

# Identifying and Exploiting the Inter relationships between Technological and Marketing Capabilities

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This paper deals with a fundamental challenge for decision makers – how to identify which firm capabilities to develop and which ones are no longer important in order to gain and sustain a competitive advantage. We propose an approach that measures technological and marketing capabilities in an integrated fashion, identifies core capabilities, explores their interrelationships and provides guidance for a dynamic technological and marketing strategy. The proposed methodology is illustrated by and applied to the case of Gorenje, a European manufacturer of household appliances, which faces the challenge of reconfiguring its existing capabilities to (re)gain a competitive advantage. The case study identifies two capabilities that integrate research and development with marketing and thereby create additional value. We show how to identify the integrative capabilities and how this integration takes place in Gorenje, while suggesting that Gorenje's strategy should be based on the co-ordinated development of the key core capabilities we identified.

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## Introduction

For many practitioners in the business community, the key challenge is to identify and develop their firm's core capabilities promptly in order to gain and maintain a competitive edge.<sup>1</sup> A profound understanding of the firm's core technological and marketing capabilities and, in particular, their interrelationships, is crucial as it enables managers to identify which capabilities should be sustained

and developed and those that will become irrelevant and should therefore be eradicated. This premise raises some important questions with far-reaching practical and theoretical implications: how can firms identify and evaluate which technological and marketing capabilities can constitute a unique set of strategically-important capabilities and gain a competitive advantage? How can firms account for the interrelationships between technological and marketing capabilities to capture the synergic effects that might arise from their improvements? Finally, once identified, how can a firm select the set of core technological and marketing capabilities and co-ordinate their development to improve performance?

This paper offers a methodological tool for identifying and evaluating technological and marketing capabilities in an integrated fashion. Existing methodologies focus on separately measuring both sets of capabilities (their main effects) and usually neglect the synergies between these complementary capabilities (their interaction effects) which can play a crucial role in the innovation process and augment firm performance.<sup>2</sup> The proposed methodology that builds on the resource-based view of the firm upgrades the existing models by addressing the integrated measurement of technological and marketing capabilities.<sup>3</sup> We posit that the interaction effects can be captured by analysing the role that capability holders, who are the sources of marketing, industrial design and technological knowledge, play throughout the innovation process. This enables a firm to examine first how different groups of capability holders interact and to then identify those capabilities that integrate the others in the innovation process.

This comprehensive, albeit pragmatic, methodology is tested in a case study. The firm involved, Gorenje, is one of the largest European household appliances manufacturers and faces the challenge of developing a strategy to build a competitive advantage in its industry. The selected case provides a suitable empirical context for testing since radical technological innovations are impossible on a larger scale in this industry. In this environment, the dynamic development of a firm's interrelated core technological and marketing capabilities provides the main lever for innovations and comprises an important strategic asset of the firm.<sup>4</sup>

The paper has both academic and managerial dimensions. From the academic perspective, the presented methodology makes a twofold contribution. First, it represents a research approach that simultaneously evaluates core technological and marketing capabilities as well as their inter relationships at the firm level. Second, the research indicates which technological and marketing capabilities are complementary and will enable interfunctional synergies. From a practical perspective, the case study shows how firms can use our research methodology to develop a successful business strategy with regard to capability development or availability.

The paper is organised as follows. The first section reviews the existing methodologies used to measure technological and marketing capabilities. In the second section we describe a methodological tool to identify and evaluate core marketing and technological capabilities in an integrated fashion. We apply the tool to the case of Gorenje in the third section. Competitors' strategic moves are also briefly discussed to support the suggestions made in the case. Finally, we discuss the theoretical and practical implications of the proposed approach, address the study's limitations and identify some possibly fruitful avenues for further research.

## **Technological, marketing and complementary capabilities as sources of a firm's competitive advantage**

Recent strategic management literature highlights how firms can build a competitive advantage based on a combination of core technological and marketing capabilities.<sup>5</sup> A firm with strong technological capabilities is capable of using scientific knowledge to develop products and processes promptly that offer new benefits and create value for customers.<sup>6</sup> A firm with strong marketing capabilities is able to use its deep understanding of customer needs to foster the development of new products and organise marketing activities that provide a unique value to consumers.<sup>7</sup> In addition to each of the direct effects discussed above, technological and marketing capabilities operate in an integrated fashion. Their influence on firm performance moves above and beyond the technological

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