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The use of organizational capabilities to increase customer value ☆

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ABSTRACT

The importance of the customer's role in the management of a firm has been increasing for the last twenty years. A firm's organizational capabilities, both internally and externally oriented, are essential for increasing customer value creation and the focus of this paper is on market orientation, knowledge management and customer relationship management. The aim of the study is also to identify possible combinations of these organizational capabilities and to propose and analyze a sequence that will allow the creation of superior customer value. Thus, the authors test how a firm should recombine its existing capabilities when customers demand superior value in the Spanish banking industry. The results show that a specific combination of organizational capabilities can increase the customer value.

1. Introduction

Over the last few decades and in the current climate, a firm's attitude towards the customer is becoming crucial. The role of the customer has changed from that of a mere consumer to one of consumer, co-operator, co-producer, co-creator of value and co-developer of knowledge and competencies (Wang, Lo, Chi, & Yang, 2004). Furthermore, in the complex competitive environment in which firms operate, the customer now expects superior value (Sánchez, Iniesta, & Holbrook, 2009). More and more firms therefore see customer value as a key factor when seeking new ways to attain and maintain a competitive advantage (Woodruff, 1997).

A firm's organizational capabilities are of paramount importance for increasing customer value creation. Managers should therefore focus on developing the capabilities that view the customer as a key component, in order to create maximum customer value. The focus of this paper is on three capabilities: market orientation (MO), knowledge management (KM) and customer relationship management (CRM). Of interest is that, although many individuals consider these capabilities as being internal in nature, because companies develop them all, the growth of a relationship with the customer and the capabilities associated with market orientation depends on considerable external contact.

A review of the existing literature reveals a clear link between each of these three capabilities and customer value. The primary aim of market oriented firms, firms that manage their knowledge or those that manage customer relationships, is to offer superior customer value. However, no single or specific influence is important, but instead, the effect of the three capabilities has to be global and sustainable (i.e., permanent). According to Sirmon, Hitt, and Ireland (2007), merely possessing valuable and rare resources and capabilities does not guarantee the development of competitive advantage or the creation of value; firms must be able to manage them effectively. A firm can therefore create value by recombining its existing resources and capabilities (Morrow, Sirmon, Hitt, & Holcomb, 2007). A firm should be able to reconfigure its organizational capabilities in order to create value continually, which is where dynamic capabilities (DC) come into play.

Although Liyun, Keyi, Xiaoshu, and Fangfang (2008) suggest a possible relationship between these three organizational capabilities, some questions still remain over this theoretical justification, since the published paper only discusses the possible influence of the relationship on business performance. Seemingly, no examples in the literature examine the relationship between the three proposed organizational capabilities, nor consider their impact on customer value. This study addresses the gap in the literature by proposing that a recombination of the three capabilities (MO, KM and CRM) increases customer value and aims to identify how these three capabilities influence customer value. The authors also propose that such a recombination can constitute a dynamic capability (viewed as a black box) which allows a firm to maintain its competitive advantage. The specific research question is: if the customer demands superior value, how should a firm recombine its existing capabilities to be able to offer this superior value?

In short, the aim of this paper is to contribute to the strategic management literature by determining the relationship between the three

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capabilities (MO, KM and CRM) and the potential effects of this relationship, in order to see what happens inside the proposed black box for increasing customer value. The authors attempt to identify possible combinations of the three organizational capabilities and propose and analyze a sequence for creating superior customer value (Barreto, 2010; Eisenhardt & Martin, 2000; Gillis & Castrogiovanni, 2012; Newey & Zahra, 2009; Teece, Pisano, & Shuen, 1997; Wang & Ahmed, 2007; Zahra, Sapienza, & Davidsson, 2006; Zott, 2003).

The paper begins with an explanation of the theoretical context, followed by a presentation of the study model and the positing of a number of hypotheses. The third section contains a description of the principal aspects of the methodology, such as the research context, measures, data collection and the data analysis technique (structural equation modeling, SEM). A discussion of the results and implications of the study follows and the paper concludes with the limitations of the study and possible areas of further research.

2. Theoretical background

The resource-based view (RBV) regards the firm as a bundle of resources and capabilities, and assumes a heterogeneous distribution of these resources and capabilities across firms that persists over time (Ambrosini & Bowman, 2009; Amit & Schoemaker, 1993; Barney, 1991; Barney, Ketchen, & Wright, 2011; BarNir, 2012; Battistella, Biotto, & De Toni, 2012; Maritan & Peteraf, 2011; Wang & Ahmed, 2007). Taking this assumption, academics suggest that when firms have resources and capabilities which are valuable, rare, inimitable and non-substitutable (VRIN), they can use them to implement value creation strategies that can lead to a sustainable competitive advantage (Barney, 1991; Peteraf & Barney, 2003). Thus, a firm's resources and capabilities can lead to value creation through the development of a competitive advantage (Ireland, Hitt, & Sirmon, 2003). Nevertheless, merely possessing these resources and capabilities does not guarantee the creation of value nor the development of a competitive advantage (Priem & Butler, 2001).

Firms must therefore accumulate, combine and exploit their resources to create value (Sirmon & Hitt, 2003). However, very few studies examine how firms and managers should transform their resources to create value (Priem & Butler, 2001).

One of the few studies that analyzes the processes that take place in the development of capabilities to create customer value (Sirmon et al., 2007) identifies the role of the capabilities' configuration design (the so-called mobilizing process), which requires an understanding of the markets and customer needs; the integration of capabilities to generate new configurations (the coordinating process); and the use of the configuration of the capabilities (the deploying process).

The highly dynamic business environment of the 1990s challenged the original assumptions of the RBV, which are static and do not take market dynamism into account (Eisenhardt & Martin, 2000; Priem & Butler, 2001). Consequently, Teece et al. (1997) posited the dynamic capabilities view (DCV) to address that gap. As a result, the current view is that the DCV is an extension of the RBV (Akgün, Keskin, & Byrne, 2012; Ambrosini & Bowman, 2009; Ambrosini, Bowman, & Collier, 2009; Barreto, 2010; Easterby-Smith & Prieto, 2008; Lee, Hwang, & Choi, 2012). The DCV focuses on the firm's ability to face rapidly changing environments, to create and renew resources, and change the resources mix (Ambrosini & Bowman, 2009; Teece et al., 1997).

This concept suggests, therefore, that firms do not only compete because of their ability to exploit their existing resources and capabilities but also because of their ability to renew and develop them (Teece et al., 1997). After a review of some of the numerous definitions of DC (Barreto, 2010; Eisenhardt & Martin, 2000; Newey & Zahra, 2009; Teece et al., 1997; Wang & Ahmed, 2007; Winter, 2003; Zott, 2003; among others), the definition of DC in this paper is the firm's capacity to reconfigure its operational capabilities.

Firms are aware of their customers' demand for superior value and they need to understand how to recombine their existing capabilities to be able to satisfy their customers' demands. The classification of this paper therefore lies within the DCV.

2.1. Market orientation (MO)

By defining *capabilities* as a firm's capacity to use its resources in order to achieve a desired end, and *resources* as stocks of available factors owned or controlled by a firm (Amit & Schoemaker, 1993); the most appropriate description of MO is as an organizational capability.

The definition of MO as a capability refers to a firm's superior ability to understand and satisfy its customers (Day, 1990). Day (1994) points out that MO constitutes a distinctive capability which systematically gathers, interprets and uses market information (Chang & Chen, 1998). According to Kaur and Gupta (2010), in order to build an MO capability, managers need to stimulate market oriented behaviors, by designing market oriented processes.

Grewal and Tansuhaj (2001) identify MO as an important organizational capability for managing economic crises. Similarly, Tuominen, Rajala, and Möller (2004) view MO as a capability that enables firms to carry out activities that process and respond to market information.

MO is therefore one of the operational capabilities proposed in this study, and the definitions of operational capabilities clearly regard MO as such (Ambrosini et al., 2009; Trimi & Berbegal-Mirabent, 2012; Wang & Ahmed, 2007; Winter, 2003; Zahra et al., 2006). Most definitions of operational capabilities in the literature refer to a set of abilities and resources that firms devote to resolving a problem or achieving a result, which then enables them to earn a living in the present. Without these capabilities, the firm could not collect from its customers the revenue that allows managers to buy more inputs and so repeat the whole process (Winter, 2003).

Therefore, following a review of some of the numerous definitions of MO (Alajoutsijärvi, Mainela, Ulkuniemi, & Montell, 2012; Day, 1994; Kaur & Gupta, 2010; Kohli & Jaworski, 1990; Narver & Slater, 1990; Slater & Narver, 1995; Woodruff, 1997; among others), the authors define market orientation as an organizational capability that allows the generation of appropriate market information pertaining to customers' current and future needs; the integration and dissemination of this information across departments; and the coordinated design and execution of the firm's strategic response to market opportunities.

2.2. Knowledge management (KM)

Many researchers recognize that KM is an organizational capability (Chen & Huang, 2009; Gold, Malhotra, & Segars, 2001). A great deal of knowledge belongs to individual people, which hinders the dissemination of this knowledge throughout the firm (Grant, 1996). Firms still require the capability to manage the knowledge to which they have access, to ensure its appropriate use (Chen & Huang, 2009).

Gold et al. (2001) understand the KM capability as the processes that a firm requires in order to develop and use its knowledge. Li, Huang, and Tsai (2009) and Tsai and Li (2007) refer to KM as the capability to create and use knowledge in order to build a sustainable competitive advantage, given that knowledge is a VRIN resource.

For the same reasons put forward that classify MO as an organizational capability, the authors also categorize KM as an organizational and an operational capability. The assumption that KM is an organizational capability implies that firms need to possess a set of resources in order to create, use and share knowledge. Therefore, after a review of some of the many definitions of KM (Chou, Chang, Cheng, & Tsai, 2007; Lin, 2007; among others), the authors define KM as an organizational capability that allows the integration of people, technologies, processes and strategy within the firm to create, use and share knowledge.

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