

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Understanding Organizational Capability and Their Strategic Role Impact on Firms Business Performance

Brahmane Jayant Shaligram

Doctoral Research Scholar, National Institute of Industrial Engineering (NITIE), Mumbai, India

Abstract:

This paper attempts to study the role of various organizational capabilities such as R&D, innovation, supply chain management, manufacturing, and marketing and their effect on organizational performance with strategic implications. Very few studies have been done in the field of linking organizational capabilities and business performance. The model of organizational capability and business performance proposed in the paper is one of the useful tools to understand dynamic capability. Paper focuses on theoretical rigor which helps to conceptualize and creates a platform for research scholars for further extension of study in the form of empirical work. It would also be helpful for managers to benchmark their strategies.

Keywords: *Organizational capability, business performance, changing environment, strategy*

1. Introduction

The most distinctive features of market-driven organizations are their mastery of the market sensing and customer linking capabilities (Day 1994). Market based organizational learning has been identified as an important source of sustainable competitive advantage (Vorhies and Morgan 2005). Market driven business units developed higher level of six vital marketing capabilities (in the area of market research, pricing, product development, channels, promotions and market management) than their less market driven rival business units on the four measures of organizational performance viz. growth, profitability, customer satisfaction and adaptability (Vorhies, Harker, and Rao 1999).

In order to understand capabilities, one needs also to understand the processes of interaction and inter organizational learning (Croom and Batchelor 1997). In recent years management scholars sought to integration of resource based view and dynamic capability approach within the field's epistemological orientation to provide normative framework for practicing managers (Pandza et.al. 2003b). Capabilities of a dynamic nature, aside from being a source of new resources for the company, provide a solid instrument for the organization's strategists. These capabilities allow the activation and redirection of the complex framework of economic and organizational factors. Dynamic capabilities are key factors in optimizing the strategic course of the company's future (López 2005).

As Managers become more responsible for their own strategic decision making, the clear understanding of enterprise's specific capabilities and advantages are required in order to achieve sustained competitive advantage (Benedetto and Song 2003).

The core innovation assets (R & D, manufacturing and marketing) alone can not lead to sustainable export growth. On the contrary, the supplementary innovation assets (learning, research, organizational resource allocation and strategy planning) not only enable the firm's technology assets to permeate into the entire competency integration, but also make it possible for firm to acquire sustainable international competitiveness (Guan and Ma 2003).

Companies with high adaptive capability seemingly perform better than low adapters, despite the implication of high cost and inefficiency (Tracey, Lim, and Vonderembse 2005). Short product life cycle in fashion retailing present number of marketing challenges for retail firms. In order to survive in this industry, it is vital for participant to develop and leverage core marketing capabilities (Moore and Fairhurst 2003).

2. Organizational Capabilities

Capabilities can be usefully sorted into three categories, depending on the orientation and focus of the defining processes. At one end of the spectrum are those that are deployed from the inside out and activated by market requirements, competitive challenges, and external opportunities. Examples are manufacturing and other transformation activities logistics, and human resource management, including recruiting, training, and motivating employee.

At the other end of the spectrum are those capabilities whose focal point is almost exclusively outside the organization. The purpose of these outside-in capabilities is to connect the processes that define the other organizational capabilities to the external environment and enable the business to compete by anticipating market requirements ahead of competitors and creating durable relationships with customers, channel members, and suppliers.

Finally, spanning capabilities are needed to integrate the inside-out and outside-in capabilities. Strategy development, new product/service development, price setting, purchasing, and customer order fulfillment are critical activities that must be informed by both external (outside-in) and internal (inside-out) analyses (Day 1994).

Focus on marketing capabilities in times of crisis may be less profitable than possessing the capabilities for strategic flexibility, especially as competitive intensity increases (Combe and Greenley 2004). Some studies found that market research capabilities and marketing management/planning capabilities are crucial to the success of market-driven businesses (Day 1994; Vorhies, Harker, and Rao1999).

Changing Environment Drivers	Strategy Drivers	Implementation Process/Tools	Supporting Capability	Studies by Authors
Rising Expectations	Quality	Self managing teams, ISO 9001:2000, TQM	Manufacturing	Day 1994 Guan and Ma 2003 Forker 1996 Albert 2005
Technology	Information Network	Reengineering	Supply Chain Management	Tracey, Lim, and Vonderembse 2005 Tracey 2005
Competition	Core competency	Strategic alliance	Marketing, Supply Chain Management, Manufacturing, R&D	Day 1994 Guan and Ma 2003 Tracey, Lim, and Vonderembse 2005 Tracey 2005
Service	Software Augmentation	Learning Organization	Supply Chain Management, Innovation	Guan and Ma 2003 Weerawardena 2003 Pandza et.al. 2003a
Erosion of brands	Innovation	Expeditionary effort	R&D	Guan and Ma 2003
Globalisation	Think Global	Transnational organization	Marketing, Supply Chain Management, R&D	Day 1994
Fashionisation	Speed, Store image differentiation	Breaking hierarchis	Marketing, Supply Chain Management	Moore and Fairhurst 2003 Oktengil and Greenley1997
New constraints	Stakeholders	Multiple Stakeholder oriented profile, Role of the board	Marketing	Greenley, Hooley and Rudd 2004

Table 1: Changing environment and capability

Major organizational capabilities have been categorized into different segments based on strategic aspects and changing environment.

3. Changing Environment and Capability

Table 1 shows different trends in changing environment and different strategy and capability support which would be helpful for better performance of organization. While creating model dynamic capability view is taken into account. Fig.1 shows model of organizational capability and business performance. Environmental changes are input while capability based strategic solution is related to output which is business performance. The model takes into account customer as a separate entity.

4. Performance Measure

To optimize path of organizational capabilities, companies tend to spend more on developing different skill-sets which might produce same result which can be achieved by developing single skill-set. Therefore, need for benchmarking is one of the important aspects of identifying and enhancing capabilities. According to Vorhies and Morgan. (2005), marketing capabilities associated with superior business performance can be identified and that the marketing capability gap between top-performing benchmarks and other firms explains significant variance in business performance.

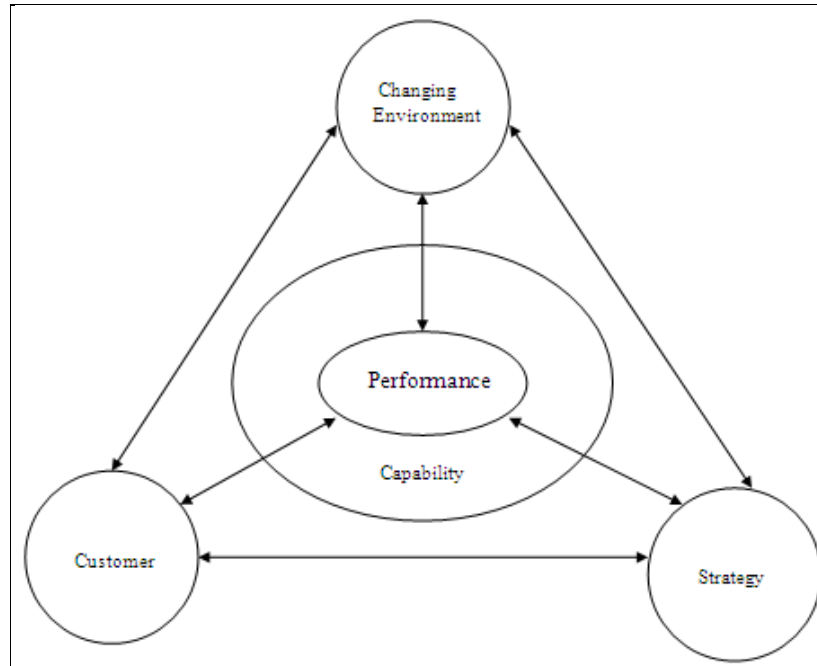


Figure 1: Model of organizational capability and Business performance

There are two views of organizational capability. Some of the researchers state that organizational capability lies in resource based view of corporate strategy and relates to the use of resources in the attainment of firm's strategic goals and objectives (O'Regan, and Ghobadian 2004). Resource Based View approach does not adequately explain the process via which some firms reach position of competitive advantage in dynamic market or in situation of change. Dynamic Capability View approach evolved from resource approach helps in generation of firm's core competency (López 2005).

Significant potential business performance benefits can be available from successfully benchmarking marketing capabilities. Market-based learning should include learning from competitors and peers. Market - oriented firms require strong marketing capabilities (Day 1994; Vorhies and Morgan 2005).

5. Implications for Marketing Theory

Companies must sustain certain types of capabilities regardless of industry in order to remain competitive (Day 1994, Tracey, Lim, and Vonderembse 2005). At the organizational level, the supply chain management functions of physical distribution and supply chain management spanning processes directly create value for customers and affect a firm's performance (Tracey, Lim, and Vonderembse 2005). Model developed through conceptualization of various aspects of organizational capability and business performance (Fig. 1) can serve as a useful tool for managers in strategic decision making and implementation.

6. Limitation

Although different orientation to the concept of organizational capability and its implications to strategy and business performance are discussed here, more in-depth empirical study will be needed for developing better understanding of concept.

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