The structure of strategic capabilities, implications for organisational agility and superior performance: a conceptual framework

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Abstract: Over the last decade new theories of superior business performance have emerged from the work of marketing, strategy, organisational theory and economics. This new perspective, more prominently known under the labels of resource-based view (RBT) of the firm, has formed the basis of many conceptual research studies. Capabilities are conceptualised and operationalised as activities that enable the utilisation and co-ordination of resources. Investments in the development of capabilities to optimize the efficiency of capacity in utilizing and the coordination of resources have profound implications on the degree of agility of an organization, and have direct and indirect effect on the creation and sustenance of superior performance. Based upon this work and developments in the marketing strategy literature, in this study we develop a conceptual model which links these different explanations of superior performance and renews original ideas in terms of the drivers of success and superior performance. As we know, competition is approached as a dynamic phenomenon and, therefore, firm success is not permanent. Therefore, it is hypothesized that developing high levels of agility permits organizations not only to adapt but also to precipitate change in the market and achieve superior performance.

Keywords: *Organisational Capabilies; Agility; Superior Performance*

1. INTRODUCTION

Firms that fail to be agile might find themselves losing market share and competitive advantage. Organisations have accepted the fact that turbulence in the marketplace is uncontrollable and unpredictable, limiting firms' ability to respond effectively in a pre-planned manner (Das, 1995). Agility is an emerging theory on strategic change for organisations which could be considered as a unifying concept encompassing speed of reaction and acuity of reading environmental dynamics encompassing the ability to respond to changes in a timely and appropriate manner in the face of uncertain and rapidly changing competitive forces in the marketplace. The most comprehensive definition of agility to-date, is "the ability to thrive in an environment of continuous and often unanticipated change" (Advanced Research Programs Agency [ARPA] and the Agility Forum).

2.1 Organisational Capabilities and Agility the Context of this Research

The resource-based view examines strategic capabilities as a pool of internal resources that are strategically important for the creation of customer value and competitive advantage (Penrose, 1959 in Foss, 1997; Rumelt, 1984; Wernerfelt, 1984; Barney, 1991; Amit and Schoemaker, 1993). Burgeoning management literature highlights examples where organiations with particular skills and capabilities have been able to out-perform their rivals (Coyne 1986; Ghemawat 1986; Grant 1991; Hall 1989; Stalk et al., 1992; Williams 1992). The dynamic capability perspectives (Teece et. al., 1997) emphasises that the distinctive competencies of external actors, such as buyers and suppliers, are among the driving factors in vertical integration or de-integration decisions (Lorenzoni and Lipparini, 1999).

2.2 Market Orientation and agility

Kohli and Jaworski (1990) and Narver and Slater's (1990) conceptualisation of marketing orientation "share the same nomological network" with the three components of each model "tapping similar domains". Narver and Slater's (1990) inter-functional coordination component focuses upon activities directed at increasing interdepartmental cooperation in addition to the generation, dissemination and response to market intelligence. In contrast, Kohli and Jaworski's (1990) intelligence dissemination and responsiveness components distinguish between formal/informal dissemination procedures and design/implementation response types.

Market orientation reflects a culture that encourages organisational learning behaviours in order to create and maintain profitable relationships with customers. Day (1994), linking the resource-based approach to strategy with the philosophy of the marketing concept, suggested that market-driven organisations tend to have superior outside-in capabilities, i.e. customer-linking, and channel bonding capabilities. Market orientation has also been linked to a firm's innovativeness (Hurley and Hult, 1998). Market orientation can contribute to agility through acquiring and processing market information that permits the organization to be response to changing market conditions.

P1: Market orientation is positively associated with agility.

2.3 Market Sensing Capability and agility

Market sensing capability is a concept that is more encompassing than market orientation as it involves the firm's ability to absorb new information and interpret it (Cohen and Levinthal, 1990, Day, 1994). A firms' market sensing capability is important to achieve superior financial performance (Dickson, 1992, Sinkula, 1994; Slater and Narver, 1995). A superior ability to sense the market and absorb the incoming information is critical to a firm's success, given the accelerated developments in markets and technology, the explosion of data availability, and the importance of anticipatory and/or preemptive moves typical most markets. Thus, a firm's market-sensing capability is very important source of sustainable advantage as it is socially complex and difficult to imitate (Day, 1994; and Slater and Narver, 1995). Thus we conclude that marketing sensing is having the necessary antenna to detect change and prepare organizations for effective response. Hence

P2: Market sensing capability is positively associated with agility.

2.4 Organisational innovativeness and agility

Innovation is a widely used, complex construct, and a variety of organisational and contextual factors affect its adoption. (Damanpuur, Szabat and Evan 1989). Innovation is defined as the adoption of an idea of behaviour – whether pertaining to a device, system, process, policy or program.

Innovation is one of the routes to superior financial performance and innovation permits organizations to adapt to the changing environment, be it changes in structures, processes and products (Damanpour & Evans 1984) as competition increases (Han, Kim & Srivastrava 1998). Innovation allows firms to meet customer needs more timely compared to less innovative firms (Atuahene-Gima 1996), to ensure survival in this rapidly changing market place. Marketing literatures indicate there is a positive relationship between innovation and organisational performance and between. Therefore, we argue that innovation is a response to organisational challenges that leads to agility. Hence

P3: Organisational innovation is positively and significantly associated with agility.

2.5 Organisational Learning

Organisational learning refers to the development of new knowledge or insights in the organisations, which have the potential to influence the firm's behaviour. The generic literature of organisation studies is replete with concepts embodied in adaptation (Chakravarthy, 1982), coping (Schein, 1996) and learning (Fiol and Lyles, 1985). Researchers have suggested that organisational learning can be a very important determinant of competitive advantage and superior performance (Fiol and Lyles, 1985; Levitt and March, 1988; Sinkula, 1994).

For decision makers, learning provides an approach for continuous fine-tuning of organisational issues and knowledge utilisation in a competitive climate (Kiernan, 1993; Stata, 1994). Learning can lead to superior performance because it lowers the cost of production (eg experience effects), it can lower the cost of resource accumulation (Dierickx and Cool, 1989) and it increases the reliability of the outputs of the organisation (Levinthal and March, 1993). We argue that organisational learning is critical to agility. New learning must be integrated with the past experiences to minimise learning time and maximise response capability. Hence

P4: Organisational learning is strongly associated with agility.

2.6 Organisational Memory

Organisational memory is fundamental to effective organisational learning, and survival. Organisational memory is crucial because of the high employee turnover in organizations. As employees and managers leave while at the same time what the organization has learnt must remain. This suggests that learning must be internalised, stored in accessible form including routines, scripts, memos, and standard operating procedure (Huber, 1991). Sinkula (1994) refers to organisational memory as a place where practices of the organisation are stored or filtered.

Filter, Sinkula noted, is an indicator of organisations' age and growth, such that "older and larger organisations have more well developed memories and report using their market information less because they have become proficient at separating relevant from irrelevant information" (p. 42). Dixon (1992) describes organization memory as "a sorting device for identifying successful practices" (p. 44). However, in rapidly hanging environments organisational memory may quickly become obsolete and in fact work against agility and organisational success (Sinkula, 1994). Hence

P5: Organisational memory is negatively associated with agility.

2.7 Agility

Organisational agility is clearly fundamental to research in marketing and strategic management (Hrebiniak and Joyce, 1985; Nayyar and Bantel, 1994; Jennings and Seaman, 1994; Das, 1995; Zammuto, 1988; Mckee, et al., 1989; Tushman and O'Reilly III, 1996; Oktemgil and Greenley, 1996). Kanter (1989) highlighted the need for firms to actively respond to an accelerated, turbulent environment. Honda defeated Yamaha in the "motorcycle wars" in the 1980s is often quoted as an example of how an agile competitor can beat a more powerful adversary. The Asian Financial Crisis saw that flexible and agile organisations were able to swiftly position their strategic assets and resource to adapt and survive. Organisations are gradually accepting that turbulence in the marketplace is uncontrollable and unpredictable limiting firms' capability to respond effectively in a pre-planned manner (Das, 1995).

Nayyar and Bantel (1994) introduced the concept of 'competitive agility', which is defined as a source of competitive advantage incorporating both competitive speed and variety. Bourgeois (1994) also considered competitive agility and its relationship to organisational learning. Competitive agility could be considered as a unifying concept encompassing competitive speed, acuity and variety. Agility is the ability to identify and capitilise on emerging market opportunities (Chakravarthy 1982; Miles and Snow, 1978). However, the level of agility that firms can achieve may be resource constrained (Oktemgil and Greenley, 1996). The concept differs from adaptability as it involves ability to respond to multiple contingencies simultaneously; it implies ability to respond quickly and occasionally to precipitate change; and it implies clarity (acuity) in observing and interpreting environmental dynamics. Competitive agility is an attribute consistent with the resource-based view being defined as the ability of an organisation to respond to changes in the environment in a timely and appropriate manner in order to face the substantial, uncertain, and rapidly changing competitive forces in the marketplace (Das, 1995), an attribute of a systematically developed distinctive resource that can provide a sustainable competitive advantage (Nayyar and Bantel, 1994).

It is apparent that agility, or nimbleness, is becoming well recognised as an important source of superior organisational performance (Stalk et al., 1992). Several studies have found that the ability to act quickly in response to environmental and competitive pressures puts a firm in a relatively better competitive position especially in high-velocity environments (Bourgeois and Eisernhardt, 1988; Eisernhardt, 1989; Judge and Miller, 1991), and where there is for a rapid response to competitors' actions (Smith et al., 1991). Hence

P6: Agility is positively associated with marketing effectiveness;

P7: Agility is positively associated with financial performance.

2.8 Marketing Effectiveness

Marketing effectiveness is measured by achievement of intermediate organisational objectives such as gaining market share, successful introduction of new products, is positively related to achievement of long-term financial performance (Mavondo, 1999, Vorhories et al, 1999). Hence

P8: Market effectiveness is positively associated with financial performance.

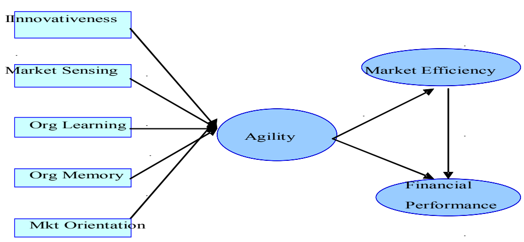

Figure 1. Conceptual model – Organasational Capabilities, agility and superior performance.

3. RESEARCH IMPLICATIONS

This paper brings forth the literature of marketing strategy in explaining agility and ultimately superior performance. In particular, future work in the marketing strategy field emphasising aspects that are not well-addressed especially in the area of agility, could be very important in the development of this stream of research into this area. Some areas where marketing can make such a contribution are discussed here. Identification and understanding of the main drivers of customer value and why certain resources can be more valuable than others from the customer's perspective should be an important area of research. Marketing researchers can also make a major contribution by understanding and providing theories that describe and explain how the deployment of resources (capabilities and assets) is translated into superior performance through agility. Also, marketing research can inform the strategy dialogue on knowledge-related resources (organisational learning, market sensing, organisational innovativeness, and organisational memory) from a market and customer based perspective (Day, 1992, 1994).

Further research could be oriented towards empirical testing of the conceptual model proposed here. This testing could involve some methodological difficulties. In fact, valid measures need be developed for market sensing capabilities, innovativeness and organisational memory. Market orientation could be measured using Narver and Slater's (1990) measure, while structural equation modelling (e.g.LISREL) could be the way of approaching the modeling and measuring difficulties simultaneously.

4. DISCUSSION

In today's increasingly competitive business environment, competition becomes a dynamic phenomenon, as market changes rapidly, and the rules of competition changes, together with technology changes and, therefore, firms' success would also not be permanent. In fact, it can be erased in a second. However in light of the dynamic competition of today, there are companies that can overcome adversity and, more importantly, maintain or strengthen their competitive positions over time, despite the attack of competitors. In general, firms that can do well are firms that have an orientation to the market (consumers, competitors and technologies), develop learning capabilities, use the accumulated knowledge in innovations and try to offset competitor's advantages through being more agile. Successful firms should not only be able to leverage on its bundle of resource and capabilities to facilitate the appropriation of rents but also achieve agility. All these intangible resources – market orientation and knowledge-related resources are key to superior performance, and therefore, need to be developed and enhanced by managers. However, a more important implication of the proposed model is that there are certain interrelationships between these concepts. In fact, we suggest the presence of synergistic effects. Market orientation not only enhances agility but also indirectly influences performance. The development of market-sensing capabilities, organisational learning capabilities and organisational memory and organisational innovativeness may facilitate the generation of agility. Thus, managers need to take a more holistic or systematic perspective these valuable capabilities and resources that underpin agility, because of the presence of the proposed interrelationship which could suggest that agility is a capability, which is dependent on organisations' developing other capabilities. Managers cannot depend on the solutions of the past to manage turbulent and rapidly changing environments. In order to develop and sustain agility, firms may need to develop supporting capabilities and resources. Therefore, agility is an important concept that could merit further investigations as it may have implications for marketing effectiveness and financial performance.

5. REFERENCES

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