How environmental uncertainty affects the link between business strategy and performance in SMEs

Evidence from China, Turkey, and the USA

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Abstract

Purpose – This study aimed to examine the prospective role played by perceived environmental uncertainty in the strategy-performance linkage among SMEs in China, Turkey, and the USA.

Design/methodology/approach – The strategic group level of analysis was employed. Generic strategy, environmental uncertainty, and performance were measured by previously validated scales.

Findings – The combination strategy-performance linkage was supported in Turkey and the USA. In China, the highest performing strategic group emphasized a focus orientation accompanied by neither cost leadership nor differentiation, and the lowest performing group was comprised of low cost businesses.

Research limitations/implications – This study supported the combination strategy thesis in the USA and Turkey. In China, conceptualizations of strategy appear to be more complex. High performing businesses emphasized a focus strategy, but not necessarily in concert with either cost leadership or differentiation.

Practical implications – Firms in the USA place a great deal of emphasis on uniqueness and individuality, translating into approaches based on differentiation and innovation. However, attempting to control costs and differentiate without a defined niche leaves a firm vulnerable to larger, more experienced competition.

Originality/value – This study addresses the death of strategy-performance investigations in developing nations. Findings presented run counter to the notion that successful businesses in emerging economies emphasize cost leadership *vis-à-vis* differentiation. Conventional wisdom suggests that high performers tend to perceive greater certainty about their environments. The present analysis not only rejected this finding, but suggests that the opposite might be true.

Keywords Business strategy, Strategic groups, Uncertainty, Cross-cultural management

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The link between strategy and performance among small and medium sized enterprises (SMEs) has been widely researched. In general, entrepreneurs tend to pursue a differentiation strategy for a niche market (Longenecker *et al.*, 2010), with the goal of presenting a product or service that is superior to those currently available in the market. Conversely, large corporations operating in diverse markets base current strategic directions on years of accumulated data and experience, involving multiple stakeholders in the planning process (Freeman and McVae, 2001), while SMEs frequently rely on one or a handful of owner/operators. New entrepreneurial firms view formal planning as impeding a founder's vision for the organization (Mintzberg, 1994).

Differences in strategic behavior between large organizations and SMEs are also well documented in the literature (O'Regan and Ghobadian, 2006; Parnell, 2008). However, there is evidence to suggest that executives in SMEs and their counterparts in established organizations interpret environmental uncertainty in different ways (Lester and Parnell, 2007). Moreover, most strategic group level research linking strategy and performance has occurred in developed nations. Comparatively few studies have examined a prospective role played by perceived environmental uncertainty in developing economies (Ghobadian and O'Regan, 2006; Hoque, 2004; Jusoh and Parnell, 2008; Parnell and Köseoglu, 2010; Tracey and Phillips, 2011).

This paper employs the strategic group level of analysis and investigates the influence of environmental uncertainty on the generic strategy-performance relationship in SMEs. Organizations in China and Turkey are the primary focus of the study, while those in the US represent a comparison group. The paper also identifies strategies most closely associated with superior performance in these nations and suggests explanations for why preferred strategies vary across nations.

Strategy and performance in SMEs

Strategic management theory can be traced to the branch of microeconomics known as industrial organization (IO). The IO perspective views profitability as a function of industry structure. IO's structure-conduct-performance (S-C-P) model is considered by many scholars to be more appropriate for industries with uncomplicated group structures, high concentrations, and relatively homogeneous firms (Seth and Thomas, 1994). However, IO and the S-C-P model have not been able to explain large performance variances within a single industry. As a result, strategic groups were proposed as a middle ground between the industry and firm levels of analysis (Capps *et al.*, 2002; Phelan *et al.*, 2002; Porter, 1981). The strategic group level of analysis is utilized in the present study.

The strategic group level of analysis offers several key advantages to researchers (Dess *et al.*, 2010). First, barriers to mobility that protect one group from attack by another can be readily identified. Second, it identifies groups with marginal competitive positions. Third, firms can utilize the research to assist in future planning. Finally, strategic group research aids in analyzing industry trends.

Business strategy typologies identify several generic competitive strategies available to businesses and were developed to provide a conceptual basis for identifying strategic groups (DeSarbo and Grewel, 2008; Zahra and Covin, 1993). While strategic groups can be viewed as an industry-specific phenomenon, a number of scholars have assessed relationships between strategy and performance via cross-industry samples as well. From this early work emerged typologies believed to reflect generic strategies appropriate to organizations of various sizes across industries.

The generic strategy typologies developed by Porter (1980) and Miles and Snow (1978, 1986) received much early scholarly attention and remain among the most widely cited, tested, criticized, and refined (Bowman, 2008; Garrigos-Simon *et al.*, 2005; Kim and Mauborgne, 2005; Nwokah, 2008; Veett *et al.*, 2009). According to Porter's framework, a business can pursue superior performance by either establishing a cost leadership position or differentiating its offerings from those of its competitors. Either approach may be accompanied by focusing efforts on a given market niche.

Porter also argued that a business attempting to combine emphases on low costs and differentiation invariably finds itself "stuck in the middle" (Porter, 1980, p. 41), a notion that received considerable early support (Dess and Davis, 1984; Hawes and Crittendon, 1984). Whereas Porter contends that the assumptions associated with low costs and differentiation are incompatible, those in the combination strategy school argue that businesses successfully combining low costs and differentiation may create competitive advantages that outweigh any tradeoffs inherent in the combination (Hill, 1988; Parnell, 1997; Wright, 1987).

Miles and Snow's (1978) generic strategy typology identified four strategic types. Prospectors see the environment as dynamic and uncertain; they maintain flexibility and employ innovation to address it, and often become the industry designers (Miles and Snow, 1986). Defenders see the environment as stable and relatively certain; they seek stability and operational control to achieve maximum efficiency. Analyzers attempt to blend the perspectives of both prospectors and defenders. Reactors lack strategic consistency and tend to perform poorly (Brunk, 2003). Most published empirical work testing Miles and Snow's (1978) typologies has supported the framework (Allen and Helms, 2006; Conant *et al.*, 1990; Moore, 2005; O'Regan and Ghobadian, 2006; Shortell and Zajac, 1990). While perspectives on classification schemes differ, few scholars argue in favor of a single best typology, reinforcing the notion that strategic groups are a conceptualization of researchers.

Early strategic group research supported the application of Porter's typology to SME's (Chaganti *et al.*, 1989; Dollinger and Golden, 1992). While the selected strategies of small- to medium-sized enterprises vary, new and small organizations typically find their greatest successes in attacking niche markets (i.e. a focus orientation). By virtue of their limited resources, many small businesses have no choice but attack niche markets, either geographic, product, or service-based, emphasizing cost leadership or differentiation (Watkins, 1986). SMEs attempting to attack broad markets with cost based or differentiation strategies encounter constant competition with large, established brands and firms, putting them at a great disadvantage. Aside from the focus orientation, SMEs tend to follow the same cost leadership-differentiation patterns as their larger rivals (Wolff and Pett, 2000).

As small organizations grow, their product-market grows as well, enabling operations to expand, facilitating a broader product-market orientation. Some organizations that concentrate on niche markets actually become quite large in size and scope, such as IKEA, a furniture retailer with a niche market that targets young professionals with children (Kling and Goteman, 2003; Evans, 2003), Nonetheless, the preponderance of niche firms tend to be smaller organizations.

The contribution of strategic group research to the field of strategic management has been extensive and wide-ranging, considering both domestic and global contexts (Garrigos-Simon *et al.*, 2005; Jusoh and Parnell, 2008; Rugman and Verbeke, 2008; Spanos *et al.*, 2004). Strategic group research has its shortcomings, however. Their existence in general or in specific industries has been challenged on both conceptual and empirical grounds (Barney and Hoskisson, 1990). Strategic groups are presumed to exist in a given industry if group effects on performance can be separated from organization and industry effects (Dranove *et al.*, 1998; Short *et al.*, 2007). Moreover, the notion of strategic groups assumes not only the existence of groups of businesses employing similar competitive strategies, but also the existence of clear and recognizable industries.

From an historical perspective, much of what we know about the business strategy-performance relationship is based on studies of western firms in developed nations, most notably the US (Jusoh and Parnell, 2008). The linkage in other nations – particularly under-researched emerging economies – must be contextualized within appropriate business and cultural assumptions. The following sections briefly outline key considerations associated with the two other nations examined in this study, China and Turkey.

Business strategy in China

Prior to the late 1970s, the Chinese economy was almost entirely centrally planned (Su, 2001). The development of strategic management concepts in China has been facilitated by a pro-market shift over the past three decades. The emergence of market economies and the incorporation of management approaches from the west have played important roles in this process. The notions of competition and strategic management are common to Chinese executives today, but strategic management in Chinese enterprises is not as sophisticated as it is in many western firms (Yin and Choi, 2005; Zhang, 2005). Some Chinese organizations do not recognize the significance of strategic positioning, and operational decisions are often based solely on short-term market demands without considering long-term goals. Strategic management has been viewed by some Chinese executives as unnecessary because of the fast rate of change in the market and industrial environment (Chen, 2007).

With the depth of Chinese reform, some executives recognized the importance of strategy but lacked the essential expertise to formulate and execute strategies within the context of their own organizations. Some organizations pursued profit as a single goal, but lacked planning on their business specific area and customers, thereby increasing business operation risk. There is a link between the short life of some Chinese companies and the lack of techniques on strategy planning and execution (Zhang, 2009; Cao, 2007; Zhu, 2009).

In terms of strategic decision-making, Chinese executives tend to rely on accumulated wisdom, holistic thinking, and experience to make decisions, whereas their American counterparts emphasize compartmentalization, rationality, and objectivity (Chen, 2007). Experienced managers, not necessarily those who are best trained, make the major decisions in Chinese organizations (Chong, 1987; Leung and Yeung, 1995). Unlike western managers, Chinese managers emphasize flexible decision-making based more on trust and less on contracts (Tang and Ward, 2003). Major decisions are made after the contract is signed, while long, detailed contracts are viewed as detriments to the future business relationship. One recent survey found that 78 percent of managers reported that their companies had a business strategy, but most lacked any detailed executive planning (Xia and Xu, 2006). Hence, for most Chinese enterprises, the concept of strategic management continues to emerge.

Chinese executives also tend to demonstrate high uncertainty avoidance relative to their American counterparts (Hofstede, 2003; Lockett, 1988). As such, security, stability, and predictability are highly valued in contemplating the direction of an organization. This is not to suggest that Chinese managers are unskilled strategic thinkers, but rather that they tend to prefer predictability and consistency over potential payoff in the evaluation of strategic opportunities. This uncertainty avoidance, coupled with the cultural emphasis on thrift and productivity, tends to translate into cost leadership strategies for many Chinese businesses, whereas the American emphasis on uniqueness and individuality tend to translate into approaches based on differentiation and innovation (Merrilees and Miller, 1999; Wah, 2001). This viewpoint was supported by Xia and Xu (2006), who found that organizations with developed strategic planning efforts tended to emphasize cost leadership (38 percent) and focus (37 percent) strategies. In contrast, only 25 percent of businesses pursued a differentiation approach.

The dearth of competitive strategy-performance research in China is due to several reasons. Academic interest in strategic group studies piqued in the west before China's economy began to open. Bureaucratic factors render data collection in China difficult as well. However, there is also a key methodological consideration, the proclivity for imitation.

While many organizations in the west deliberately seek to promote resources, capabilities and strategic approaches that represent anomalies in their industries, their Chinese counterparts often attempt to mimic their rivals. Some executives view imitation as a shortcut to nominal success. This phenomenon is so pervasive among many Chinese firms that it is difficult to distinguish strategy, structure, culture, and even leadership styles across organizations (Chen, 2007). Some companies, especially SMEs, hesitate to recognize the significance of strategy planning and pay more attention to available resources and market forces to procure as much profit as possible in the short term (Liu and Xiong, 2008; Zhang, 2009).

Business strategy in Turkey

Like China, the notion of strategic management emerged in Turkey after its practice had already gained acceptance in the US; indeed, strategic planning was not a common practice in Turkey prior to the 1960s, and only gained widespread acceptance in the 1980s (Dinçer, 2003). Today, however, strategy concepts are widespread in Turkish organizations, with many organizations planning for horizons of five years or greater (Dinçer and Tatoglu, 2002; Dinçer *et al.*, 2006; Eren *et al.*, 2000). Moreover, instead of preparing strategic plans at certain intervals, some Turkish organizations have adopted a continuous approach to the process (Barca *et al.*, 2006). Others have departments dedicated to strategic planning. A large percentage of Turkish organizations can be classified as family-owned, and such businesses tend to engage in relatively less strategic planning (Başer and Arıcı, 2006).

Strategic decision making in Turkey remains largely centralized, formal, relatively standardized, and based on business intelligence (Dinçer *et al.*, 2006). Dinçer and Tatoglu (2002) and Glaister *et al.* (2008) found a strong correlation between formal strategic planning levels in large organizations and firm performance. Glaister and associates' results also suggest environmental turbulence, organizational structure, and firm size play moderating roles on the strategic planning-performance link.

Cost leadership strategies in Turkey remain pervasive (Köseoglu *et al.*, 2009). Kısacık's (2005) study of 104 businesses found that most emphasized a low cost approach, convinced of a link between low costs and growth. More than half of the respondents also employed differentiation approaches, however. Some incorporated elements of a focus strategy as well through mimicking the strategic moves of rivals, especially in terms of pricing. Gürpınar and Barca (2007) also found strong support for an overarching low cost approach among Turkish firms. A number of other studies also emphasize the prominence of cost leadership in Turkey. Taşgit (2008) investigated competitive strategies among Turkish airlines and found most emphasized cost leadership as opposed to differentiation. Moreover, airline companies generally opt for defensive and imitative competition strategies, and they do not prioritize. Kılınç *et al.* (2009) examined the same industry and found that costs, customer satisfaction and service quality were of central importance. Berber's (2008) analysis of the electronic industry also emphasized the importance of cost leadership.

Karabağ's (2008) assessment of businesses in Istanbul found a positive link between emphasis on differentiation, cost leadership and focus strategies and organizational performance, with organizations implementing a combination strategy outperforming those employing a pure or inconsistent approach. Her analysis refuted the notion that industry structure plays a greater role in determining firm performance than competitive strategy. Fiş and Çetindamar (2009) also found a strong positive link between innovation and strategic innovation and performance. However, Barca and Dirlik (2009), found no significant difference between the performance of businesses employing a combination strategy and those implementing a pure approach. Kamaşak (2010) found that the firms that can spontaneously follow both differentiation strategy and cost leadership strategy outperform those that cannot. Moreover, firms that cannot successfully apply either a cost leadership strategy or a differentiation strategy were outperformed by others in the industry. Eraslan (2008) found a positive relationship between the cost leadership strategy and firm performance when examining firm infrastructure, logistics, or marketing. This relationship was not verified when human resource management, procurement, operations, or service were considered.

Unfortunately, there is a dearth of research regarding the link between strategy and performance in Turkish SMEs. Aytekin *et al.*'s (2006) assessment of SMEs found a link between emphases on total quality, specialty production, comprehensive control procedures, and effective human resource management, and various performance criteria, including profitability, return on investment, cash flow, and overall effectiveness. Differentiation strategies are usually preferred by SMEs pursuing growth (Korkmaz *et al.*, 2009). Çelik and Karadal's (2007) study of SMEs emphasized a link between ineffective marketing strategies and pricing policies and firm performance.

Hypotheses

Four hypotheses were tested for each nation. First, Porter (1980) contends that businesses attempting to combine cost leadership and differentiation invariably will be outperformed by those adopting only one of the two approaches. Extant research on organizations in the US has suggested that a combination strategy can be effective for many businesses (Hill, 1988; Parnell, 1997; Spillan and Parnell, 2006; Wright, 1987). The present study tests the notion of a superior performing combination strategy group (*H1a*), while also accounting for a poor performing group (*H1b*) whose businesses are unable to concentrate their efforts on either approach:

H1a. In the US, the strategic group(s) comprised of SMEs employing strategies that combine cost leadership and differentiation will outperform other groups.

H1b. In the US, the strategic group comprised of SMEs whose strategies are unclear will be outperformed by all other strategic groups.

Second, there is evidence to suggest that successful businesses in China – particularly SMEs – emphasize a cost leadership strategy (Di Benedetto and Song, 2003; Tang *et al.*, 2007). As with businesses in the US, it is also expected that a strategic group containing businesses whose strategies emphasize neither cost leadership nor differentiation will be outperformed by other groups:

H2a. In China, the strategic group(s) comprised of SMEs employing a cost leadership strategy will outperform other groups.

H2b. In China, the strategic group comprised of SMEs whose strategies are unclear will be outperformed by all other strategic groups.

Third, like China, successful businesses in Turkey also tend to emphasize a cost leadership strategy (Berber, 2008; Kılınç *et al.*, 2009). As with businesses in the US and China, it is also expected that strategic groups containing businesses whose strategies are unclear will be outperformed by other groups in Turkey:

H3a. In Turkey, the strategic group(s) comprised of SMEs employing a cost leadership strategy will outperform other groups.

H3b. In Turkey, the strategic group comprised of SMEs whose strategies are unclear will be outperformed by all other strategic groups.

Finally, SME managers must interpret the external environment before they can select an appropriate strategy. Environmental uncertainty is determined by three characteristics (Lester and Parnell, 2007). The first is a simple to complex continuum, simple meaning relatively few external influencing factors and complex meaning many. The second characteristic is stable-unstable, or is change perceived to occur rapidly or slowly. Third, environmental uncertainty can be a function of the quality or richness of information available to decision makers (Starbuck, 1976). Managers discover low levels of uncertainty in simple, stable environments where the quality of information gathered through scanning is high. In contrast, uncertainty is high in environments that are complex, unstable, and lacking high quality information (Duncan, 1972).

The most common process for understanding environments is through environmental scanning (Diffenbach, 1983), gathering and analyzing information and trends taking place outside the firm. In many instances managers rely on informal sources in trying to characterize their external environments. Aguilar's (1967) early study of environmental scanning found that top managers relied on their subordinates for most of their information. Other informal sources include suppliers, customers, and other competitors. D'Souza and Kemelgor (2008) noted that entrepreneurs – whether serial or novice – utilize a close network of contacts for securing market and external environment advice.

Emerging markets, such as China and Turkey, are inherently uncertain (Peng, 2003; Peng *et al.*, 2008). Droege and Marvel (2009) found that SMEs in Viet Nam, China, and the Philippines perceiving high levels of environmental uncertainty tended to rely on emergent rather than deliberate strategies (Lester and Parnell, 2007; Mintzberg and Waters, 1985).

While the literature is replete with the implications of environmental uncertainty on performance of large organizations (e.g. Lawrence and Lorsch, 1975; Miles and Snow, 1978; Porter, 1980), small business owner/operators tend to be concerned with market niches that they perceive to be less complex and more stable. With normally narrow scopes of operation and limited resources, SMEs lack the wherewithal to compete in complex, uncertain environments. Those who try may experience suboptimal results.

Previous research has suggested a link between uncertainty perceptions and business strategies. Parnell *et al.* (2000) examined generic strategies in relationship to how firms responded to organizational uncertainty. They found that balancers were more certain about their external environment due to confidence borne from successful past performance and their ability to develop the capabilities required to analyze the environment (see also Wright *et al.*, 1990):

H4a. In the US, the strategic group(s) comprised of SMEs employing strategies that combine cost leadership and differentiation will perceive the environment as less uncertain than all other groups.

Because Chinese executives tend to demonstrate high uncertainty avoidance, security, stability, and predictability are highly valued in contemplating the direction of an organization (Hofstede, 2003; Lockett, 1988). Chinese managers prefer predictability and consistency over potential payoff in the evaluation of strategic opportunities. This uncertainty avoidance translates to less uncertainty regarding the external environment for Chinese firms pursing low cost leadership. Further support for this notion comes from the recent work of Droege and Marvel (2009) who found that SMEs in emerging markets favor emergent (Mintzberg and Waters, 1985) over planned strategies. Building a cost leadership position takes time and much attention to process innovation, lending credence to this emergent perspective:

H4b. In China, the strategic group(s) comprised of SMEs employing cost leadership strategy will perceive the environment as less uncertain than all other groups.

Köseoglu *et al.* (2009) found that cost leadership strategies were pervasive in Turkey. Because innovation is not seen as being as important (İrmiş and Akça, 2003), these low cost leaders perceive the environment as being less certain than firms pursuing other strategies:

H4c. In Turkey, the strategic group(s) comprised of SMEs employing cost leadership strategy will perceive the environment as less uncertain than all other groups.

Methods

The SME classification used by the European Union and the Association of Turkish Trade Chambers and Exchanges was employed in the present study (Altay and Aksaraylı, 2007): fewer than ten employees represents a micro-scale enterprise, 10-49 employees represent a small-scale, and 50-249 employees represent a medium-scale. To accommodate the manufacturing firms included in each country's sample, organizations with 250 or fewer employees were classified as SMEs (Hatten, 2009; Hodgetts and Kuratko, 2008). This resulted in usable samples of 94, 383, and 192 for China, Turkey, and the US respectively.

Managers in China completed a version of the survey translated into Chinese. A total of 107 managers in both manufacturing and service industries on the mainland completed the survey. In the US, the survey instrument was administered to attendees at a national retail trade show. A total of 277 responses were received. All three management levels were represented in the sample, with slightly more women participating than men. Businesses of various sizes were represented in the sample, as depicted in Table I.

In Turkey, the sample included managers operating throughout the country. The survey was translated into Turkish following a double-blind approach with two bilingual academics. Once the Turkish version was prepared, the two translators met to finalize the Turkish version of the questionnaire to check the reliability of the translation from English to Turkish. Respondents were randomly selected. The sample included small and large organizations, domestic and global enterprises, and manufacturing and service firms. Pollster teams consisting of fifty individuals administered the questionnaire to managers of the organizations in various cities through face-to-face interviews. A total of 500 surveys were delivered to managers, and 404 useful questionnaires were returned for an 81 percent response rate.

Zahra and Covin's (1993) scale was utilized to categorize businesses along Porter's typology. Several minor amendments suggested by Luo and Zhao (2004) were adopted, but the scale remained substantially unchanged. Market environment uncertainty, competitive environment uncertainty, and technological environment uncertainty were assessed via scales developed and validated by DeSarbo *et al.* (2005).

Findings presented in strategy-performance studies depend to a large extent on the performance measures selected (Cavalieri *et al.*, 2007; Dutta and Reichelstein, 2005;

	China ($n = 94$)			Turkey ($n = 385$)			USA ($n = 192$)		
Variable	n	SD	%	n	SD	%	n	SD	%
Mgt. experience (years)	6.6	5.5		12.4	8.0		4.0	3.5	
Org. experience (years)	6.2	4.8		9.4	6.9		4.5	3.0	
Number of employees	117.8	68.9		23.9	38.9		52.7	50.0	
Sex									
Male	50		53.2	272		70.6	80		41.7
Female	44		46.8	113		29.4	112		58.3
Level									
Non-management	6		6.4	38		9.9	17		8.9
Lower	37		39.4	53		13.8	49		25.5
Middle	35		37.2	158		41.0	82		42.7
Upper	16		17.0	136		35.3	44		22.9

Note: Only respondents whose organizations employed 250 or fewer employees were included in the sample

Table I.
Sample characteristics

Jusoh and Parnell, 2008; Pongatichat and Johnston, 2008; Ramanujam and Venkatraman, 1987; Venkatraman and Ramanujam, 1986). Different measures may even be more appropriate for different strategies (Dye, 2004; Van der Stede *et al.*, 2006). Many early studies utilized financial measures, but a recent consensus suggests that select qualitative factors should be considered as well (Hillman and Keim, 2001; Kaplan and Norton, 1996; Laitinen, 2002). The most valid means of measuring performance involves multiple methods, but doing so can be time consuming and difficult to execute (Atkinson, 2006; Parnell *et al.*, 2006). The present investigation relied on management surveys, adopting scales to develop relative competitive performance and objective attainment from Ramanujam and Venkatraman (1987).

Scholars have frequently utilized cluster analysis to classify businesses into strategic groups, especially in early and exploratory studies (Cool and Schendel, 1988; Derajtys *et al.*, 1993). Businesses can be clustered along either objective (financial) or subjective data, or on a combination of the two. By using cluster analysis, researchers can identify groups of businesses that follow similar strategic patterns. Many early studies suggested a link between strategic group membership and performance, but not all cluster studies have followed suit (Dess and Davis, 1984; Katobe and Duhan, 1993). Cluster analysis continues to be particularly useful in some exploratory and descriptive studies, but it is not employed as commonly today as it was in previous decades.

Findings

It is necessary to confirm the integrity of the scales before testing the hypotheses. Factor loadings and coefficient alphas for each of the cost, focus, differentiation, and performance scales are presented for each nation in Table II. Factor loadings and coefficient alphas for each of the uncertainty scales are presented for each nation in Table III. Factor scores were calculated for each scale to serve as composite measures for hypothesis testing.

Businesses in each nation were cluster analyzed (Ward's method) along the individual cost, focus, and differentiation items to generate strategic groups. The optimal number of clusters employed in each nation was the one that produced the most groups with different conceptual definitions. Conceptualizations differed across nations, with China, Turkey, and the US generating five, three, and six groups respectively. Results are presented in Table IV, and include mean strategy, performance, and uncertainty factor scores for each cluster, as well as ANOVA results testing the significance of differences among the groups.

The first hypothesis was supported

The highest performing group (0.79) consisted of SMEs combining cost leadership, differentiation, and focus strategies. The second highest performing group (0.70) consisted of businesses combining cost leadership and differentiation. The poorest performing group (−0.98) contains businesses that emphasized neither low cost nor differentiation.

The second proposition was not supported, but results were mixed

A cluster containing SMEs combining cost leadership and differentiation was generated. Collectively, businesses in this strategic group performed above the mean (0.18), but the highest performing group was defined by its high emphasis on only focus (0.41). The group whose businesses lacked a coherent strategy performed below

Table II.
Factor analyses for strategy and performance scales

Scale	China	Turkey	USA
Cost leadership	alpha = 0.728	alpha = 0.790	alpha = 0.733
Cost1	0.784	0.772	0.640
Cost2	0.611	0.768	0.660
Cost3	0.653	0.752	0.693
Cost4	0.772	0.701	0.700
Cost5	0.647	0.691	0.779
Focus	alpha = 0.689	alpha = 0.719	alpha = 0.788
Focus1	0.684	0.687	0.730
Focus2	0.644	0.738	0.695
Focus3	0.762	0.761	0.836
Focus4	0.810	0.761	0.864
Differentiation	alpha = 0.810	alpha = 0.832	alpha = 0.854
Differ1	0.501	0.683	0.721
Differ2	0.385	0.642	0.779
Differ3	0.772	0.733	0.762
Differ4	0.828	0.731	0.855
Differ5	0.650	0.752	0.675
Differ6	0.776	0.723	0.678
Differ7	0.837	0.678	0.673
Performance	alpha = 0.853	alpha = 0.889	alpha = 0.927
SalesROA	0.728	0.791	0.752
ProfitROA	0.751	0.779	0.574
MktShare	0.775	0.804	0.864
ROA	0.690	0.753	0.863
ROE	0.548	0.733	0.845
ROS	0.672	0.752	0.890
Overall	0.874	0.745	0.879
CompPos	0.758	0.649	0.879

the mean (−0.18), but the lowest performing group emphasized only cost leadership. Performance differences across groups were not significant at the 0.05 level, however.

The third hypothesis was supported

Only three strategic groups were identified in Turkey. The group that ranked highest along all three strategic dimensions was the highest performing cluster (0.60). The group that scored the lowest along all three dimensions was the poorest performing cluster (−0.79).

The fourth hypothesis was rejected

In China and Turkey, a single strategic group combines cost leadership, differentiation, and focus strategies. Businesses in these groups reported the highest levels of market competitive and technological uncertainty. In the US, two strategic groups combined cost leadership and differentiation, one of which also included a focus orientation. The low cost-differentiation-focus group scored the highest among six groups along market and technological uncertainty and second highest along competitive uncertainty. The low cost-differentiation (no focus) group scored the highest along technological uncertainty and third along market and competitive uncertainty.

Scale	China	Turkey	USA
Market uncertainty	alpha = 0.560	alpha = 0.775	alpha = 0.738
MKTUNC1	0.521	0.778	0.754
MKTUNC2	0.531	0.746	0.803
MKTUNC3	0.780	0.694	0.745
MKTUNC4	0.623	0.712	0.537
MKTUNC5	0.349	0.631	0.514
MKTUNC6	0.537	0.551	0.598
Technological uncertainty	alpha = 0.828	alpha = 0.750	alpha = 0.940
TECHUNC1	0.851	0.758	0.874
TECHUNC2	0.788	0.758	0.888
TECHUNC3	0.748	0.729	0.878
TECHUNC4	0.770	0.679	0.889
TECHUNC5	0.369	0.375	0.855
TECHUNC6	0.850	0.703	0.883
Competitive uncertainty	alpha = 0.556	alpha = 0.794	alpha = 0.775
COMPUNC1	0.661	0.702	0.721
COMPUNC2	0.617	0.732	0.705
COMPUNC3	0.556	0.725	0.723
COMPUNC4	0.666	0.773	0.776
COMPUNC5	0.406	0.782	0.655
COMPUNC6	0.450	0.525	0.544

Table III.
Factor analyses for uncertainty scales

	Cost	Focus	Differ	Perform	MktU	TechU	CompU
China							
Focus ($n = 16$)	−0.40	1.36	−0.52	0.41	0.28	−0.05	−0.42
Differentiation ($n = 14$)	−0.40	0.09	0.38	0.11	0.09	−0.22	0.76
Cost-diff-focus ($n = 20$)	0.72	0.67	1.52	0.18	0.71	1.06	0.37
Cost leadership ($n = 10$)	1.25	−0.92	0.25	−0.46	−0.65	0.08	0.03
Unclear ($n = 34$)	−0.40	−0.64	−0.79	−0.18	−0.39	−0.54	−0.34
f-value	13.411	39.818	65.387	1.666	6.426	12.371	5.235
Significance	0.000	0.000	0.000	0.166	0.000	0.000	0.001
Turkey							
Cost-diff-focus ($n = 160$)	0.69	0.85	0.80	0.60	0.49	0.58	0.53
Unclear ($n = 121$)	−0.99	−0.96	−1.15	−0.79	−0.69	−0.71	−0.76
Moderate ($n = 102$)	0.01	−0.19	0.11	0.00	0.04	−0.07	0.06
f-value	196.970	290.241	429.821	101.548	63.673	83.500	81.166
Significance	0.000	0.000	0.000	0.000	0.000	0.000	0.000
USA							
Cost-diff-focus ($n = 44$)	1.04	0.57	0.75	0.79	0.44	0.46	0.30
Differentiation ($n = 28$)	−0.83	0.17	0.77	−0.32	0.14	0.43	0.77
Cost leadership ($n = 40$)	0.14	−0.24	−0.81	−0.14	−0.13	−0.42	−0.20
Cost-focus ($n = 23$)	0.41	0.32	−0.55	−0.04	−0.28	−0.63	−0.77
Unclear ($n = 35$)	−1.15	−1.24	−1.18	−0.98	−0.37	−0.75	−0.40
Cost-differ ($n = 22$)	0.13	0.72	1.43	0.70	0.04	1.14	0.22
f-value	60.505	29.640	264.423	24.437	3.497	26.209	10.545
Significance	0.000	0.000	0.000	0.000	0.005	0.000	0.000

Table IV.
Factor scores for strategy, uncertainty, and performance

Discussion

Support for high performing combination strategy groups and a poor performing combination strategy group in the US was not surprising. Concentrating on a niche market, controlling costs, and differentiating itself from competitors is a recipe for success for most SMEs. This supports the notion that US firms place a great deal of emphasis on uniqueness and individuality, translating into approaches based on differentiation and innovation (Merrilees and Miller, 1999) Trying to control costs and differentiate without a defined niche, or focus, however, leaves a firm vulnerable to larger, more experienced competition.

Factor results and alpha scores from each of the three nations suggested that the basic concepts of cost leadership, differentiation, and focus are universal. Cluster results, however, suggest that how these strategic dimensions are conceptualized into a coherent approach differs markedly across nations.

The findings presented herein run counter to the notion that successful businesses in emerging economies emphasize cost leadership *vis-à-vis* differentiation (Jusoh and Parnell, 2008).

Successful Chinese businesses in the sample concentrated their efforts on satisfying a particular market niche rather than cost minimization *per se*. A possible explanation for this finding is the emphasis by Chinese firms on uncertainty avoidance, thrift, and productivity. While these are all hallmarks of cost leadership strategies (Merrilees and Miller, 1999; Wah, 2001), the respondents did not translate their actions as reflective of low cost.

Successful Turkish businesses in the sample emphasized all three strategic dimensions. However, few respondents in Turkey emphasized either cost leadership or differentiation. There are several possible explanations for this phenomenon. First, the Turkish economy has experienced significant changes in recent years because of direct investment from developed nations, most notably from the US and the European Union. The resulting competitive environment has placed Turkish firms under greater pressure to comply with Western norms as they become more involved in the global economy. This has also led to rapid adaptation of strategic planning on a wide scale basis. Hence, Turkish managers may pursue innovation and cost leadership strategies with greater intensity because of their heightened achievement orientation (Arslan, 2001).

Second, the Turkish government has introduced a number of incentives for firms to improve global competitiveness. These incentives decrease costs for investments both inside and outside of the country, and foster research and development efforts. Indeed, one could argue that the government is playing a key role in supporting both low cost and innovation strategies.

Third, compared to the business environments in the US and China, the environment in Turkey can be characterized as highly ambiguous. Political and economic crises have been common in recent years. Because cost containment has greater short-term payoffs, many firms have concentrated their efforts primarily on costs (Köseoglu *et al.*, 2010).

The limited number of firms responding as focus/differentiators or focus/cost leaders runs counter to the notion that successful SMEs attack niche markets. In China, only 20 of 94 businesses selected a focus emphasis, compared to 160 of 383 businesses in Turkey and 67 of 194 in the US. Hence, many SMEs can succeed by pursuing other strategies as well.

Several possible explanations can be posited for these findings. First, by allowing the sample to include firms having up to 250 employees, some medium-sized organizations were clearly present. Their growth efforts could have, depending on the industry, required them to pursue broader product markets. Second, there may have been issues with language translation since these firms were selecting their strategic direction from a paragraph description. Or third, and possibly most plausible, small business owner/operators, managers, and employees may not think of how they approach their markets in the academic manner that researchers like to think they do. For example, the notion of a broad product market domain might be interpreted as encompassing a geographic area such as a city, village, or state by a respondent, whereas a researcher might classify all of them as narrow or regional geographic approaches. Other researchers have speculated that many small business owners perceive themselves to be big players in a small market based on their local group of competitors (Lester *et al.*, 2008).

Results support the notion that problems arise when constructs and surveys are modified or translated to fit samples in other cultures. While it is beneficial to maintain methodological consistency in cross-national research, many constructs cannot be applied across borders in a precise manner. Scholars must choose whether to maintain constant construct definitions across borders or accept deviations that can make comparisons across nations more cumbersome. Specifically, investigations where great religious differences exist between the researcher's home culture and the one(s) being studied are most problematic (Jusoh and Parnell, 2008; Punnett and Shenkar, 1994). Although survey research is feasible when language barriers are overcome, its reliability can be compromised when educational differences exist. Hence, some management constructs developed in advanced Western nations may be inappropriate in emerging economies. Modified, culture-specific constructs may more accurately reflect organizational activities. Research approaches that enable scholars to compare and contrast practices among widely divergent cultures without forcing one culture into an imprecise construct definition are needed (Parnell, 2008b).

The positive link between combination strategies and uncertainty perceptions in China and Turkey – and to a lesser extent in the US – is intriguing. Conventional wisdom suggests that as high performers, such businesses would perceive greater certainty about their environments. The present analysis not only rejected this finding, but suggests that the opposite might be true. One possible explanation is that uncertainty in market, technological, and competitive realms is high for all SMEs by definition. Businesses recognizing this reality are more likely than their counterparts to combine cost leadership and differentiation, and also tend to outperform their rivals. Ceteris paribus, lower performing SMEs might tend to perceive lower levels of uncertainty because they do not understand their environments well enough to fully comprehend the uncertainty that exists.

Conclusions and future research directions

This study supported the combination strategy thesis in the US and Turkey. In China, however, conceptualizations of strategy appear to be more complex. High performing businesses emphasized a focus strategy, but not necessarily in concert with either cost leadership or differentiation.

China, Turkey and the US are large nations with unique cultures. Moreover, the political economies of each country are substantially different, yet they have significant and growing allegiance to market economy approaches. Several opportunities for additional research have been identified. First, replications of the present study in other emerging nations are needed and may identify insight into the strategy-performance relationship that is unique to developing nations. Without applications to other nations, the generalizability of these findings is difficult to assess.

Second, differences in strategic behavior between large organizations and SMEs are well documented in the literature (Ghobadian and O'Regan, 2006). The present study addressed relationships within SMEs but did not consider differences on the basis of size or age.

Third, most competitive strategy studies have assessed the link between strategy and performance over the fixed, relatively short time frame. High performing businesses generate profits and other positive outcomes over an extended period of time. Market sustainability reflects the extent to which a strategy's success can achieve a desired level of financial performance while enduring current and potential change across competitors and markets. The extent to which sustainable competitive advantage is developed cannot be accurately assessed in a single iteration (see Barney, 1991).

Finally, the present study does not consider the role of strategic capabilities in the strategy-performance relationship. Indeed, a general frustration with IO's deterministic underpinnings of the strategic group approach led to a continued push away from the industry level of analysis, particularly in the late 1980s and early 1990s (Barney, 1991; Wernerfelt, 1984). An alternative perspective, the resource based view (RBV), embraces a firm level of analysis while incorporating some of the same traditions as the broader perspective of organizational economics (Barney and Ouchi, 1986; Kim and Mahoney, 2005). Examining the contribution of organization-specific capabilities and resources on performance can elucidate the findings presented in this study.

Integrating IO and the RBV can be a delicate task conceptually. The two perspectives are somewhat compatible, but they differ on the relative importance of industry and firm factors in determining firm performance (Claver-Cortes *et al.*, 2004; McGahan and Porter, 1997). Recent scholarship has already shifted in this direction, however. For example, a renewed interest in organizational economics, encompassing issues such as incentives, agency theory, transactions cost theory, authority and delegation, decentralization, and property rights theory, has built upon both IO and the RBV (Fulghieri and Hodrick, 2006; Kim and Mahoney, 2005; Sheehan and Foss, 2007).

DeSarbo *et al.* (2005) extended the Miles and Snow framework with a deeper examination of inherent strategic capabilities. An organization's resources – including its assets and skills – represent the source of its foundation for sustainable competitive advantage (Bowman and Ambrosini, 2003). The concept of strategic capabilities is conceptually linked to the RBV, as both perspectives emphasize the development of idiosyncratic aptitudes that cannot be readily mimicked by competitors. The more recent dynamic capabilities approach (DCA) extends strategic capabilities by emphasizing the transitory nature of both organizational resources and external influences (Augier and Teece, 2009; McGuinness and Morgan, 2000). Strategists can shape and transform these resources into strategic capabilities that correspond with the business strategy (Lopez, 2005; Pandza and Thorpe, 2009).

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