil reserves (Moingeon and Edmondson, 1996).

Furthermore, in order for an imperfectly imitable and imperfectly mobile resource to sustain any competitive advantage, it must be able to provide its employer with rents that are more than temporary and have no substitutes that are easily imitable or mobile (Barney, 1986b, 1991; Hill, 1991). Chi (1994) refers to resources of this nature as strategic resources. In the traditional strategy literature (Hitt and Ireland, 1985; Snow and Hrebiniak, 1980), such resources are commonly identified with a firm's distinctive competence in technology (secret know-how or superior R&D capability), marketing (skills in bundling product attributes) and management (a valuable organization culture).

Technological, management and marketing know-how constitute the basis of the competitive advantage of MNCs (Casson, 1982; Dunning, 1983). Murray, Kotabe, and Wildt (1995) explain that proprietary knowledge are technology, management and marketing know-how possessed by a firm. This indicates that these firm-specific resources are valuable to the firm. In this research, only intangible resources are considered because this is the first attempt to measure these types of firm-specific resources. Therefore, these firm-specific resources, used in this research, are marketing, management or technology resources.

Management Resource Factor Review

There is increasing evidence that behavioral factors internal to the firm have a definite impact on a firm's export performance. The Gomez-Mejia's study (1988) focuses on the relationship between human resource management strategies designed to support international activities and the firm's export performance. To the extend

that human resource strategies are included implicitly in the articulation of export strategies, the more successful a firm is likely to be in international markets.

According to Axinn (1988), there are two manager-related adopter characteristics. First is the educational level of the managers of the firm or more precisely, the percentage of managers with college degrees. The other is percentage of managers with overseas work experiences.

The results of Tseng and Yu (1991) show that, in comparison with non-exporters to Europe, Taiwanese exporters tend to employ export managers with a higher level of education and greater knowledge of the international environment.

Export experiences also begets more exporting (Lee and Yang, 1990; Sood and Adams, 1984; Bilkey, 1978). From Douglas' study (1996), the significant positive correlation emphasizes the association which exists between firms' experiences and their performance corroborating the findings of Bradley (1991), Madsen (1989), Axinn (1988), Amine and Cavusgil (1986) and Bilkey (1982).

McDougall and Stening (1975) indicate that high export performers tend to have more experience in exporting. Simmonds and Smith (1968) conduct an interview study of nine U.K. exporting firms and discover that the overseas experiences or study of a foreign language is helpful in activating exported in these firms.

Joynt (1982) reports that his entire sample of 85 Norwegian firms have some German and English capability and two-thirds have French capability. Some studies relate language and communication capabilities to propensity to export. Czinkota and Johnston (1983) determine that both small and medium sized firms rank export related communication difficulties first in terms of problems encounter when exporting.

A study of 165 small and medium-sized companies in the Netherlands was undertaken to examine differences in export success among exporting companies. Louter, Ouwerkerk and Bakker (1991) find out that communication, personal contact, management commitment and attitude are important success factors for the success performance.

Internal managerial factors, such as the attitude towards export, are crucial for the export success (Miesenbock, 1988). Many researchers have identified managerial attitude toward exports as having a major impact on firms' involvement in export

activity. Permutter (1969) is perhaps the first scholar to discuss how various attitudes of top management play a role in determining the extent to which a firm is involved in international activity. Pinney (1970) finds that a firm's top management's interest and enthusiasm about exporting is an important determinant of whether management takes initiatives in exporting.

Johnston and Czinkota's study (1982) indicate that export success begets favorable export attitudes and that growth industries are the ones most favorably disposed toward exporting. Based on industry differences investigated, the study finds that managers in firms involved in exporting in each industry have similar attitudes toward international marketing opportunities. The attitudes held by the management of a firm have been found to significantly affect the export behavior of a firm.

Similar, Cunningham and Spigel (1971) examine 100 Queen's Award exporting firms in the U.K. and determine top management's international helps in the decision to export. The international orientation is measured by the firm's background and tradition and by the attitude of its top management toward foreign countries and foreign trade. Myopic thinking of managers (that only the domestic market exists for their firms) may prevent them from exporting (Groke and Kreidle, 1967). Moreover, several studies have shown some linkage between attitudes and export performance (Gripsrud, 1990; BOTB, 1987; Schlegelmilch, 1986; Johnston and Czinkota, 1982).

Dominguez and Sequeira (1993) find that management commitment is affirmed as a major determinant of success. Cavusgil and Nevin (1981) indicate that export goal consistency among management is important for export success, while lack of willingness by management to commit resources to export has negative influence on performance. Furthermore high involvement, committed exporters tend to go to more markets and more different locations than low-involvement exporters (Diamantopoulos and Inglis, 1988).

Competitive advantages for firms in export markets are related to personal contacts with foreign customers (Bourandas and Halikias, 1991; Cavusgil and Noar, 1987). Control of overseas channels influences on export performance (Wortzel and

Wortzel, 1988; Karafakioglu, 1986; Brezzo and Perkal, 1983; Wortzel and Wortzel, 1981).

Marketing Resource Factor Review

Kirpalani and MacIntosh (1980) find firms that believed promotion in export markets is an important activity achieve higher levels of export sales than those emphasized promotion less.

Several studies have suggested that the larger the market area of a firm is, the more likely the firm chooses to export (Reid, 1983; Bilkey and Tesar, 1977). Cooper and Kleinschmidt (1985) find that exporters with a world orientation realize a more rapid growth rate in export sales. Diamantopoulos and Inglis (1988) find high-involvement exporters have much broader world market coverage.

Export market expansion strategy has a significant influence on formulating a firm's overall export marketing mix strategies, and eventually on its export performance (Piercy, 1982). Ayal and Zif (1979) define export market expansion strategy as the long-range strategic decision as to the rate of export market expansion over time and the allocation of marketing efforts among different export markets. Export market concentration is characterized by concentration of marketing efforts in a few key markets and gradual expansion into new markets over time, while export market diversification is represented by rapid entry into a large number of markets and allocation of marketing efforts across different markets. Axinn (1988) indicates that firms with narrow market coverage are unlikely to expand to foreign markets prior to expanding within the domestic market.

Bijmolt and Zwart (1994) expect export planning to have a high impact on export success. Their eleven variables of export marketing planning include description of export country, numerical descriptions of the foreign market, an analysis of the competitors, lists and evaluations of distribution channels, lists and evaluation of possible trading partners, setting export goal, setting up a foreign price policy, setting up a promotion plan for abroad, investigation of the needs to be satisfied abroad, adjustment of the organizational structure, and formulation of a long-range export plan. Export planning consists of three phases: the internal orientation

phase, the planning and external orientation phase, and the implementation phase (Jeannet and Hennessey, 1988).

According to Katsikeas (1994), export marketing researchers have emphasized the crucial role which marketing policy elements play in gaining a sound competitive position in export markets. Competitive advantages of this type relate to: the range and features of company products (Madsen, 1989; Cavusgil and Naor, 1987); competitive pricing (Moon and Lee, 1990; Kirpalani and MacIntosh, 1980); new product development (Bourandas and Halikias, 1991; Namiki, 1988); knowledge about foreign markets and operations (Walters and Samiee, 1990; Cavusgil and Naor, 1987); customer service (Namiki, 1988; Dess and Davis, 1984) and promotion activities (Keng and Jiuan, 1989; Burton and Schlegelmilch, 1987). Conlan-Ayache (1991) finds that the success of German firms exporting to Japan is due largely to after sale follow-up service.

Some studies (Attiyeh and Wenner, 1981; Tessler, 1977; Day, 1976; Tookey, 1970) recommend a market concentration strategy based on the traditional notion that larger market shares in a few key markets are associated with higher profitability in the long run. These recommendations are empirically supported by three non-US based studies (Jung, 1984; ITI report, 1979; BETRO report, 1976). Other studies (Hamermesh et al., 1978; Piercy, 1981a) recommend a market diversification strategy based on the rationale that taking low market shares in widely dispersed markets may be more profitable than concentrating on a few key markets.

Aaby and Slater's firm strategies (1989) consist of market selection, use of intermediaries, product development, product adaptation, promotion, pricing, market concentration - diversification, product mix and staffing. Successful firms adapt their products to foreign markets. Christensen et al. (1987) conclude that companies with multiple product lines are more successful in their export activities.

Sriram and Sapienza (1991) indicate that firms which customize their product to meet the needs of their primary overseas market enjoyed higher market share in that market. Inexperienced exporters may find it simpler to export standardized products with more established markets and to rely on the importer's branding, design, and promotion skills (Wortzel and Wortzel, 1988).

Katsikeas (1994) indicates that competitive pricing is the export competitive advantage dimension most highly rated. This findings is consistent with previous evidence pointing to the adoption of a price-oriented strategy by many exporting firms, particularly those originating from less-industrialized countries (Katsikeas and Piercy, 1990; Leonidou, 1988). Price elements have been found to pay a primary role in influencing the import decision-making process (Ghymn, 1983; Tookey, 1970). Cooper and Kleinschmidt (1985) find that price-oriented strategies are more prevalent among firms selling to nearest-neighbor countries and are associated with lower export intensity and growth. The finding in the study of Madsen (1989) is that price competitiveness only marginally affects export performance. This is in accordance with typical findings in previous research (Madsen, 1989). They also conclude that successful exporters rely on international competitive prices as a benchmark and use internal factors to make pricing decisions.

A number of studies (Rosson and Ford, 1982; Gronhaug and Lorenzen, 1982; Yaprak, 1985) establishes a positive relationship between distribution strategy and export performance. Export marketing authors have frequently stressed the importance of the adaptation of overseas distributors as a foreign market entry method (Rosson, 1984), whether serving as a transitional strategy in the internationalization process (Bello et al., 1991; Johanson and Vahlne, 1990), or a permanent approach to foreign market involvement (Turnbull and Valla, 1986; Reid, 1983).

Madsen (1989) finds that export marketing policy is the most important variable group which influences the export success factors. His export marketing policy includes: a priori market research, planning and control intensity, internalization of marketing functions, adaptation of marketing policy, product strength, price competitiveness, communication intensity and channel support.

Technological Resource Factor Review

Few studies have examined the role of technology in developing countries' trade. Dasgupta and Siddharthan (1985) have found that Indian exports consist largely of standardized goods with a low skill and technological content. Kumar's study of 43 Indian industries (1990) finds the technology variable (capturing intensity of R&D and technology imports) to be not significant in explaining export

performance. From empirical findings of Kumar and Siddharthan (1994), the technology factor could be important for explaining export behavior of Indian enterprises in medium and low technology industries.

Kumar and Siddharthan (1990) find R&D intensity to be an important variable in explaining the inter-industry pattern of intra-firm trade of US MNEs. Caves et al. (1980) find net exports of Canadian industries to be significantly related to the industry's R&D intensity. McDougall and Stening (1975) indicate that high export performers tend to spend more on R&D in exporting.

As the firms get older (Bilkey, 1982), the more they are able and willing to adapt their products/technology to meet local needs (Cooper and Kleinschmidt, 1985; Tessler, 1980); the greater their R&D expenditures as a percentage of total operating costs (Lutz and Green, 1983; Ayal, 1982).

Verspagen and Wakelin (1993) in a study of 22 sectors in nine OECD countries found technology (either R&D or patents) and labor costs to be important influences on trade. As explained by Srinivasan (1993), low cost labor in developing countries is shown to be an important determinant only when investment is export-oriented. Soete's studies of 40 industries (1987; 1981) find OECD countries' export performance to be a function of their share of patents. The number of patents (unique products) held by the firm and the perception of technological advantage over other firms in the industry had both been positively related to exporting (Czinkota and Johnston, 1981; Cavusgil and Nevin, 1981; Bilkey and Tesar, 1977).

Technology intensiveness is consistently found to be related to propensity to export (Cooper and Kleinschmidt, 1985; Cavusgil, 1984a; Cavusgil and Nevin, 1981). Sveikauskus (1983) finds technology to be a more important factor in explaining US competitiveness than skill and capital intensity. Hughes (1986) finds the export intensity of UK industries to be significantly related to their R&D and skill intensities and inversely with average R&D intensity of industry in US, France, Germany and Japan. In the same study, the export intensity of German industries is related to their R&D intensity. Christensen et al. (1987) conclude that technology is best applied as a standard in all markets.

Summary of Resource Factor Review

Each item in each resource factor has positively related to firm performance. These items are supported and summarized from literature review. These resource factors are as follows:

Management Resource Factors

1. The level of overseas experiences of firm's executives
   (Bradley, 1991; Madsen, 1989; Axinn, 1988; Amine & Cavusgil, 1986; Bilkey, 1982)
2. The level of management education in the firm
   (Mayer & Flynn, 1993; Tseng & Yu, 1991; Axinn, 1988)
3. The frequency of hire in management experts (specialists) or consultants
   (The Mckinsey 7-S Framework; Aaby & Slater, 1989; Waterman, R.H., 1982)
4. The number of management training days in the firm
   (Bourandas & Halikias, 1991; Beamish & Munro, 1987; Kirpalani & MacIntosh, 1980)
5. The management commitment to exporting/ the involvement with export activities
   (Aaby & Slater, 1989; Miesenbock, 1988; Sullivan & Bauerschmidt, 1987; Cavusgil, 1984a)
6. The management attitude toward exporting to overseas markets
   (Louter, Ouwerkerk & Bakker, 1991; Gripsrud, 1990; Miesembock, 1988; Permutter, 1969; Pinney, 1970)
7. The English language proficiency of the firm's managers or executives
   (Louter, et al., 1991;Aaby & Slater, 1989;Sullivan & Bauerschmidt, 1987;Czinkota & Johnston, 1983;Joynt, 1982)
8. The magnitude of personal contacts with foreign customers
   (Bourandas & Halikias, 1991; Wortzel & Wortzel, 1988; Cavusgil&Noar, 1987; Karafakioglu, 1986)
9. The ability of managers to respond to the changing markets
   (Jacobson, 1992; Cooper & Kleinschmidt, 1985; Cray, 1984; Tessler, 1980)
10. The flexibility of the firm in the changing environments such as technology or flexibility of executives in decision making (Jacobson, 1992; Cray, 1984)
11. The management connection between the firm and outside parties, such as political groups, government officers, or other business group.
12. The certified management standard (ISO)
13. The number of management personnel in the firm
    (The Mckinsey 7-S Framework; Aaby & Slater, 1989; Waterman, R.H., 1982)

Marketing Resource Factors

1. The budget to spend on advertising/promotion of the firm
   (Keng & Jiuan, 1989; Burton & Schlegelmilch, 1987; Daniels & Robles, 1982;Kirpalani & MacIntosh, 1980)
2. The frequency of hire in marketing experts (specialists) or consultants
   (The Mckinsey 7-S Framework; Aaby & Slater, 1989; Waterman, R.H., 1982)
3. The level of export market research of the firm
   (Bodur, 1986; Cavusgil, 1984; Christensen et al., 1987; Diamantopouls & Inglis, 1988; Madsen, 1989)
4. The overseas market coverage of the firm
   (Dominguez&Sequeira, 1993; Diamantopoulos&Inglis, 1988; Axinn, 1988; Reid, 1983; Bilkey&Tesar, 1977)
5. The number of sales force training days in the firm (Conlan-Ayache, 1991)
   (Bourandas & Halikias, 1991; Beamish & Munro, 1987; Kirpalani & MacIntosh, 1980)
6. The number of unique products of the firm
   (Louter, Ouwerkerl & Bakker, 1991; Soete, 1987,1981; Johnston & Czinkota, 1982)

7. The corporate reputation
   (Caudron, 1997; Gebhart, 1996; Weylman, 1996; Williams, 1992; Dess & Davis,1984)
8. The image of the firm (Gebhart, 1996)
9. The level of foreign market knowledge
   (Bilkey, 1978; U.S. Department of Commerce, 1977)
10. The quality of after sales services of the firm
    (Conlan-Ayache, 1991; Namiki, 1988; Dess & Davis, 1984)
11. The marketing policies/planning for export of the firm
    (Bijmolt & Zwart, 1994; Katsikeas, 1994; Madsen, 1989; Burton & Schlegelmilch, 1987)
12. The efficiency of managers to look for new markets
    (Ayal & Zif, 1979; Fredrickson & Mitchell, 1984)
13. The number of marketing personnel in the firm
    (The Mckinsey 7-S Framework; Aaby & Slater, 1989; Waterman, R.H., 1982)

Technological Resource Factors

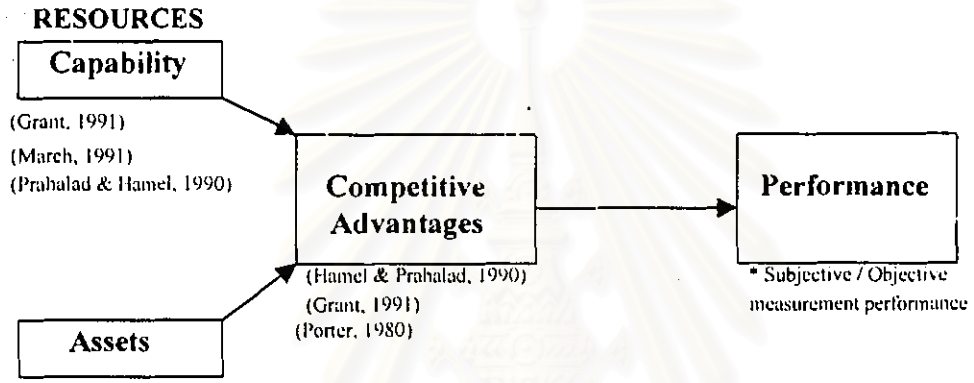
1. The frequency to hire in technological experts (specialists) or consultants
   (The Mckinsey 7-S Framework; Aaby & Slater, 1989; Waterman, R.H., 1982)
2. The number of product lines of the firm
   (Porter, 1990, 1980; Kirpalani & MacIntosh, 1980)
3. The degree of innovation of the firm (Unal, 1994)
4. The number of technical personnel training days in the firm
   (Bourandas & Halikias, 1991; Beamish & Munro, 1987; Kirpalani & MacIntosh, 1980)
5. The ability to reduce operational costs with technology of the firm
   (Katsikeas, 1994; Sullivan & Bauerschmidt, 1989; Verspagen & Wakelin, 1993; Porter, 1990; Sullivan & Bauerschmidt, 1989; Wortzel & Wortzel, 1988)
6. The technological advancement of the firm
   (Seringhaus, 1993; Haug, 1991)
7. The level of difficulty to imitate or copy the products by competitors
   (Miller & Shamsie, 1995; Barney, 1986b; Snow & Hrebiniak, 1980)
8. The degree of product adaptation of the firm
   (Sriram & Sapienza, 1991; Aaby & Slater, 1989; Cooper & Kleinschmidt, 1988,1985; Pinney, 1970)
9. The ability of product development of the firm
   (Bourandas & Halikias, 1991; Aaby & Slater, 1989; Namiki, 1988 ; Ogram, 1982)
10. The number of product differentiation of the firm
    (Porter, 1990; Kirpalani & MacIntosh, 1980)
11. The budget for R&D expenditures of the firm
    (Wilmore, 1992; Kumar & Siddharthan, 1994; Kumar, 1990; Hughes, 1986; Lutz& Green, 1983; Ayal, 1982)
12. The number of technical staffs/technicians in the firm
    (The Mckinsey 7-S Framework; Aaby & Slater, 1989; Waterman, R.H., 1982)

Resources comprise assets and capabilities. Firm-specific resources, mostly related to capabilities are also difficult to measure and identify.

Although firm-specific resources are difficult to identify or codify, these firm-specific resources still can be measured by either objective or subjective measurement. Furthermore, this research is the first attempt to measure these firm-specific resources and sees them as a mediator between ownership structures and firm performance.

Although the concept of capability has been articulated, the measurement of capabilities has not been operationalized very well and empirical testing has so far been sparse. Therefore, this represents a good opportunity to conduct such a research. After reviewing literature related to the resource-based view, Figure 2.2 below is a summary of the resource-based view of the firm which is the main perspective helping to explain the relationship between firm-specific resources and the firm performance in this research.

Figure 2.2: The Summary of the Resource-Based View of the Firm



Invisible assets (Itami, 1987)
Critical resources (Azzone, Bertele & Rangone, 1995; Barney, 1986a)
Core Resources / distinctive competence (Hamel & Prahalad, 1990)
Intangible assets / tangible assets (Collis & Motgomery, 1995; Teece, Pisano & Shuen, 1990)
Physical Resource (Barney, 1991; Collis & Motgomery, 1995; Tallman & Fladmoe-Lindquist, 1994; Hofer & Schendel, 1978)
Human / Organization Resource (Barney, 1991; Tallman & Fladmoe-Lindquist, 1994; Hofer & Schendel, 1978)
Financial Resource (Tallman & Fladmoe-Lindquist, 1994; Hofer & Schendel, 1978)
Reputation (Hofer & Schendel, 1978)
FSRs (Selznick, 1957)
Advance Factors (Porter, 1990)
Productive resources (Wenerfelt, 1984; Penrose, 1959)
Firm Specific Resources (Tallman & Fladmoe-Lindquist, 1994)
Strategic assets (Chi, 1994; Markides & Williamson, 1996)

Based on literature review, it is seen that the resource-based view has been mentioned many times. The main point of resource-based view is that the more firm-specific resources the firms have, the more valuable they are. Then, these valuable resources will create a sustainable competitive advantage for a firm that will later lead to better performance.