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Dual capabilities and organizational learning in new product market performance

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ABSTRACT

This article investigates how dual capabilities of influencing external environments (i.e., the capabilities to influence government and to influence industry) can affect new product market performance (NPMP) in emerging markets and how organizational learning (via exploratory learning and exploitative learning) moderates this process. From the responses of 201 firms in China, we find that capabilities to influence government positively affect new product market performance, while capabilities to influence industry have an inverted U-shaped effect on NPMP. Both the capability to influence government and the capability to influence industry are more beneficial when matched with exploratory learning, whereas exploitative learning weakens both of their effects on NPMP. Overall, in this paper, we further develop the understanding of these dual capabilities and their linkages with NPMP, thus extending the view of institutional theory that emphasizes that firms must passively adapt or respond to institutional pressures in an emerging economy. Our work also provides specific managerial guidance to firms in emerging economies to achieve high NPMP by leveraging their dual capabilities, together with their internal learning capabilities.

1. Introduction

New product development increasingly represents the focal point of competition for many firms (Ernst, 2002; Li, Liu, & Zhao, 2006; Page & Schirr, 2008). Particularly in emerging markets such as China, firms consider new product market performance (NPMP), which refers to the marketing performance of new products in terms of their sales as a percentage of total sales, a critical determinant of firm performance and survival (Atuahene-Gima & Murray, 2007; Luo, 2003; Ozer, 2006). As market competition becomes more and more intense, external market environments have a strong influence on new product market performance; thus, firms must pay attention to changes in the market environment as they pursue high NPMP (Ettlie & Subramaniam, 2004; Sheng, Zhou, & Li, 2011). Meanwhile, because heavy government involvement is still common (Luk et al., 2008), firms in emerging markets such as China must face the high uncertainty that comes from both imperfect market mechanisms and the powerful but unstable role of government (Megginson & Netter, 2001; Ozer & Chen, 2006; Peng, 2003; Siu, 2005; Wright, Filatotchev, Hoskisson, & Peng, 2005). In such cases, both institutional factors from government and market factors from industry competition may influence NPMP profoundly (Oliver, 1991; Peng, 2003). However, most existing studies examine firms' passive reactions to the external environment (Zhou, Yim, & Tse, 2005). In fact, the incomplete market system and highly uncertain competitive environment in an emerging market may furnish a variety of opportunities in developing new products (Dieleman & Sachs, 2008; Foss & Foss, 2005); firms may no longer simply evolve with their industrial environment but also should make appropriate strategic choices to shape their political environment to maximize economic returns (Oliver & Holzinger, 2008). Thus, we argue that firms need to strengthen their external capabilities through effectively influencing institutional and market environments to create their NPMP advantage.

The existing literature explicitly addresses interactions between firms and their environment (Lewin, Long, & Carroll, 1999), emphasizing that firms can not only adapt or respond to institutional changes by means of an effective strategic choice but also can actively manipulate or influence the institutional environment to achieve their goals (Dieleman & Sachs, 2008; Rodrigues & Child, 2003; Suhomlinova, 2006). For example, the Chinese government has continuously controlled both valuable tangible resources, such as capital and land, and intangible resources such as approval mechanisms and preferential policies (Li & Peng, 2008; Peng, 2003). As a result, firms in China must not only deal with their competitors but also expend resources to affect government to gain the needed resources (He & Tian, 2008). A corporate political strategy perspective suggests that firms can formulate effective political strategies, such as influencing government or government officials, when they realize that government has significant effects on the competitive environment (Hillman & Hitt, 1999; Oliver, 1991). Oliver and Holzinger (2008) further regard the political strategy of influencing government as one type of firms' external capabilities. We view the capabilities to influence government (CIG) and to influence industry (CII) as *dual capabilities*, and assert that they are the most

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important capabilities that firms have in affecting the external environment in an emerging market. Specifically, CIG refers to external dynamic capabilities that can influence firms' political environment for generating future value or protect the current value of the firm from future loss or erosion. We define CII as the ability to influence market actions and decisions of other firms in an industry. Despite the fact that these dual capabilities can play key roles in affecting NPMP, few studies have investigated this issue in emerging economies such as China (Di Benedetto & Song, 2003; Jeong, Pae, & Zhou, 2006), let alone produced empirical evidence of how dual capabilities differently influence NPMP.

Furthermore, the effective leveraging of dual capabilities depends on stronger internal capabilities such as organizational learning (March, 1991). Existing literature views exploratory learning and exploitative learning as the two most important internal capabilities. They not only directly influence new product development practice (Atuahene-Gima & Murray, 2007; March, 1991; Yalcinkaya, Calantone, & Griffith, 2007); but they also guide the evolution of dynamic capabilities by influencing the effectiveness of resource integration, deployment and reconfiguration in the process of exploiting other capabilities of new product development (Eisenhardt & Martin, 2000; Zollo & Winter, 2002). Thus, how firms in emerging markets utilize organizational learning to improve the efficiency of dual capabilities in strengthening NPMP is an important issue.

To address these issues, we develop a conceptual model to explain how dual capabilities influence NPMP and which type of organizational learning can complement specific dual capabilities to aid firms in achieving good NPMP in an emerging market such as China. Unlike previous research conducted in developed countries with market economies, we chose China as a background to explore the theories about dual capabilities. As the largest emerging economy, government interventions and involvement in economic activities in China are much more common than those in developed countries (Peng, 2003). Overall, our study provides three main contributions. First, we investigate how dual capabilities differently affect firms' NPMP. In this way, we complement existing studies by answering the question of how firms achieve their new product performance successfully when they have the power to influence the external environment. Second, we explore how organizational learning (via exploratory learning and exploitative learning) moderates the relationship between dual capabilities and NPMP. Our study advances an alternative, interactive position that may describe more accurately how firms in China facing highly uncertain political and market environments leverage their dual capabilities and implement readily available organizational learning to improve NPMP. Third, our findings have useful managerial implications for managers of firms that want to achieve successful NPMP in China. Based on our results, managers could take a strategic view of the government-market paradox and leverage their capabilities to influence industry and government more effectively to pursue better NPMP.

2. Theoretical background and conceptual model

Institutional theory suggests that firms should obtain legitimacy by conforming to the dominant practice within their institutional fields (DiMaggio & Powell, 1983; Scott, 1992). The theory provides an effective perspective on how institutional context affects new product development practice (North, 1990; Peng, 2003; Siu, 2005; Siu, Lin, Fang, & Liu, 2007). To bridge between innovation strategic choice and the institutional environment, strategies of adaptation and selection are not wholly opposing but instead are interrelated (Volberda & Lewin, 2003). Therefore, firms can develop a set of capabilities to actively influence rather than passively adapt to external environments to achieve their NPMP (Dieleman & Sachs, 2008). Existing studies about this issue deal specifically with emerging markets (Carney & Gedajlovic, 2002; Child & Tsai, 2005; Dieleman & Sachs, 2008; Tan & Tan, 2005). These studies emphasize that firms are not powerless in the face of institutional emergence and changes. Conversely, they can shape the rules of the game, even if they are subject to a high degree of government intervention (Peng & Luo, 2000). For example, research in corporate political strategy has made significant advances in analyzing how firms pursue 'beyond compliance' strategies to respond to institutional pressures (Bansal & Roth, 2000; Darnall & Edwards, 2006). Studies also have defined proactive political strategy as external dynamic capabilities, which can influence or even shape firms' political environment (Oliver & Holzinger, 2008).

Although a market system was implemented in China over two decades ago, the Chinese government still strongly influences the economy and society (Li & Peng, 2008). Thus, most firms in China will experience influence from both formal regulation and informal behaviors of government in their new product development and marketing process (Li, Chen, Liu, & Peng, 2012). To obtain more benefit from government policies, an increasing number of Chinese firms choose to strengthen their capability to influence government (CIG) to create new opportunity for their new products. By leveraging CIG within the highly uncertain environment, firms can reduce political risk in developing and merchandizing their new products and obtain the support of resources and policies from the government to improve NPMP more efficiently.

In addition, firms should pay attention to the CII because emerging-economy countries such as China face more-complex market environmental situations and more-intense competition in the industry than do developed counties. Within the strategy literature, CII refers to a firm's ability to influence other firms (Li, Peng, & Macaulay, 2013) and its market or bargaining power in the industry (Foss & Foss, 2005; Harrigan, 1985; Makhija, 2003; Porter, 1976, 1985). Firms with strong CII could access a good deal of information possessed by competitors or cooperators in the industry, reducing the degree to which negative information asymmetries exist. Thus, these firms have more opportunities to achieve first-mover advantages by developing new products and, as a result, may have better NPMP. In general, firms owning CII can effectively exercise legitimate authority, monitor behavior, and offer a varied set of attractive incentives (Bello & Gilliland, 1997; Gaski, 1986; Gaski & Nevin, 1985; Subramaniam & Youndt, 2005). Based on these findings, both CIG and CII are important external capabilities for manipulating the environment to facilitate new product market performance in an emerging economy.

Furthermore, the effects of these dual capabilities on NPMP cannot be determined conclusively without paying specific attention to the potential benefits and risks of the different types of learning processes such as exploratory and exploitative learning. For example, Atuahene-Gima and Murray (2007) find that exploitative learning has a U-shaped curve effect on new product performance, while the relationship between exploratory learning and new product performance is positively curvilinear, denoting a faster-than-linearly increasing return on new product performance. Li, Chu, and Lin (2010) investigate the complicated effects between exploratory–exploitative learning and new product development performance.

Specifically, exploratory learning refers to searching for or acquiring external knowledge on a product or process that is entirely new to the firm (Li et al., 2012; Zahra & George, 2002). In contrast, exploitative learning relates to applying or refining knowledge similar to the firm's existing product or process (March, 1991; Zahra & George, 2002). Dynamic capabilities logic suggests that the need for exploratory learning is particularly high in turbulent environments, which rapidly make current products obsolete (Eisenhardt & Martin, 2000; Teece, 2007). Consequently, exploratory learning enables firms to take advantage of an uncertain environment through developing new products to meet market needs (Jansen, Van Den Bosch, & Volberda, 2006; Levinthal & March, 1993; Lichtenthaler, 2009). The essential skills for exploitative learning, which mainly focuses on refining and polishing existing knowledge and product, are control, efficiency, and reliability (March, 1991). However, overreliance on exploration can lead to a "failure trap", placing a continuous drain on the organization's resources