

Does industry matter? Examining the role of industry structure and organizational learning in innovation and brand performance

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Abstract

A manager’s perception of industry structure (dynamism) has the potential to impact various organizational strategies and behaviors. This may be particularly so with regard to perceptions driving organizational learning orientations and innovation based marketing strategy. The position taken here suggests that firms operating within a competitive industry tend to pursue innovative ways of performing value-creating activities, which requires the development of learning capabilities. The results of a study of SMEs suggest that market focused learning, relative to other learning capabilities plays a key role in the relationships between industry structure, innovation and brand performance. The findings also show that market focused learning and internally focused learning influence innovation and that innovation influences a brand’s performance.

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1. Introduction

The strategic marketing literature reflects a growing interest in the role of competitive environment on a firm’s marketing strategy and performance (e.g. McKee et al., 1989; Gruca and Sudharshan, 1995; Day and Wensley, 1988; Cooper, 2000). Some researchers have examined the influence of competitive environment on innovation, which is a central strategy pursued by firms for value creation and gaining positional advantages in competitive markets (e.g. Cooper, 2000), whilst others have examined the impact on market adaptability (e.g. McKee et al., 1989), market orientation (e.g. Slater and Narver, 1995) and brand performance (e.g. Gatignon et al., 1990).

In relation to competitive environment and firm capabilities the industrial organization and resource-based views have traditionally produced competing explanations for the persistence of unequal returns (Powell, 1996) and are seen as being at odds with each other. However, it has been suggested that in fact the two views may complement each other in explaining firm performance (Amit and Schoemaker, 1993; Mahoney and Pandian, 1992). As yet, empirical studies examining these complementarities have been limited, however, the processes through which industry structure influences competitive marketing strategy may offer the potential for improved understanding of environment-firm impacts on brand performance. Drawing on organizational learning theory and strategic choice theory, it is argued that a firm’s strategic adaptation occurs through managerial perceptions of its industry environment. As such, the focus here is on exploring the relationship between industry environment, organizational learning, innovation and a firm’s brand performance.

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2. Theoretical foundations of the environment-capability conceptual model

The position taken here (see Fig. 1) is that industry structure potentially impacts firm performance—through the primary strategy pursued. This primary strategy determines the type of distinctive capabilities the firm is required to build and nurture, and that a firm within a highly competitive industry, attempting to achieve advantages, must conceive of new ways of performing activities in the value chain—which is an act of innovation.

The types of primary strategy, particularly innovation, require effective learning, and in effect, learning acts as a key antecedent of innovation and even the performance of a firm’s brand. In this context, organizational learning may provide a meaningful foundation to explore the industry effects on firm specific innovation and brand performance (see Fig. 1).

2.1. Industry structure and learning

During the last decade, exploration of the theoretical links between industry structure and a firm’s capability building activities has occurred. One of the approaches in this area is the ‘competition leads to competence’ approach (Barnett et al., 1994; Rao, 1994; Levinthal and Myatt, 1994), which suggests that as firms learn how to overcome specific competitive challenges, they develop potentially valuable resources and capabilities. These resources and capabilities, in turn, can give firms important competitive advantages—advantages not available to firms that did not have to respond to competitive threats by developing relevant competencies (Barney and Zajac, 1994).

A related model in this area is labeled the ‘naïve evolutionary model’ (cf. Barnett et al., 1994). This model suggests that organizational learning is strengthened by competition. Here, industry structure (or dynamism) is

viewed as a precursor to market opportunity and the greater the uncertainty and change (dynamism) within an industry, the greater the market opportunity that exists (Dean et al., 1993). According to this model, in a dynamic industry environment firms tend to undertake greater learning.

Although, over the last decade, marketers have fully embraced the organizational learning concept, their primary focus has been on market focused learning which has primarily evolved within the market orientation literature (Kohli and Jaworski, 1990; Slater and Narver, 1995). However it has been argued that market orientation is not a sufficient condition to facilitate the type of innovation that creates long-term competitive advantage (Baker and Sinkula, 2002) and recent literature suggests the need to incorporate all forms of learning pursued by a firm in its drive for innovation. Included among the various sources of learning available to a firm are market focused learning, internally focused learning and relationally focused learning. Market focused and relationally focused learning capabilities are externally oriented, whereas internally focused learning capabilities reflect a firm’s capacity to learn from internal sources and are constrained within the company. In the conceptualization of learning activities marketers have often adopted the process school of organizational learning. The proponents of this school conceptualize learning in terms of three processes, encompassing knowledge acquisition, dissemination, and the use of knowledge (Huber, 1991; Slater and Narver, 1995). In addition to these the marketing literature emphasizes the importance of a fourth process, unlearning. Unlearning is a process of intentionally discarding past beliefs which are not productive anymore (Day, 1995).

2.2. Market focused learning

Market-focused learning is the capacity of the firm to acquire, disseminate, unlearn and use market information

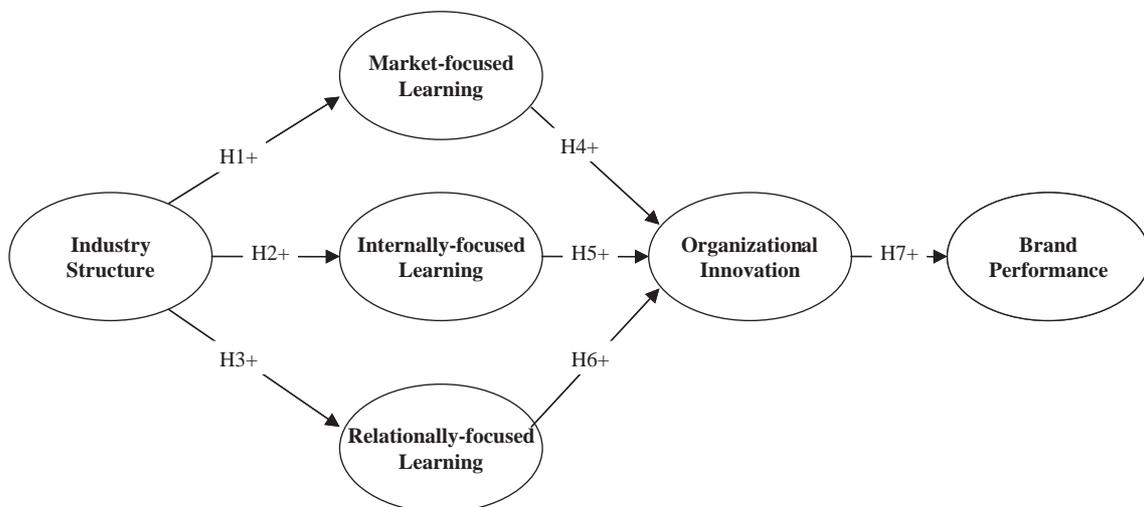


Fig. 1. Environment-capability conceptual model.

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