Internationalisation strategies and globalisation

A test of the Nine Strategic Windows framework among Norwegian Exporting Firms

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by

Carl Arthur Solberg*, Birgitte Kristiansen and Liv Karin Slåttebrekk

Norwegian Scool of Managment BI,

Sandvika Norway

*Corresponding authour:
Address: Box 580, 1301 Sandvika, Norway,
E-mail: carl.solberg@bi.no
Telephone: 47 – 67 55 73 63
Telefax: 47 – 67 55 76 76

Abstract

A significant degree of research has focused on the strategic behaviour of firms in international markets and the variables associated with exporting performance. Accordingly, this paper draws upon those theories, frameworks and perspectives considered most important in capturing this phenomenon. Using a sample of 202 Norwegian exporters, this study statistically examines the relationship between internal firm-specific and external variables on the choice of strategy and performance. In doing so, we were able to classify a number of strategies along two dimensions: level of industry globality and level of preparedness for internationalisation. Furthermore, our findings indicate that both management commitment towards internationalisation and a firm's preparedness for internationalisation have a direct positive bearing on export performance, whereas the strength of globalisation drivers within the industry affect performance negatively. However, we find no significant direct relationships between export performance and planning, level of industry concentration and international involvement in the industry. Furthermore we find only limited support for the effects of co-alignment between strategy and internal/external environment. This is however indicative of the conceptual and methodological problems that still exist within this field.

Introduction

A firm's strategic response in international markets constitutes a critical aspect of strategic decision-making. For this reason, much of the research within the field of international business has examined firm behaviour in relation to the variables that affect such choices. The present paper aims at contributing to this stream of literature by testing a set of hypotheses on strategy development and consequences on performance in globalising markets. Its point of departure is the "Nine strategic windows" framework suggested by Solberg in 1997. This framework was tested by Matthyssen et al (2002) using longitudinal case studies. They found that the main line of reasoning lying behind the framework is confirmed: firms' strategy development is shaped by their preparedness for internationalisation and the global nature of competition – or rather the degree of globality of the competition. We want to expand on this research and test on a larger scale the validity of the propositions in the framework - using a cross section of Norwegian exporting firms. This paper will therefore draw upon those theories, frameworks and perspectives considered most important in explaining why firms adopt different international strategies, and statistically test whether such variables result in different strategic choices and to what extent such strategies influence performance.

The investigation into factors that influence the choices regarding strategy and performance in international markets is important both to researchers and business professionals. The traditional internationalisation theories are built on differing assumptions and with differing perspectives, and to a certain degree they come to competing conclusions as to how firms behave in an international setting and the important factors to consider. Further investigation is therefore of importance in order to strengthen the ability of theory to explain such firm behaviour. For business professionals that need to manage the multiplicity of pressures they are faced with in international markets, this paper may serve as a valuable contribution in directing the international involvement of the firm, by offering an explanation of the variables that are critical to strategising but also impinge on successful exporting.

In contrast to previous export studies that postulate direct links from product, industry, and export market characteristics to export performance (e.g., Cooper and Kleinschmidt 1985; Madsen 1989), this paper contends that these links are mediated by export marketing strategy, highlighting the central role of marketing strategy in determining performance. This is because the industry, and export market characteristics as well as export marketing strategy must be adapted so that strategy-environment co-alignment and subsequent positive performance can be achieved.

Theoretical background

Prior research has provided a great deal of insight into factors that motivate a firm to strategically make choices regarding entry mode and how such variables affect performance. According to Aaby and Slater (1989), this research can be broadly organised at two levels, namely the external environment level and the firm business strategy and functional level.

The **business strategy** level includes assessment of key business policies and capabilities within the firm's control and encapsulates firm characteristics, firm competencies and strategy. In recent years increasing attention has been directed towards the notion that firms are competing primarily on the basis of capabilities (Prahalad and Hamel, 1990). The organisational capability (OC) perspective, which is theoretically rooted in the behavioural theory (Cyert and March, 1963) and evolutionary theory of the firm (Nelson and Winter, 1982), focuses on the capabilities found within the firm in determining firm behaviour. It views the firm as consisting of a bundle of relatively static and transferable resources, which are transformed into capabilities through dynamic and interactive firm-specific processes (Amit and Schoemaker, 1993), where individual skills, organisation and technology are inextricably woven together (Nelson and Winter, 1982). The historical dimension of a firm's activities is therefore critical, since its past experiences are a central part in the underlying routines and processes that aid present and future decision-making. These routines and processes through which a firm's knowledge base is developed and integrated into the functioning of the organisation refers to the firm's ability to acquire, evaluate, assimilate, integrate, diffuse, deploy and exploit knowledge (Madhok 1997). Therefore organisational capabilities are both a source of competitive advantage as well as a constraint.

The OC perspective has a very broad focus on the issue of entering a market. It is concerned with the effective utilisation of a firm's resources and capabilities as well as their effective and efficient development. A balance between exploitation and development is considered essential for the sustained earnings of rents (Hedlund and Rolander 1990; March 1991). Thus the fit between the requirements of the particular product-market strategy and the firm's existing stock of knowledge is of primary importance in determining the appropriateness of a particular ownership form. Hence, a firm that already has a strong knowledge base and possesses the requisite routines would prefer internalisation since incremental costs are marginal. On the other hand, the capability constraint becomes important when a firm enters into unfamiliar areas of activity where the technological and market distance of the target activity is further away from the firm's store of knowledge. In such a situation a firm may resort to a collaborative strategy as a useful means of enhancing knowledge.

The OC perspective provides useful insights into firm behaviour and variables that guide this phenomenon, as it looks at the limits to firm capabilities, and hierarchical market failure. It focuses not only on the exploitation of firm advantage, but also on the development of such advantages, and on the benefits of cost minimisation in transacting with a partner. Madhok (1997) argues that critical to the distinctiveness of the OC perspective are the key distinctions made between the cost and the value aspects in the management of know-how. Madhok (1997) defines value in terms of the potential rent-generating abilities of an asset or know-how. The OC perspective broadens the focus from minimising the transaction costs involved in the organisation of an activity under a particular governance arrangement to also incorporate the management of value, both its erosion and enhancement, inherent in a firm's knowledge base.

Today's knowledge-based economy, where environments are becoming increasingly dynamic and firms are competing not only on the basis of costs but overall value (D'Aveni, 1994) the OC perspective offers a powerful, dynamic and generally realistic explanation of international firm behaviour, and seems suitable at explaining modern economic activity. This paper is not preoccupied with explaining predictors of entry mode, but rather the variables that explain why firms choose among different strategic avenues after they have internationalised. The OC perspective is suitable to do so, due to the generalisability of the arguments.

The **environmental level** includes macro-economic, social, physical, cultural and political aspects that influence export management. A firm can only influence this environment to a limited extent and must view these as given constraints when formulating their international strategy. Two strands of literature in this section are appropriate when explaining external factors that influence strategic choice, namely writings on industrial organisation (IO) and globalisation drivers. The reason for using the IO is its powerful ability to analyse industry structure and the determinants that affect strategic behaviour.

The theoretical and research dimensions discussed above indicate that exporting can be conceptualised as a strategic response by management according to factors internal to the firm. By bringing in external factors as well to this phenomenon it is suitable to adopt the theoretical perspective of strategy-environment co-alignment (Aldrich 1979; Porter 1980; Venkatraman and Prescott 1990), which states that the "fit" between strategy and its context, whether it is the external environment (Anderson and Zeithaml 1984; Hofer 1975) or organisational characteristics (Chandler 1962; Gupta and Govindarajan 1984) has significant positive implications for firm performance. The principle has its roots in the structure-conduct-performance framework of industrial organisation (Bain, 1956) and rests on two premises: (1) Organisations are dependent on their environments for resources (Pfeffer and Salancik 1978) and (2) Organisations can manage this dependence by developing and maintaining strategies (Hofer and Schendel 1978).

The traditional IO approach was that structure determined the conduct of the firms whose joint conduct in turn determined the performance of the industry. Whereas Bain (1956) focused more on the effect of structure on performance, later writers, such as Caves and Porter (1977), underlined the importance of conduct, i.e. the strategic behaviour of the firm. Comanor and Wilson (1974) introduced a feed-back loop indicating that past performance has a bearing on the strategic alternatives available to firms and that the strategy chosen and implemented has some influence on the market structure.

In a discussion of factors that impact on global industry structure issues such as entry barriers (both domestic and international) and mobility barriers are important elements from the IO school of thought. Furthermore the inclusion of globalisation drivers in the discussion is essential as they have the potential to break down these same barriers.

Entry barriers has long been considered in the strategy literature to be foremost value-creating mechanisms for incumbents in two ways: (1) by deterring new competitive entry into the industry and, in turn, (2) by rendering these incumbents more lead time to engage in innovations-both of which are aimed at preserving the incumbents' advantage (Bain 1956; Gilbert and Newbery, 1982; Porter, 1980; 1985). Linked to entry barriers, Caves and Porter (1977) – based on Hunt's (1972) work on strategic groups – introduced the more general concept of mobility barriers. These are barriers that are specific to a limited group of firms within an industry, which differentially create entry conditions and scope for collusive arrangements protecting this group (Cool and Schendel, 1985). Thus, entry barriers can represent different features within the same industry, but not within the industry group. Gradually diverse strategic groups are developed, with different sets of entry barriers, making their products non-substitutable within their immediate customer base. In this sense firms' investment in entry barriers play a role in defining and differentiating the groups and subsequently shape industry structure.

Although entry barriers play a role in shaping industry structure, many authors have recognised that the strength of international barriers to industry are increasingly being altered in the face of globalisation. In his framework on globalisation drivers, Yip (1992) identifies four groups of globalisation drivers that cover all the critical industry conditions that affect the potential for globalisation; 1) Market globalisation drivers, 2) Cost drivers, 3) Government globalisation drivers and 4) Competitive globalisation drivers. These drivers will vary according to each specific industry and have the potential to break down international trade barriers. Thus firms wishing to benefit from globalisation must recognise and evaluate these four industry conditions before using global strategy levers. Yip also argues that firms must make choices along a number of strategic dimensions in response to the four globalisation drivers.

To sum up this discussion, Solberg encapsulates the level of structural and international barriers to industry in determining different typologies of industries (see figure 1).

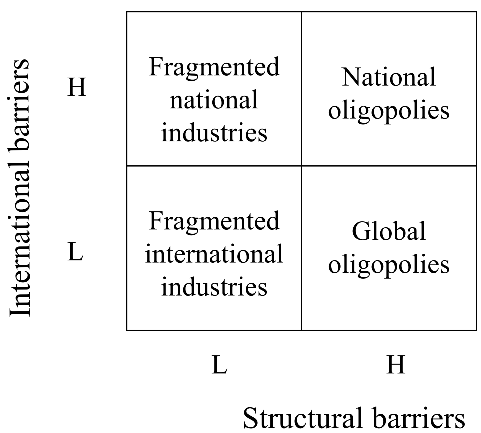

Figure 1: Typology of industries

Source: Solberg (2001). Lecture notes, “Servicing International Markets”, NSM BI, Spring 2001

This framework illustrates that a firm’s degree of international orientation, firm size as well as the number of actors operating within an industry can be attributed to the level of barriers within a specific industry. International barriers, such as socio-cultural and political/legal regulations are indicative of the ease or difficulty with which a firm can enter an industry outside its domestic periphery. Brands, product differences, scale economies and access to distribution networks among others, are the structural barriers that can deter or enhance the potential of entering an industry. As such, external factors, that are industry specific can restrict firm behaviour, and thus become a central concern within the strategy formulation process.

One of the limitations of the S-C-P paradigm is the number of market structure definitions, because the dimensions of structure offered partly overlap one another and may partly also qualify as determinants of the same market structure (e.g. entry barriers). The concept of strategic groups, as another part of market structure, is also ridden with a lack of uniform understanding of what really constitutes a strategic group. However the concept of strategic groups is important in that it endeavours to further demarcate the competitive arena of the firm, and one of its strengths is its ability to capture the essence of a competitive situation for a given firm.

The presumed efficacy of entry barriers has been questioned as several studies have reported findings counter to the traditionally held assumptions. Zahra, Nash, and Bickford (1995) noted that barriers may compromise incumbents' competitiveness by discouraging their corporate innovativeness, and other researchers have argued that innovative entrants supposedly can negate the pre-emption efforts of barriers by fundamentally changing the accepted structure of the industry (Gort and Wall 1984; Ruef 1997). Innovative entrants, by definition, bring forth a revolutionary change to the entered industry, which in turn enables them to exploit new opportunities in their served market. As barriers typically have been designed with the incumbent's current platform as the reference, innovative latecomers can leverage their radical innovations to circumvent these imposed hurdles (Markides, 1998).

From the reviewed literature above it becomes apparent that there are a number of factors both on the business strategy level and the environment level that influence a firms strategic choice. As a result, numerous studies have taken the marketing strategy decision aspect one step further in arguing that not only there are factors that guide the choice of strategy but that such choices impact performance.

Classifying the determinants of export performance into internal and external factors is theoretically justified as the two categories correspond to different theoretical bases. Specifically, internal determinants are justified by the OC perspective, which contends that the principal determinants of a firm's export performance and strategy are the internal organisation resources, which are controlled by the firm, that enables it to conceive and implement strategies aimed at improving its efficiency and effectiveness (Barney, 1991; Daft, 1983; Wernefelt, 1984). In contrast, the industrial organisation (IO) theory argues that the external factors determine the firm's strategy, which in turn determines economic performance

(Scherer and Ross, 1990). The logic is that the external environment imposes pressures to which a firm must adapt in order to survive and prosper (Collis, 1991). Following the IO theory, the external factors and firm's export strategy are the primary determinants of export performance.

Previous research has identified a number of influencing factors, such as export marketing strategy (e.g. Cavusgil and Zou, 1994; Hoang, 1998), management's export commitment (e.g. Bilkey, 1982; Gomez-Mejia, 1988; Beamish, Craig and McMellan, 1993; Donthu and Kim, 1993; Cavusgil and Zou, 1994), management's international experience (e.g. Da Rocha, Christensen and Cunha, 1990; Das, 1994; Madsen, 1989), firm characteristics and competencies (e.g. Ursic and Czinkota, 1984; Christensen, da Rocha and Gertner, 1987; Seifert and Ford, 1989; Cavusgil and Zou, 1994), and industry and market characteristics (Bilkey, 1982; Holzmuller and Kasper, 1991; Beamish, Craig and McMellan, 1993; Cavusgil and Zou, 1994). (See for instance Lages and Melewar (1999) for a detailed summary on determinants of export performance).

Management's export commitment has emerged as one of the key determinants of export performance, regardless of performance dimension. This finding is consistent with Aaby and Slater's (1989) and Cavusgil and Zou's (1994) conclusion that high management commitment allows a firm to aggressively go after the export market opportunities and pursue effective export marketing strategies that improve export performance. A more recent study carried out by Solberg and Olsson (2002) also supports this finding. In addition, a firm's export marketing activities and its success in exporting may also be related to the quality, attitudes and characteristics of its managers. Management's international experience seems to have a positive effect on export sales, profits, growth, and performance. It has been found that a firm's exporting experience has a positive effect on export performance (Madsen, 1989), the degree of internationalisation (Dominguez and Sequeira, 1993), and attitudes towards future exports (Gripsrud, 1990). This is perhaps due to the fact that managers' international experience helps a firm to identify and leverage the international opportunities while avoiding international threats.

Carpano et al. (1994) used the concepts of global and multidomestic industries to describe the characteristics of international industries, such as consumer needs and barriers to entry etc. in evaluating the relationship among different strategies, environments and firm performance.

Their contention was that different strategies (built on the dimensions of segment differentiation and geographic scope) lead to significantly higher performance than other strategies in certain environments. Their findings indicate that the effectiveness of a mass-market strategy[1] is strongly influenced by industry characteristics, and in global industries segmented[2] and focus[3] strategies are more effective than segmented-focus[4] strategies. In addition, companies implementing mass-market strategies in multi-domestic industries exhibited low financial performance. On the other hand, in global industries, mass-market strategies led to a high level of sales growth and to an average level of financial performance.

In spite of the numerous findings discussed above, indicating wide interest as well as growing knowledge on the topic, the determinants of export performance are still characterised by a fragmented collection of confusing and often contradictory findings (Aaby and Slater, 1989; Cavusgil and Zou, 1994). A major reason for this is the lack of synthesis and assimilation of the fragmented knowledge (Leonidou and Katsikeas, 1996). Many studies have been conducted in isolation by focusing mainly on single factors affecting export behaviour. There have been few efforts to develop and test models that incorporate a relatively wide range of relevant factors. Notable exceptions are the studies by Cavusgil and Nevin (1981), Cavusgil and Zou (1994) and Cooper and Kleinschmidt (1985). In addition, numerous studies have concentrated on examining internal factors and excluded the external environment However, it is clear, from the vast literature, that multiple factors play an important role in firms' export behaviour simultaneously. It is thus essential that the interaction among independent variables is considered in the determination of export performance.

Hypotheses

The "Nine strategic windows" framework (Solberg 1994 and 1997) incorporates both writings on strategic behaviour as dependent on the competitive structure (Porter, 1986; Hamel & Prahalad, 1985) and the network structure within the industry (Johanson & Mattson, 1986) and traditional internationalisation theory (Johanson and Vahlne, 1977;1990; Coviello and McAuley, 1999; Andersen, 1997). This framework combines the degree of globality in the particular industry with the degree of international preparedness of the company. In doing so

[1] Using the same set of competitive weapons across a broad geographical scope
[2] Catering to a broad geographic area with different competitive weapons
[3] Competing in a narrower geographic domain with the same set of competitive approach
[4] Using different competitive approaches when operating in a narrow geographic domain

it demonstrates the effects of these two factors on business and marketing strategy in different international settings. A simplified version of the framework is shown in figure 2.

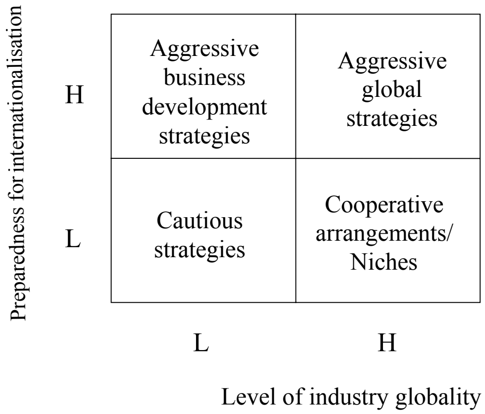

Figure 2: A framework of strategic choice in varying internal/external environments

In the rest of the paper we will refer to the various cells of the framework in the following manner:

LL-window:	Low preparedness for internationalisation and low level of industry globality
LH-window:	Low preparedness for internationalisation and high level of industry globality
HL-window:	High preparedness for internationalisation and low level of industry globality
HH-window:	High preparedness for internationalisation and high level of industry globality

Strategy development

In a multi-local industry or market segment (Porter, 1986), the structure is featured by national actors and fragmented competition (Solberg, 1997). Although international trade may be important within the industry, there are no dominant players, and competition occurs on a country-by-country basis. Furthermore, firms with a low preparedness for internationalisation have limited past experiences in international markets. Building on the so-called stage models (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Cavusgil, 1984; Czinkota and Johnston, 1983) we contend that the most important obstacle to internationalisation for such a firm is its lack of knowledge and resources (Seringhaus and Rosson 1990). Especially in an international setting, where the market pressures are likely to differ from those of the domestic situation, this becomes an apparent capability constraint. These obstacles can be reduced through incremental decision making and learning about the foreign markets and operations.

The criticism raised against the stage models (e.g. Hedlund and Kverneland, 1985; Turnbull and Valla, 1986; Turnbull; 1987; Varaldo, 1987; Welch and Loustarinen, 1988; Bell, 1995) suggests that they are applicable only under certain circumstances. We believe that important dimensions of these circumstances are epitomised by the lower left window of the suggested matrix, where firms by definition lack the experience, market knowledge and resources required for strong international involvement. Since they operate in a low-globality industry or market segment, where actions performed in one market do not have direct impact on the performance in others, they may (and should) take the necessary time needed to build an internationally oriented organisation through careful incremental steps. According to Porter (1990) observations suggest that strong domestic competition is linked with the development of competitive advantage in an industry and this competitive advantage, developed in the domestic market, can be used to compete against foreign rivals. This leads us to the following hypothesis:

H1a: Firms with a low degree of preparedness operating in multi-local industry environments are expected to focus, more than other firms, on their home market or on cautious internationalisation strategies.

Firms with a low preparedness for internationalisation operating in global industries, however, face a completely different competitive environment. The main challenge for this category of firms is to get an entrenched position in key world markets before incumbent firms take advantage of their market coverage and distribution network to secure their market leadership position, i.e. they do not have the required amount of time to follow a stepwise approach. As we see it firms in the LH-window have two avenues to success – either to gain access to external resources, through relationship building, or to build niches.

Johanson and Vahlne (1992) refer to a growing body of research which describes business markets as structured as networks in the sense that market actors are engaged in interconnected exchange relationships (Axelsson and Easton, 1991; Forsgren and Johanson, 1991; Håkansson, 1987, 1989; Mattson, 1985; Snehota, 1990). Through a relationship either party can gain access to the other's resources. For firms in the LH-window this is of utmost importance, because they lack the necessary resources for their international business, such as information, know-how and capital (Alback, Bock and Warnke, 1985; Buckley, 1989; Lindmark, 1996).

The second viable solution is to build niches in international markets. Solberg (1994) states:

> "In developing niche strategies the company erects entry barriers through for instance more intensive customer follow up (shifting into another strategic group) and redefines its role in the market (it increases its relative market share) and, hence, makes it less vulnerable to global competitive forces" (pg. 114).

The feasibility of such a strategy depends on the extent to which the industry or market in question can be developed into niches through close co-operation with customers.

To sum up this brief discussion, we expect that:

H1b: Firms with a low degree of preparedness operating in global environments are expected to focus, more than other firms, on co-operative arrangements and / or on developing niches in international markets.

Following the steps of Johanson and Vahlne (1977, 1990) and Solberg (1997) firms with a high preparedness for internationalisation have gained experience, foreign market knowledge and market share, and are also normally financially better equipped to take on more commitment, thereby ensuring an even better basis for increased profits and organisational learning.

Firms in the HL-window have achieved a leadership position in their most important markets. The individual markets are nationally oriented and characterised by national actors and fragmented competition (Solberg, 1997). Given high market shares, opportunities for further market penetration in existing product markets are limited, and at the same time these firms face a situation where they have to prepare themselves for possible shifts in the international environment that will move the industry towards a more global structure. Due to their financial resources, their knowledge base of international markets and their distribution networks to their suppliers and customers, companies in the HL-window of the framework are well equipped to adopt an aggressive stance towards developing new business opportunities, through further expansion in new international markets or new business areas:

H1c: Firms with a high degree of preparedness operating in multi-local environments are expected to focus, more than other firms, on aggressive strategies in order to develop new business opportunities.

Companies in the HH-window of the framework are often among the market leaders in key markets. Firms operating in global industries or market segments need to be proactive and prepared to make counter competitive actions. Changes in demand patterns, instability of the reference markets, changes in cost levels and political events are all factors that may influence established positions of key players (Solberg, 1997; Porter, 1990). Firms in the HH-window generally have sufficient financial resources coupled with broad market and managerial experience and the commitment to compete globally. Thus they are more able and experienced in adapting to and overcoming the globalisation drivers and may adopt more aggressive strategies directed toward the global arena, securing an organisation capable of rapidly reacting to changes and events in the external environment:

H1d: Firms with a high degree of preparedness operating in global environments are expected to focus, more than other firms, on strategies that strengthen their global positions.

Effects on performance

Concerning export performance, studies show both direct and indirect effects of internal and external factors. The majority of studies assert that export performance is directly affected by internal and external factors (Donthu and Kim, 1993; Holzmullerr and Kasper, 1991; Louter et al., 1991; Madsen, 1989). However, Cavusgil and Zou (1994) found that some factors, also have an *indirect* effect on export performance, through their impact on export marketing strategy (Lages, 2000). In light of this, it is proposed that the analysis of possible links associated with the direct relationships should be extended by adding an analysis of the indirect impact (through choice of strategy) of internal and external factors on export performance.

When linking the effect of internal/external factors on strategy to the phenomenon of export performance it is suitable to adopt the theoretical perspective of strategy-environment co-alignment (Aldrich 1979; Porter 1980; Venkatraman and Prescott 1990). Co-alignment, also termed contingency, consistency or fit, maintains that the fit between strategy and its context, whether it is the external environment or organisational characteristics such as structure (Chandler, 1962; Rumelt 1974), administrative systems (Lorange and Vancil,1977; Galbraith and Nathanson, 1978) and managerial characteristics (Gupta and Govindarajan, 1984) have significant positive implications for performance. Many organisational theorists in their studies have asserted that organisational performance is an outcome of such a fit (Miller and Friesen, 1983; Pfeffer and Salancik, 1978; Venkatraman and Prescott 1990). The degree of fit between organisational strategies and its external environment has thus been correlated with the level of organisational efficiency and effectiveness. For this reason the concept of fit has become an important tool to build theories and knowledge on organisational effectiveness and strategic management. Furthermore, it indicates that no one strategy is appropriate in all situations, as the effects of various firm characteristics on performance are dependent on the specific context of the firm. Factors such as industry and market conditions are expected to mediate the influence of the various firm characteristics, strategies, and/or competencies on export performance (Cavusgil and Zou, 1994; Reid, 1987).

In the discussion leading to hypotheses 1a - 1d we concluded that firms in the various windows of the framework, based on a fit between the degree of preparedness for internationalisation and the level of globality within the industry, preferably should choose different strategies. Following the co-alignment arguments (and the results of several researchers such as Miller and Friesen, 1983; Pfeffer and Salancik, 1978; Venkatraman and Prescott 1990) we thus expect:

H2: Firms following strategies that co-align the external and internal context will outperform those that do not.

Direct impact on performance

The discussion so far has focused on the *indirect* effect, through choice of strategy, of internal and external factors on export performance. However, many forces within a firm may affect export success directly (e.g. organisational culture, competencies and capabilities, management's attitudes and commitment towards internationalisation, location, and product differentiation). It is beyond the scope of this thesis to discuss all of these variables (or all aspects of them), and we have therefore decided to focus on organisational culture, management attitudes and commitment towards internationalisation, and organisational competencies and capabilities. We focus on only one aspect of organisational culture, namely the degree to which planning is a central element of business processes within the firm. The firm's competencies and capabilities are captured by its preparedness for internationalisation – the internal dimension of our framework. This leads to the following hypotheses:

H3a: Management's commitment towards international activities has a direct impact on a firm's export performance.

H3b: Planning has a direct impact on a firm's export performance.

H3c: A firm's preparedness for internationalisation has a direct impact on a firm's export performance

Regarding external factors many researchers have focused on measuring the effect of developed/developing countries (e.g. De Luz, 1993; Sriram & Manu, 1995; Beamish, Craig and McLellan, 1993). Our focus, however, is on the strength of globalisation drivers and the competitive structure of the industry, as captured by the extent to which the industry competes on the international arena, and the level of industry concentration in the export market:

H3d: The strength of globalisation drivers has a direct impact on a firm's export performance.

H3e: The level of international involvement within the industry has a direct impact on a firm's export performance

H3f: The level of industry concentration in international markets has a direct impact on a firm's export performance.

Research design

Survey

These hypotheses were tested using a standard questionnaire. A list of Norwegian based exporting companies was attained from Kompass Norge AS. Based on this information a team of 4 people contacted the key informants such as general managers, marketing or export managers (depending on the size of the firm) and informed of the forthcoming survey. Personal interviews were carried out in half of the companies studied. The results from the other half were attained through mail survey yielding a response rate of fifty per cent. This result is quite satisfactory, considering that the average top management domestic survey response rate is between 15 and 20 per cent (Menon et al., 1999), and high- level executives are much less likely to respond than people in the general population (Hunt and Chonko, 1987). All together 202 questionnaires were satisfactorily completed. In terms of employees, the firms were large, medium and small in size (according to the data gathered the number of employees varied between 4-7100)[5]. The year of establishment of these firms also varied, with the eldest firm established in 1864 and the most recent in 2001.

Several steps were taken to develop and test the questionnaire used in the survey. First, following Churchill's approach (1979), the questionnaire contained a number of indicators and measures that had already been used in previous research (e.g. Solberg, 1994). The literature review was used to discover how the constructs had previously been defined and how many sub-constructs and items they comprised. Second, to assess the content and face validity of the items, the questionnaire was discussed with three academics at the Norwegian School of Management BI. They were asked to assess how representative each item was of the final construct, and their suggestions were incorporated. It was decided to use the 5-point Likert scale[6] and all the numbers were labelled for clarification purposes.

Development of the constructs

Table 1 summarises the different constructs used in the present paper. These constructs were achieved by using principal components analysis with Varimax rotation. Factor analysis of variables pertaining to strategic choice (derived from the "Nine strategic windows"

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[5] Far from all the respondents answered the question asking for the number of employees and therefore makes a description of firm size in terms of employees (dividing into categories and calculating the average size) difficult.

[6] Some questions did not make use of a Likert scale, asking for background information like the names of export markets and volume sold, ownership structure and whether the firm is responsible for the marketing activity.

framework) was performed, and all the proposed strategies were confirmed by the analysis, with strong factor loadings (see appendix). The factor analysis suggests seven different strategy archetypes (cfr. table 1). In addition, the two dimensions of the model (preparedness and globality) as well as performance, planning and commitment were captured using multiple items. The preparedness dimension was captured using proxies of international experience (level of international involvement of the firm), foothold in the market (market share and access to customers) and top management involvement. Globality is measured using different measures of industry structure: concentration, international involvement and development of such structures (as a proxy of globalisation drivers). The items in the planning construct have been used by Solberg (1999) showing acceptable reliability scores, whereas commitment and performance measures are taken from the mainstream literature (see for instance Madsen, 1989; Aaby and Slater, 1989; Cavusgil and Zou, 1994)

The reliability of the constructs are evaluated through coefficient alpha, which is computed for the emerging factors. Most of the constructs achieve acceptable alpha values. Given the exploratory nature of the research, we have also included constructs with values below 0.60. Concerning the globality construct (obtaining an alpha of 0.56), we believe that the complexity of this construct – including three different variables - not only makes it difficult to achieve higher values, but also makes higher alpha values irrelevant. The two strategy constructs with low alpha values – niche and new business strategies – are unfailingly appearing in different sets of factor analysis, thus showing consistency as compared to other factors. We therefore also include these strategy constructs in the further analysis.

Table 1: Operationalisation of the variables

Name	**Construct based on**	**Alpha value**
Preparedness for internationalisation	1) The degree to which a firm has a foothold in the export market 2) The degree to which top management is involved in international operations 3) The degree to which a firm's operations are taking place abroad	0.69.
Level of industry globality	1) The extent to which the industry competes on the international arena 2) The level of concentration of competitors in the export market 3) The degree to which suppliers and customers will become internationalised and concentrated	0.56
Commitment towards internationalisation	1) The degree to which the firm's resources are committed to activities in the export markets 2) The degree to which firm activities proceed according to long-term goals	0.83

Name	Construct based on	Alpha value
Planning[7]	1) The degree to which considerable amount of time and resources are put into the strategy process 2) The degree to which the firm always governs by predetermined goals 3) The degree to which market opportunities abroad come as a result of planning or coincidences	0.60
Performance	The level of management's perception of the firm's export success in terms of 1) profitability 2) sales volume and growth and 3) performance in general	0.86
Home market focus strategy	1) The degree to which the firm will expand its customer base in Norway rather than abroad 2) The degree to which the main focus of the firm the next 3 years will be to strengthen its position in Norway	0.84
Cautious internationalisation strategy	1) The degree to which the firm has chosen to focus on a few international markets 2) The degree to which the firm intends to focus on building long-term close relationships with a limited number of foreign customers 3) The degree to which the firm prefers to develop its international activities one step at the time	0.60
Partnership strategy with dominant partner	1) The degree to which the firm is actively searching for <u>one</u> major partner in order to strengthen its capital base 2) The degree to which licensing will be an important factor in the development of the firm's international activities 3) The degree to which private brand agreements will be an important factor in the development of the firm's international activities 4) The degree to which the firm is actively searching for <u>one</u> large market partner in order to gain access to key customers in international markets	0.71
Alliance strategy with equal partner	1) The degree to which the firm is actively looking for an equal partner in order to be better equipped to face global market challenges, 2) The degree to which alliances with international partners is a central part of the firm's strategy 3) The degree to which the firm is seeking to engage in strategic alliances with international partners, in order to complement its competencies	0.72
Niche strategy in international markets	1) The degree to which the firm is actively seeking to develop market niches the next three to four years 2) The degree to which the firm will establish itself in selected markets with the intention to sell its products to a well defined customer group 3) The degree to which the firm's main focus is to further develop its position in current niches in international markets	0.54
New business development strategy	1) The degree to which the main focus of the firm the next three years is to expand its product portfolio 2) The degree to which the firm is actively seeking new products within new technologies	0.54
Marketing control strategy	1) The degree to which a firm's main focus is to strengthen headquarter control with marketing activities in key international markets 2) The degree to which the firm is striving toward a single international profile.	0.63

[7] A reliability test of the variable revealed the need to rotate the scale for item 3 (i.e 1=5, 2=4, 3=3, 4=2 and 5=1), as the original alpha value (-.22) was meaningless. This could be due to the wording of the question, which the respondents may have found unclear.

The variables were tested for discriminant validity using Pearson correlations. The results are shown in Table 2. None of the constructs are strongly correlated, indicating strong discriminant validity.

Table 2: Correlation matrix

	Prep.	Glob.	Commit	Plan	Perf.	Focus home	Cautious	Partner	Alliance	Niche	New bus.
Industry globality	,284**										
Commitment	-,526**	-,283**									
Planning	-,275**	-,178*	,331**								
Performance	-,308**	-,086	,299**	,156*							
Focus home	,464**	,237**	-,542**	-,239**	-,122						
Cautious	,403**	,177**	-,181**	-,146*	-,147*	,170*					
Partnership	,092	-,132	,111	-,020	,005	-,007	,068				
Alliance	-,026	-,213**	,139*	,197**	-,022	-,082	,023	,502**			
Niche	-,011	-,073	,132	,129	-,023	-,099	,182**	,112	,220**		
New business	,007	-,030	,109	,174*	-,035	,068	-,123	,034	,169*	,234**	
Marketing contr.	-,294**	-,229**	,325**	,312**	,037	-,273**	-,092	,181**	,200**	,081	,076

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Data analysis and discussion

The first hypothesis, stating that a firm's preparedness for internationalisation *together* with the level of industry globality influences strategic choice in international markets, was tested using ANOVA. First, in order to establish the matrix suggested in figure 2, we divided each of the two dimensions in two – using the mean as the cut-off point. Then, we tested the variance between the four resulting groups (LL-window, LH-window, HL-window and HH-window) of each strategy.

ANOVA was conducted to accentuate the difference between the four windows in the framework, and thus test hypotheses 1a – 1d. Significant differences between the windows exist for all strategies except "Niche strategies in international markets" and "New business development", indicating that the firms in each window view the remaining five strategies differently. In order to test if it is a subset of variables in the set that accentuates the differences, whilst another subset of variables may be non-significant or may mask the significant effects of the remainder, post hoc tests were carried out. Tukey's extension of the Fisher least significant difference (LSD) approach has a medium level of statistical power and was selected for this study. Table 3 shows the findings.

Table 3: Summary of hypothesis test H1a-H1d – average scores and rank

Window		*Strategy*						
		Newbus (H1c)	Cautious internat. (H1a)	Focus home (H1a)	Niche (H1b)	Marketing control (H1d)	Alliance (H1b/H1d)	Partner-ship (H1b)
LL	Score	2.97	1.77	2.89	2.02	2.91	3.12	3.68
	Rank	2	2	1	4	4	3	2
LH	Score	2.99	1.63	3.26	1.80	2.55	2.91	3.18
	Rank	3	1	2	1	3	2	1
HL	Score	2.93	2.30	3.93	2.01	2.43	3.63	4.03
	Rank	1	3	3	2	2	4	4
HH	Score	3.00	2.65	4.31	2.01	2.12	2.89	3.81
	Rank	4	4	4	3	1	1	3
ANOVA (p)		ns	0.000	0.000	ns	0.009	0.006	0.016

We observe that H1a is partly confirmed. LL firms indeed score highest on the focus at home strategy, and score second on the cautious internationalisation strategy. The latter does not show a significant difference between LL and LH firms. H1b is also partly confirmed. LH firms seek partnerships with stronger partners more than other firms, and score second on the alliance strategy. Furthermore, firms in this window tend to adopt a more niche-oriented strategy than the other firms – although the difference in this case is not significant. The outcome of the test of H1c is not significant, although the expected rank order of the strategy is achieved. Finally, H1d is confirmed by the test: HH firms take a more assertive stance than other firms at controlling their international marketing activities. They also use strategic alliances to pursue their positioning in global markets.

Contrary to our expectations, we find only limited support for the arguments leading to hypothesis 2 stating that firms following strategies that co-align the external and internal context will outperform those that do not. The regression analysis is shown in table 4.

Table 4: Summary of hypothesis test H2: Strategy impact on performance

	LL	LL	LH	LH	HL	HL	HH	HH
	Beta	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.
(Constant)		.015		.009		.000		.013
New business	.232	.255	-.530	.023	-.184	.360	.387	.031
Cautious	-.288	.099	.202	.315	-.245	.355	-.028	.882
Focus home	.246	.203	.074	.707	-.297	.167	.046	.783
Niches	.174	.319	.375	.055	-.359	.165	-.089	.641

	LL	LL	LH	LH	HL	HL	HH	HH
	Beta	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.
Marketing control	.390	.063	-.098	.605	-.270	.218	.113	.521
Alliance	-.306	.203	-.081	.706	.436	.157	-.160	.385
Partnership	-.083	.687	-.299	.212	-.280	.278	.027	.888
R2	.267		.377		.424		.157	
F-value	1.459		1.990		.1686		.933	
Sign.	.222		.101		.183		.494	

In the LL-window the findings suggest that a cautious strategy corresponds with lower levels of performance. In addition, choosing a strategy intended to strengthen a current position in global markets (the "marketing control" strategy) seems to enhance performance. These results are possibly explained by the fact that we have measured performance in terms of managements' satisfaction on issues such as profitability, sales volume and growth. In choosing a cautious strategy management may perceive a lack of progress as inhibiting performance. Furthermore, the strategy "Marketing control" is measured by management's intent to strengthen control with marketing activities in international markets and build a unified profile in all markets. These issues may also be of concern to managers operating in the LL-window.

The findings in the LH-window partly support the contention that co-alignment between strategy and the internal/external environment leads to better performance. As we can see in the table above higher focus on developing niches in international markets leads to improved performance. LH-firms focusing on developing new business on the other hand will experience lower levels of performance. This is in line with our contention that the most important obstacle to internationalisation for a firm with low preparedness for internationalisation is its lack of knowledge and resources (Seringhaus and Rosson 1990), making an aggressive new product and business development strategy unsuitable in such a setting. However, we find no significant relationship between choosing a cooperative strategy and performance.

In the HL-window no significant relationships were identified. Furthermore, no significant relationship was found between the strategy "Marketing control", and performance among the firms in the HH-window. However, choosing a strategy focusing on developing or entering new business areas correlates positively with performance. The strategy "New business development" is measured by the degree to which the firm will focus on incorporating new products and technologies into the product portfolio. We may therefore conclude that successful strategies in this part of the framework involve active new business development strategies as a means of maintaining the firm's position in global markets.

Summing up on hypothesis 2, the results indicate that strategy fit only has limited effect on performance. This contradicts the "Structural-Conduct-Performance" paradigm within industrial organisation and writings of researchers such as Caves and Porter (1977), Caves (1980), Porter (1980; 1985), Anderson and Zeithaml (1984) and Venkatraman and Prescott (1990). This finding may be explained by the fact that empirical testing is complex given serious theoretical (i.e. conceptualisation of the specific form of co-alignment) and methodological (i.e. statistical test of co-alignment) problems.

Although the performance implications of the environment-strategy co-alignment are an intuitively appealing and generally accepted axiom, Venkatraman and Prescott (1990, state "we are not aware of a research study that has provided consistent and systemic empirical support for this proposition". Furthermore, since different conceptualisations imply different theoretical meanings and require the use of specific statistical testing schemes, a general lack of correspondence between the conceptualisation of co-alignment and its empirical tests is a serious weakness in strategy research (Venkatraman, 1987).

More general implications for strategy research include the need to be more precise in articulating the nature of fit and ensuring that there is adequate correspondence between the verbal domain and the operational domain of empirical research and statistical tests. The absence of such correspondence weakens the link between theory testing and contributes to methodological invalidity.

Furthermore, the ability of summated scales to represent the multiple aspects of a concept is not exploited to its full extent in our operationalisation, as we often use only two items to capture the facets of each strategy. Including a larger number of items may result in more clear-cut concepts. However, strategy is conceptualised as a multitude of interrelated resource allocation decisions, where any individual component is merely part of the overall construct. Therefore, individual bivariate interactions may be either suppressed by or amplified by other interactions (Joyce, Slocum and Von Glinow, 1982), and even an array of independent interactions may fail to capture the complex nature of co-alignment. Moreover, the diversity that exists in the conceptualisation of the environment (Lenz and Engledow, 1986), further complicates the task of measuring the interaction among the variables.

According to our third hypothesis we expect the internal and external factors commitment, planning, preparedness, strength of globalisation drivers, level of international involvement and industry concentration to have a direct bearing on the level of export performance.

Table 5: Summary of hypothesis test H3a-e: Direct impacts on performance

	Beta	Sig.
(Constant)		,000
Planning	,056	,433
Strength of globalisation drivers	,132	,055
Industry concentration	-,077	,265
International involvement of industry	,039	,587
Preparedness for internationalisation	-,199	,015
Commitment	,195	,020
R2	.148	
F-value	5.433	
Sign.	.000	

The findings largely support the hypothesis. The model as such is significant, predicting almost 15% of the dependent variable.

Regarding internal factors we find a significant positive relationship between management's commitment toward internationalisation, degree of preparedness for internationalisation, and performance, i.e. the more committed the managers are and the more prepared the organisation as such is for internationalisation, the better the level of performance. This indicates that success is within the reach of management, and that managers have available to them several options to influence performance. These findings are also consistent with much of the mainstream research on internationalisation – eg. Aaby and Slater (1989) and Cavusgil and Zou (1994). On the other hand, we find no significant effect of planning on export performance. Although surprising, this result is consistent with some earlier studies (Zou and Stan, 1998; Kamath et al 1987). Exploring this finding further, we investigated the effect of planning in each of the windows of the framework. Interestingly, we find that in window HH, planning is strongly and positively correlated with success, suggesting that, in global industries and with the requisite resources, planning leads to enhanced business outcomes; in other settings the capabilities of the firm and / or the multi-local nature of competition make it difficult to properly plan for improved performance.

Concerning external factors we find a significant negative relationship between the strength of globalisation drivers[8] and performance, i.e. the stronger the drivers towards a global industry, the lower the level of performance. This indicates that it is more demanding to operate in dynamic markets where the competition is constantly getting increasingly concentrated and globalised, than in markets where the competitive structure is more settled.

Industry structure, as captured by the level of international involvement within the industry and industry concentration in international markets, has no direct bearing on performance. Other studies have also reported findings counter to the traditionally held assumptions, thus questioning the presumed efficacy of entry barriers, one of the integral components of industry structure. Yip stated as early as in 1982 that "contrary to traditional economic theory and marketing managers' beliefs, most types of barriers seldom deter entrants. For example, high-barrier markets are no less likely to be entered than those with low barriers" (Yip 1982, pg. 86). The findings of this study show that industry structure *per se* does not affect level of performance, a firm is just as likely to succeed in fragmented and locally oriented as in concentrated global industries.

Concluding remarks and implications for further research

When statistically testing our framework seven archetypal strategies were classified and the findings further strongly indicate that preparedness for internationalisation and industry globality influence strategic choice in international markets.

Contrary to our expectations, we found only limited support for hypothesis 2, stating that firms following strategies that co-align the external and internal context will outperform those that do not. Two important issues emerged when studying this relationship which may explain the lack of positive findings; 1) the problems surrounding the conceptualisation and operationalisation of environment and strategy, and b) the development of an appropriate

[8] "Strength of globalisation drivers" is measured on an opposite scale compared to performance. Therefore a relationship indicated as positive in the table, should be read as a negative one.

analytic scheme (given the specific conceptualisation of environment and strategy) for systematically measuring the degree of co-alignments and its impact on performance.

Our third hypothesis, stating that internal/external factors have a direct influence on export performance was largely supported. Both internal factors such as management commitment to the firm's internationalisation, and firm preparedness for such internationalisation lead to enhanced performance. However, planning activities seemingly do not have any direct effect. The strength of globalisation drivers has a direct impact on a firm's export performance. The stronger these forces are, the poorer the performance of the firm. However, neither industry concentration nor international involvement of industry players have a direct impact on performance. The findings of this study suggest that industry structure *per se* does not affect level of performance; a firm is just as likely to succeed in fragmented locally oriented as in globally concentrated industries.

The results and the implications drawn from this study should be viewed in light of the research method employed. Some of the inconsistencies observed could have arisen from the nature of the sample. The sample came from a wide variety of industries and examined Norwegian firms only, which restricts the generalisability of the findings. The results may also be limited by the use of a single respondent, thus assuming corporate-level knowledge of the internal factors considered, but also assuming that the respondent had substantial knowledge of the competitive environment.

Cavusgil and Zou (1994) and Cavusgil and Kirpalani (1993) advocate that the proper unit of analysis in export performance research should be the export venture. Using the firm as the unit of analysis may have resulted in inaccurate measures of strategy and performance variables, especially where medium and large firms are studied that have diversified business portfolios. In addition, leaving firm size out of the analysis may introduce biases into the results, since success factors for large firms may be different from those of smaller firms.

This study also indicates that evaluating performance in international markets is a very complex task. One of the main reasons concerns the absence of agreement over conceptual and operational definitions of export performance. Two main approaches in looking at export performance include using financial and non-financial measures. Both financial and non-financial measures can be operationalised when using either objective or subjective terms. A review of the literature also indicates that both approaches are advocated. As any type of approach has its advantages and disadvantages, recent empirical work in the exporting field suggests that the most advisable method is to use a set of variables (i.e., financial and non-financial as well as objective and subjective measures) in order to measure export performance. Thus, we propose the use of both financial (export sales intensity and export profit intensity) and non-financial variables (export goals and export satisfaction) in measuring a firms' export performance. In addition, multiple measures of performance are increasingly being used (Cooper and Kleinschmidt 1985, Madsen 1989, Samiee and Walters 1990). They are preferable because they offer a more complete picture of performance. Since different aspects of performance may be affected by different types of firm characteristics, a multiple-measure approach may offer better guidance.

We believe there is scope to improve upon and refine some of the measures that have been used. An important research direction is the development of better survey measures for those constructs that had relatively low inter-item consistency. In addition, further research incorporating a variety of other performance measures and including many other contingency effects is needed to broaden our understanding of the complex relationships studied in this thesis. We did not control for a number of variables such as firm size and culture. These may provide further insight into the relationships and enhance our model. A single industry could have been chosen in order to control for industry differences and an understanding of what types of firms typically choose which strategies would provide an insight into the appropriateness of alternative strategies for different firms.

Our findings illustrate that managers are affected in their strategic choices, by internal and external factors, and that these in turn affect successful exporting. A firms' awareness of such findings is likely to make management more prone to evaluate its internal capabilities in light of the external environment in which it operates, which consequently may result in higher levels of performance. On the other hand, the weak or non-significant support for some of the hypotheses further strengthen what many other studies have emphasised, namely that the lack of a generally accepted theoretical and methodological framework has resulted in a multitude of ways in which measures have been conceptualised and operationalised. Without a generally agreed upon model that encapsulates the numerous variables likely to impact strategic choice and performance, complex empirical testing is likely to hinder advances within the literature.

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Appendix

Table 6: Factor analysis of the variables pertaining to strategic choice

Rotated Component Matrix

	Components					
	1	2	3	4	5	6
SPM4.21	.752					
SPM4.20	.682					
SPM4.19	.658					
SPM4.22	.591					
SPM4.25		.785				
SPM4.24		.733				
SPM4.23		.661				
SPM4.6			.712			
SPM4.13			.693			
SPM4.4			.673			
SPM4.12			.585			
SPM4.2				.868		
SPM4.1				.853		
SPM4.10					.741	
SPM4.7					.617	
SPM4.11					.595	
SPM4.9					.579	
SPM4.28						.864
SPM4.27						.747

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a Rotation converged in 8 iterations.

Not all factors produced by this factor analysis correspond well to the conceptual definitions (see Table 1, pg.). This concerns factor 3, which includes elements of both cautious internationalisation and niche building. Factor 5 is a mix of strategies for developing or entering new business and niche building. We therefore decided to perform factor analysis row-by-row according to the windows of the framework (see Exhibit X, pg. vårt framework) in an attempt to achieve unambiguous summated scales or variables. Table X depicts the factor composition after a factor analysis has been performed row-by-row both horizontally and vertically.

Table 7: Factor analysis row-by-row

Row-by-row vertically									
Row no.	Factor name	Measured by	1	2	3	4	5	6	7
	Focus home	Q4.1	.929						
1		Q4.2	.916						
	Cautious	Q4.6		.753					
	intern.	Q4.4		.737					
		Q4.13		.730					
	New	Q4.7			.850				
	business	Q4.9			.800				
	Partnership	Q4.19				.743			
2		Q4.20				.690			
		Q4.21				.690			
		Q4.22				.630			
	Alliance	Q4.25					.846		
		Q4.24					.813		
		Q4.23					.588		
	Niches	Q4.11						.764	
		Q4.10						.716	
		Q4.12						.642	
	Marketing	Q4.28							.848
	control	Q4.27							.836
Row-by-row horisontally									
Row no	Factor name	Measured by	1	2	3	4	5	6	7
	Partnership	Q4.19	.772						
1		Q4.22	.769						
		Q4.20	.685						
		Q4.21	.677						
	Cautious	Q4.13		.744					
	intern.	Q4.6		.719					
		Q4.4		.689					
	Focus home	Q4.1			.924				
		Q4.2			.907				
	Niches	Q4.10				.817			
		Q4.11				.742			
		Q4.12				.503			
	Alliance	Q4.25					.881		
		Q4.24					.874		
		Q4.23					.602		
	Marketing	Q4.28						.861	
2	control	Q4.27						.838	
	New	Q4.7							.832
	business	Q4.9							.803

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.