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THE RELATIONSHIP BETWEEN INNOVATION CAPABILITIES, DIFFERENTIATION STRATEGIES AND MARKET PERFORMANCE

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Abstract

Today, in the face of increasing competition, companies acquire competitive power when they analysis their internal and external environment against competitors and determine strategies appropriate to their capabilities. In our research, it was aimed to reveal the contribution of company capabilities to company performance through the mediator effect of differentiation strategies. In Turkey, surveys were collected from the companies in ISO first 500 and ISO second 500, and research models and hypotheses were formed. Dependent and independent variables were subjected to separate factor analysis using statistical package programs to measure the relationships of variables. As a result of Cronbach Alpha values of the factors above 0.7, the scales were confirmed to be reliable. Correlation and regression analysis found that there was a significant and positive relationship between company capabilities and company performance. When differentiation strategies in regression analysis are included in the analysis, it is concluded that the effect of differentiation strategies between firm capabilities and firm performance does not disappear, but by looking at Beta values the effect decreases and there is a partial mediating effect. It has been concluded that when companies use their capabilities, they increase their financial growth performance through the intermediation effect of differentiation strategies through the innovations they make in products and services.

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Keywords: Differentiation strategies, innovation capabilities, market performance



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1. Introduction

Companies need to have one or more competitive strategies in order to have competitive advantage, survive, develop new products, keep their customers improve their performance. Companies should improve their performance while developing new products and services. In our study, innovation capabilities (product, process, market, organizational), differentiation strategies and market performance variables were examined and proved to be positive. In the general framework, it was determined as a result of the examination that companies that want to gain competitive advantage will make positive progress in market performance when they integrate the capabilities developed with the differentiation strategies.

The aim of our research is to reveal the contribution of competitive advantage to market performance as a result of the integrity of innovation capabilities and differentiation strategies. For this reason, innovation capabilities and differentiation strategies are primarily focused on. Then, it was revealed how market performance will be affected by differentiation applications. Our findings show a positive relationship between innovation capabilities and differentiation strategies. Validity and reliability of scales used in the studies to measure the variables in the scope of the research were utilized.

Investments made by companies to improve their capabilities without adhering to a strategy may cause resources to be wasted and the expected performance may not be achieved or the strategies the firm chooses without evaluating its capabilities may fail. Company managers should think in two ways. They must both choose their strategies according to their resources and abilities, and invest in appropriate strategies by adapting their resources and abilities to the competitive environment. Therefore, managers should prioritize their skills in determining their strategies and invest in their skills in implementing the strategies they have to in a competitive environment investigated the effects of Differentiation Strategies on firm performance. The result was that differentiation strategies had more positive effects on growth performance than cost leadership strategies. As a result, there is no direct relationship between the implementation of differentiation strategies and market performance (Acar & Zehir, 2010).

In studies related to the relationship between innovation capabilities and market performance (Andrawina et al., 2008; Camisón & Villar-López, 2014; Guan & Ma, 2003; Hogan et al., 2011; Liao et al., 2007; Martínez-Román et al., 2011) it was observed that firms were positively affected. The effect of innovation on firm performance was investigated in the studies Erdil et al. (2004) conducted and the positive effects were observed.

According to the research conducted with information gathered from 156 companies operating in the automotive parts industry in Iran, it has been observed that companies create a network with suppliers, develop relationships, be effective in innovation activities through product development, reduce costs, decrease efficiency and performance (Mitrega et al., 2017). In a study conducted in the small and medium-sized service sector on the fact that certain service capabilities depend on the age of the firm, the opinion that the development of the organization's skills in the service sector positively affects the performance of the company was stated as a result of the research (Valtakoski, 2017).

In a study in the Northern Marmara region, the impact of product, process, marketing and organizational innovations on performance was examined and it was seen that other than process innovation positively affects performance (Gunday et al., 2011). Within the framework of these views, it has been seen

that the company's capabilities and the diversification strategies, which are variable, have a positive effect on the company's performance by integrating with each other. When we look at the studies in the literature, there are no studies related to our variables (innovation capability, differentiation strategies, market performance). Furthermore, it is thought that this research will be utilized by academicians and companies in the sector and will make an important contribution to the literature.

1.1. Innovation Capability

While the ability of the company is defined as the capabilities that provide advantages to the companies, it is a significant element in the competitive advantage. Under intense competition, it becomes increasingly difficult to avoid other competitors. For this reason, when companies develop their skills by using their resources, the environment in which their knowledge and perspectives will make a difference in the market environment and develop their missions and visions that will distinguish them from others will occur.

In order to evaluate a skill as a talent, it is necessary to show continuity; the capabilities need to reach a certain level in order to be tested and applied. Capabilities should be applied in coordination between individuals and teams (Helfat & Peteraf, 2003). Competitiveness has been described by various authors in the literature. In the areas where the firms become more specialized or in the long-term periods where they make profit above the average (Özdoğan, 2006). When the firm's concrete and abstract resources grow, so does its capabilities. If managers continuously develop their skills and add new ones, high growth and performance increase will be provided (Hiroyuki, 2003). According to Lowenthal, J. the ability to identify and use information in an organization that allows the use of data, methods and tools defined as a combination (as cited in Doğan, 2004). According to Nelson (1991), unimaginable strategic values provide competitive advantage in the firms. Accordingly, capabilities include specialization rather than a wide range of capabilities (Eren, 2005).

Innovation: Innovation definition was first made by economist Schumpeter (1912), and it was stated that innovation is necessary for development. Schumpeter, innovation is the addition of a new feature to a previously unknown product, service or product, the application of a new system in production, the entry into a new and different market, the availability of new resources and the transition to a new organization. Presenting a value in innovation is the value obtained after reaching the customer, in which ideas are evaluated as concrete and abstract, which turn into useful and profitable activities that offer solutions to problems (Frambach & Schillewaert, 2002).

Product Innovation Capability: Product innovation is as the improvement of the properties and usage of a good or service by changing it. In addition to producing new products, product innovation aims to meet the demands of consumers through different applications and changes by acquiring new customers and markets. Transformation of mobile phones to state-of-the-art smartphones, Advanced Technologies in the automotive market, GPS and location applications, tablets, voice recorders, digital cameras (OECD, 2002), generating electricity with solar louvers, examples of product innovation capabilities such as wireless touch mice mentioned. Product innovation is the further improvement of the product according to its existing properties or uses. Technical features include significant improvements such as components, materials and ease of use (Adıgüzel, 2012).

Process Innovation Capability: Process innovation is the development of new production and distribution systems or improvement of existing systems. Process innovation capability is the application made in the process of working with changes in the technical equipment or software in the production, distribution of new or existing products. Making the product or service offered to the market more effective and efficient. Improvements in support activities, developments, information communication, quality and efficiency studies are seen as process innovation. Process innovation is the development of new production and distribution systems or improvement of existing systems (Elçi, 2007). One of the most popular applications for process innovation is the in Just in Time used by Toyota Company in production and the Band Production Line System of Ford Motor Company. Flexible and lean production systems, agile production system, self-service in restaurants, booking applications in hotels, GPS applications in transportation are examples of process innovation.

Marketing Innovation Capability: Innovations are made to differentiate and develop marketing methods in order to respond to the wishes and expectations of the clients and to improve the existing ones. Changes in the design of the product or service, packaging with the idea of recycling, focusing on brand positioning, making changes in the price element are seen as marketing innovation activities. Activities such as buying concert tickets on the internet, giving small toy gifts to children in fast food restaurants, price applications, brand positioning and packaging are seen as marketing innovations. With these capabilities, companies create value for their brands. It is the development and improvement of different designs and different marketing methods (Elçi, 2007).

Organizational Innovation Capability: Organizations are one of the important factors that determine innovation. Participation of employees in innovation activities and enabling them to put forward ideas show that organizations have a strong infrastructure for innovation. Developing operational methods in organizations or adapting them to company conditions and responding to internal and external environment indicate that organizational innovation capabilities are improved. Innovation capability in organizations starts with the discovery of previously unused methods as a result of strategic decisions made by management.

Examples of organizational innovation are the 6 Sigma implemented by Arçelik and Kaizen (continuous improvement and development) methods designed by Japanese companies. In the continuous improvement method, all employees have the authority to make decisions in their processes. They present their ideas to management on improvement issues, and management evaluates these ideas and puts them into action. Kaizen methods are currently accepted and implemented. Organizational innovation strategy is important role in the successful management of innovation for organizations. With organizational innovation, triggering innovation and creativity within the company is not considered alone; with the help of organizational innovation, companies will be able to apply a new organizational system in business practices, workplace organization or external relations (Tuzcu, 2008).

1.2. Differentiation Strategies

In order to exist in the sector, companies have to develop and implement various strategies. Differentiation strategies from these strategies are among the strategies that should be applied in competitive advantage. With differentiation strategy, companies can achieve success by overcoming their

competitors. According to Porter (2000), it is important to differentiate the product or service offered in companies and to create and present it in a way that is accepted uniquely throughout the industry. It is also very important to create value for customers as differentiation alone is not enough to create something unique (Porter, 2000).

The companies work to meet the demands and necessity of their clients by identifying the features that they think are important in the sector and differentiating them in product, distribution channels, after-sales services and marketing. The product is unique and superior to the customer due to differentiation (Porter, 1980). Conditions for creating unique value in many ways are provided by product features, after-sales service, timing, vertical or horizontal integration and economies of scale.

Differentiation Types: To keep the existing customer, to obtain new customers, to compete with competitors, to make profit and to continue the life of the company needs to be differentiated and diversified products. The differentiation of the products is to change one or more of the basic features to differentiate the previous features. Differentiation can be implemented in a variety of ways. These:

Vertical Product Differentiation: Vertical product differentiation is differentiation within the product group that is on sale. For example, the sale of filter coffee is the sale of flavoured or decaffeinated coffee. What is important here is the addition of another feature to a product.

Horizontal Product Differentiation: Horizontal product differentiation is the production of products which are considered compatible with each other in a product category. For example, Gillette brand razor blades and facial care creams are produced and sold. It is also the differentiation made in the appearance, colour and model of the previously produced product. Here customer preference is at the forefront. The subjective tastes of the customer vary (Apella, 2008).

Differentiation in Price: To attract the attention of the customer by offering low prices in the products which are more standard, and to realize the differentiation by offering the same quality and features to the customer's taste at lower prices. This is because the difference in the product is more than the difference in production cost by making use of very small differences in the same product.

Image differentiation: Image differentiation is about creating a certain image in the minds of users and is more difficult to measure than other differentiations. In order to create a perception about the product in the minds of the consumer, differentiation is applied to the product rather than function, design, usage situations and appearance. Here, the aesthetic presentation of the product without destroying the image gives (Mintzberg & Lampel, 1998). The image can be created with the use of all communication tools and can bring together many elements (symbols, colours, slogans, sponsors, etc.). Companies create the image that their products are different, even though there are no product differences between brands.

Differentiation in Support Services: Differentiation in support services is realized by differentiation of support services provided with the product. Support can be defined as products and services that enable the user to purchase the product. Services made for the purchase of the product, special loans, after-sales service, warranty, delivery service around the clock, various gifts are also included in the issue of support differentiation (Timur, 2003).

Quality Differentiation: Differentiation made to improve the quality of the product or service. Quality can be achieved by increasing the reliability and durability of the product. With the increase in quality factor, the product becomes durable, easy to use and reliable. Customer satisfaction increases and

differentiation occurs. Here, changes are made on the existing property of the product is not made complete changes (Timur, 2003). If a change in specifications occurs over the standards, quality differentiation occurs.

Differentiation in Design: Differentiation in design differentiation is made using unique features different from the direct design of the product. Changing the designs of old cameras and making digital cameras using new technology is design differentiation. It is the differentiation in design by adding unique features to the products, following fashion and innovations with new technologies (Mintzberg & Lampel, 1998).

1.3. Market Performance

Performance is an important factor that is needed in every stage of life and in every action. Firms use various methods to answer questions about where they are and where they should be. Achieving the desired level of performance is ensured by an objective examination according to the company structure and sector structure. Performance is an important critical value for companies that want to survive. The level of performance of firms is important for both investors and country development. Performance is a measure of success and shows how the plans have achieved the goal. The reasons of the plans that do not reach the target should be determined and precautions should be taken. Thus, by encouraging managers and employees, development can be brought to desired levels (Parker, 2000).

Market performance is a very important concept in strategic management. In the development of competitive advantage depending on performance, growth is inevitable as a result of sales and profits. In this way, gaining competitiveness in the business environment in today's dynamic variable and mobile market environment has a significant impact on market performance (Banker et al., 2006).

In terms of competitiveness, the market performance of the firm is expressed as the success achieved with the aim, as a measure of the company's position, objectives, and capabilities used against the competitors in a useful way (Demir & Okan, 2009). In the light of the literature, we argue that innovation capabilities increase the market performance through the differentiation strategies and propose the hypotheses following:

H₁: Innovation capabilities have positive effect on differentiation strategies.

H₂: Innovation capabilities have positive effect on market performance.

H₃: Differentiation strategies have positive effect on market performance.

H₄: Differentiation strategies mediates the relationship between innovation capabilities and market performance.

2. Problem Statement

In order for businesses to gain competitive power, they have problems against their competitors in their products and services without having to depend on their resources and capabilities. When they analyze their internal and external environment, they are able to overcome this problem with strategies that are appropriate to them. In our study, enterprises can achieve competitive advantage in the market by

developing differentiation and innovation capabilities through various research and development studies and technological developments. When decision-makers and employees in management act together and use modern technology methods, they achieve success by gaining customer value.

3. Research Questions

The article addressed the question of why some businesses are more successful than others. At the beginning of our study, we asked the question of how companies should apply different methods than other competitors should gain competitive advantage in the market and thus become successful firms. In our research on this topic, concepts, relationships with each other, competition, competitiveness, concepts of the company, what are the consequences in terms of performance, the skills that is competitive with the appropriate strategies are used when this power is made up at the end of the effect on firm performance, such as answers to questions are being sought.

4. Purpose of the Study

The aim of our study is to demonstrate the impact of company performance with differentiation and innovation strategies in the production of products and services that import and export companies in Turkey will implement in order to gain competitive power in international markets. According to the results obtained from the analysis of strong firms in the sector, it is confirmed that our variables are in a positive and meaningful relationship with each other in accordance with our aim. Company capabilities positively affect company performance in the market through the intermediary effect of differentiation strategies.

5. Research Methods

In this part of the study, the findings obtained from the analysis of research data collected in order to determine the effect of innovation capabilities, differentiation strategies applications on market performance are shown in the tables. The research was carried out with the data obtained from the public and private sector companies that import and export. In the study, a total of 321 data were obtained after getting back from 400 questionnaires and clearing the data. The analysis results obtained for the research model are given below.

5.1. Analyses

In the measurement of the variables involved in the research, the scales that were used in literature studies and whose reliability and validity have been verified have been used. 5 likert-type scale was used measure innovation capabilities, differentiation strategies and market performance. Innovation scale was adopted from Knowles et al. (2008), Alegre et al. (2006), Liao et al. (2007), Calantone et al. (2002), Hogan et al. (2011), Çalık (2016). Differentiation strategies scale was adopted from Lynch and Ariely (2000), Porter (1980), Kohli and Jaworski (1990). Market performance scale adopted from Antoncic and Hisrich (2001), Baker and Sinkula (1999), Zahra et al. (2002), Venkatraman and Ramanujam (1986).

6. Findings

In our study, analysis was performed to test the hypotheses and to define the direction and strength of the relationships. In the Table 1, it can be seen that the four dimensions of the innovation (product, process, market, organizational) have significant effect on both dimensions of differentiation strategies and market performance.

Table 1. Cronbach's Alpha, and Correlations for The Research Model Variables

Variables	Mean	Std. Dev.	Cronbach's Alpha	1	2	3	4	5	6
Product Innovation Capability	3,975	0,77	0,86	1					
Process Innovation Capability	4,057	0,714	0,84	.724**	1				
Market Innovation Capability	3,999	0,723	0,84	.693**	.749**	1			
Organizational Innovation Capability	3,938	0,842	0,91	.632**	.725**	.713**	1		
Differentiation Strategies	4,076	0,714	0,96	.714**	.648**	.712**	.713**	1	
Market Performance	3,951	0,689	0,96	.544**	.501**	.532**	.519**	.605**	1

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

In Table 1, descriptive statistical values, correlation values and scale reliability values of the variables included in the analysis are given. When the reliability coefficient values are examined, it is seen that the reliability values of the questions are higher than 0.80 which is the most commonly used value in the scale reliability measurement. The fact that this value is greater than 0.80 indicates that the internal consistency of the variables used in the analysis is very high. The Cronbach's Alpha value obtained for all variables was found to be 0.971.

Table 2. Kaiser-Meyer-Olkin (KMO) and Bartlett Sphericity Test Results for The Research Model Variables

Factors	Kaiser-Meyer-Olkin (KMO)	Bartlett Sphericity Test
Product Innovation Capability	0.727	433.438***
Process Innovation Capability	0.724	382.920***
Market Innovation Capability	0.728	384.802***
Organizational Innovation Capability	0.753	629.414***
Differentiation Strategies	0.975	3820.555***
Market Performance	0.873	923.091***

KMO: 0.957 and Bartlett: 8717.824*** for all variables

* p < 0.05, ** p < 0.01, *** p < 0.001

For the variables included in our research model, first, the suitability of the factors to the analysis should be investigated. As a result of the study, it was observed that the KMO values for the sub-factors were above 0.50, which is considered the lowest value (Hair et al., 2014). The KMO value calculated for all questions was 0.957, which indicates that our data were excellent enough for factor analysis. In addition, since the Bartlett Sphericity test was significant at a significance level of 0.001, it was determined that the

variance-covariance matrix of the data set was not a unit matrix and that the data were suitable for factor analysis (Table 02).

Table 3. Factor Analysis Results

	Differentiation Strategies	Market Performance	Organizational innovation capability	Process innovation capability	Product innovation capability	Market innovation capability
Diff_Str13	.770					
Diff_Str10	.766					
Diff_Str12	.757					
Diff_Str3	.742					
Diff_Str1	.736					
Diff_Str4	.717					
Diff_Str8	.716					
Diff_Str14	.714					
Diff_Str11	.705					
Diff_Str9	.699					
Diff_Str6	.687					
Diff_Str7	.683					
Diff_Str2	.675					
Diff_Str5	.610					
Mark_Perf4		.797				
Mark_Perf8		.775				
Mark_Perf10		.771				
Mark_Perf11		.770				
Mark_Perf7		.750				
Org_inn1			.776			
Org_inn2			.737			
Org_inn3			.692			
Proc_inn1				.698		
Proc_inn2				.698		
Proc_inn3				.556		
Prod_inn1					.773	
Prod_inn2					.614	
Prod_inn3					.574	
Mark_inn2						.698
Mark_inn1						.600
Mark_inn3						.546
% Variance Explained	28.077	13.826	9.422	9.176	7.629	6.770
Notes	(i) Varimax Rotated Principal Component Analysis (ii) Total Variance Explained: % 74.900					

The results of the explanatory factor analysis obtained from the data are given in Table 3. Varimax was chosen as the most appropriate factor rotation method for the data (Pallant, 2013). The lowest factor load was 0.50 (Field, 2007; Hair et al., 2014). Accordingly, a total of 6 factors were determined. 14 questions were asked for Differentiation Strategies, 5 questions for Market Performance and 3 questions for Innovation Capabilities. In addition, it was found that the total explained variance was 74.90%. Of the variance explained, 28.077% were by Differentiation Strategies, 13.826% by Market Performance, 9.422% by Organizational Innovation Capability, 9.176% by Process Innovation Capability, 7.629% by Product Innovation Capability and 6.770% Market Innovation Capability.

Table 4. Mediation Analysis Results

Dependent Variable	Independent Variable	Direct Effect	Indirect Effect
Differentiation Strategies	Innovation Capabilities	0.837***	
Market Performance	Differentiation Strategies	0.388***	
Market Performance	Innovation Capabilities	0.321***	0.324***

$\chi^2/df = 2.61$; GFI=0.828; CFI=0.921; TLI=0.913; RMSEA=0.071
 * p < 0.05, ** p < 0.01, *** p < 0.001

When the results given in Table 4 are examined, it is seen that the goodness of fit values of the model are among the acceptable values (Hair et al., 2014; Hayes, 2009). The direct and indirect relationships given in the model (Hayes, 2009) were found to be significant at p = 0.001 significance level. Accordingly, the positive impact of Innovation Capability on Differentiation Strategies ($\beta = 0.837$ ***) is remarkable. Differentiation Strategies also have a positive and important effect on Market Performance ($\beta = 0.388$ ***). In addition, Innovation Capabilities have a positive direct effect on Market Performance ($\beta = 0.321$ ***) and an indirect effect ($\beta = 0.324$ ***). According to these results, all of the research hypotheses were confirmed.

In order to determine the mediation relationships proposed by Baron and Kenny (1986), structural equation modelling was preferred in our study. When Figure 1 is examined, regression and correlation coefficients between variables and questions are observed. The mediation relationships for the determination of direct and indirect effects are given in Table 4.

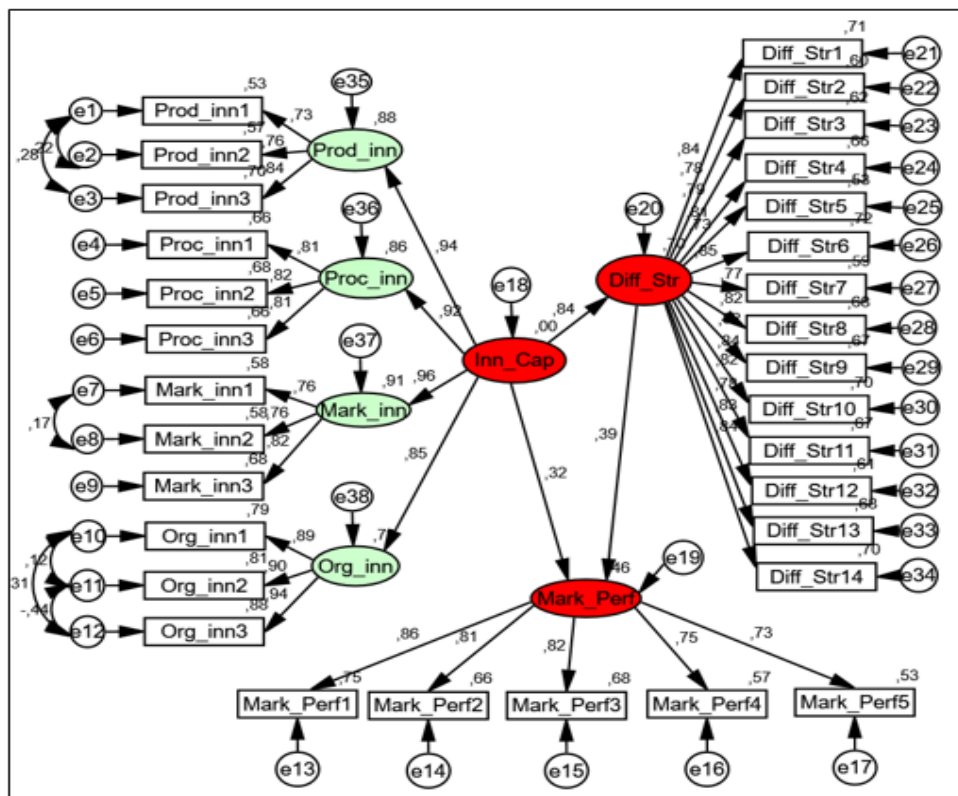


Figure 1. Structural Model for Innovation Capability, Differentiation Strategies and Market Performance

7. Conclusion

In our age, there is a rapid change with globalization and new competitive environments are created as new markets emerge. When firms create more value for their customers against their competitors, they retain their competitiveness. When they create superior customer value, that is, differentiation efforts, they will provide a strong market share compared to their competitors and higher than average profitability in the industry. When considered strategically, it shows that superior performance firms are advantageous if they have differentiated abilities in competition than their competitors. In study the different perspectives in the literature have been evaluated and a comprehensive field research has been carried out to reveal the relationship between innovation capabilities, differentiation strategies and their impact on market performance.

Considering the fact that our country is in the status of developing countries, it is thought that the large number of selected firms has this effect. As we did research with large companies, the results were reliable and valid. By operating in the Turkey was declared in 2018 revealed the relationship between the first ISO 500 and second ISO 500 manufacturers with the concept of field work carried out in the company. After cleaning 400 data in the study, 321 valid questionnaire data were obtained. In the measurement of the variables, a questionnaire form based on 5-point likert type questions was used. Statistical package programs and dependent and independent variables were subjected structural equation modelling was preferred in our study.

In addition, the Cronbach Alpha values of the factors above 0,7 showed that the scales used were reliable. Correlation analysis was used to test the hypotheses and regression analysis was performed (Awang, 2012). When Figure 1 is examined, regression and correlation coefficients between variables and questions are observed. The mediation relationships for the determination of direct and indirect effects are given. As all effects are significant, it appears that innovation capabilities and differentiation strategies have a positive impact on market performance.

When we evaluate the firm's market performance with the innovation capabilities of the firm, the innovations made by the firms' products increase (indirectly) the market performance through differentiation strategies. Accordingly, the positive influence of innovation capability on differentiation strategies is remarkable. Differentiation Strategies also have a positive and significant effect on market performance. According to these results, all of the research hypotheses were confirmed.

The top management in the companies should evaluate the opportunities that arise for the competitive position in the market and make the necessary investments by using the resources and capabilities of the firm in the decisions to be taken and produce the products and services in a new and different way with the experiences they have, thus providing superiority in terms of market performance. Management should make the necessary investments by making good use of the resources and capabilities of the firm in the decisions to be taken, and produce products and services in a new and different way by continuously developing with the experiences they have, thus obtaining a competitive advantage. For the competitiveness, companies should follow the technological developments and work on the change taking into consideration the market, activities and firm structures. By choosing a competitive environment, a loose and comfortable environment should be abandoned, local markets should be reduced by focusing on

the global market. A company that has this idea will create development by creating added value both for itself and for its country and will be able to compete in national and international markets.

As a result of our research, the findings are obtained within the framework of various research limitations and should not be generalized for companies operating in other regions since it covers only one region. The number of samples can be expanded in future studies on different provinces and companies. Different results can be obtained in different sector groups and different sample sizes. Our research was carried out with data collected from a high-performance company located in Turkey. Afterwards, the results may be different when working in different countries or small-scale companies.

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