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Creation of Strategic Flexibility and Core Competence

Introduction

This chapter aims at validating the constructs involved and building structural equation models to test the theoretical framework and relevant propositions of this book based on data collected in China. This chapter is organized around four sections to offer some critical golden rules concerning how to create strategic flexibility and core competence for superior customer focused performance. The first section explores the reliability and validity of the constructs and their relevant measurement models. And the second section presents the results of structural equation model building and proposition testing using data from customer survey and from the senior manager survey. In addition, we also apply some basic statistical techniques to analyze the combined data based on the senior manager survey and the customer survey to complement the above-mentioned testing in the third section. Finally, we will discuss the implication of these strategic elements and offer golden rules to international business.

Construct validation and relevant measurement models

As many researchers believe, for theory development and testing, a necessary requirement is to validate the constructs, which pertains to the investigation of the degree of correspondence between constructs and their measures (Bagozzi et al., 1979; Peter, 1981). Furthermore, following the two-step approach in the application process of structural equation models as recommended by Anderson and Gerbing (1988), it is also necessary to assess the adequacy of each multi-item scale in capturing its construct by checking internal consistency reliability, convergent validity and discriminant validity before testing the propositions via the causal models. Since the aspects of validity and reliability can provide
necessary information for inferring construct validation (Bagozzi, *et al.*, 1979; Churchill, 1979), this section presents the results for assessing the validity and reliability of the constructs involved in this book based on the data from both customer survey and manager survey.

**Steps of validation**

Validity is concerned with the presence or absence of systematic variation in a measure (Peter, 1981), which is synonymous with accuracy or correctness. Validation efforts on measurements in business research are typically based on guidelines provided by psychological measurement theory given that hypothetical constructs are usually unobservable and measures have to be developed at least to partially represent the constructs. Accordingly, the ability to correctly identify significant relationships among latent variables depends on our ability to adequately measure those variables. Therefore, as suggested by Schwab (1980), construct validation is a necessary and major element in the process of business research.

There are three steps and several types of evidence for the construct validation. The first step is the identification of a group of measurement items that are thought to measure the construct, which is commonly refereed to as content validity in the literature (Nunnally, 1978; Carmines and Zeller, 1979; Pedhazur and Schmelkin, 1991). It is also called face validity that is some kind of non-empirical analysis and focuses on the adequacy with which the domain of the characteristics is captured by the measure (Churchill, 1995). In general, measures that have undergone extensive development and scrutiny are judged to be more valid than those that are proposed haphazardly (Peter and Churchill, 1986). The second step is construct validity, which has been defined as representing the correspondence between a construct and operational procedure to measure or manipulate that construct (Schwab, 1980). It is usually considered as a multifaceted process for assessing the adequacy of measures. Generally speaking, establishing construct validity involves the empirical assessment of the adequacy of a measure and requires that three essential components be established: unidimensionality, reliability and validity. The third step refers to nomological validity or substantive validity, i.e. the determination of the extent to which a construct relates to other constructs in a predictable manner, which is essentially hypothesis testing.

**Content validity and its assessment**

Content validity refers to the extent to which a measurement reflects a specific domain of content (Carmines and Zeller, 1979). In this book,