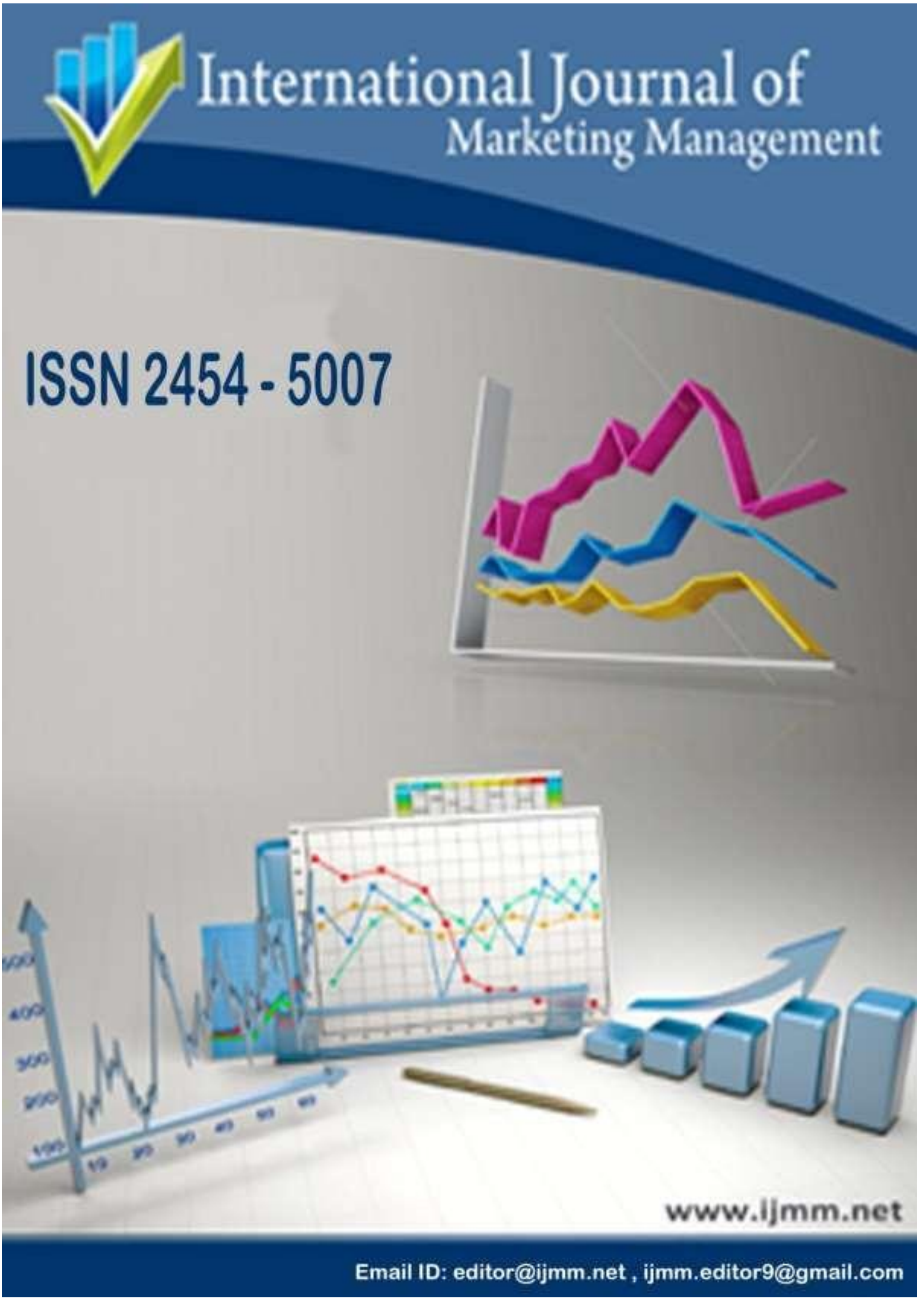
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The role of marketing-related competencies and the perceived level of industry competition: Factors contributing to high-quality brand performance

Sukumaran 1, Sudheer 2

ABSTRACT

Since the early 1990s, the majority of marketing research has focused on issues pertaining to organizational abilities, both theoretical and practical. While the industrial environment has been heavily focused on, and efforts to improve, internal competitive skills have been comparatively neglected. The expansion of the company's marketing capacities could be impacted by the strategic choices made by management in reaction to their perceptions of the industry environment. The main claim of the article is that marketing and market research tend to be more effective at firms whose management views the industry environment as uncertain. Studying the industry may help one create top-notch marketing abilities. Both abilities help to boost the brand's performance. In order to explore into these themes, researchers examined perceived industry competitive intensity, market learning, and marketing abilities. Data from commercial firm senior managers formed the basis of the study's results, which provide credence to the theory that a sector's degree of competitiveness influences marketers' propensity to invest in market research and skill development. Intriguingly, the research found that market learning affects brand performance via marketing competency. The connection between the level of competition in an industry, a company's internal capabilities, and its success needs more research. The findings contribute to the continuing conversation on how external factors impact a business's ability to develop its own competencies.

Keywords: Industry competitive intensity , Market-focused learning , Marketing capabilities , Brand performance

Introduction

An essential part of the literature on strategic marketing is the topic of the impact of the industrial environment on the growth of a company's competitive capabilities. When developing successful marketing strategies, it is recommended to first examine the external environment, according to certain popular marketing manuals (e.g., Kotler, Chandler, Brown, & Adam, 2003). The importance of context in developing marketing strategies is now becoming more acknowledged in the strategic marketing literature. As an example, a framework for the competitive environment and the choice of market entrance tactics was presented by Gruca and Sudharshan (1995). Both Slater and Narver (1994) and McKee, Varadarajan, and Pride (1989) looked at how market dynamics affect a company's strategic orientation, and how the competitive environment modifies the link between market orientation and performance.

Director[1], Assistant Professor [2]
Indian Institute of Management Bangalore

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Efforts along these lines have coincided with a long-running discussion in the literature on strategic management over the impact of external factors on business outcomes. According to Powell (1996), the two dominant schools of thought in competitive strategy literature, industrial organization (IO) and resource-based views (RBV), have long offered contradictory reasons for why uneven returns persist. There is some evidence to show that the two competing explanations for a company's success could really work hand in hand (Mahoney & Pandian, 1992; Amit & Schoemaker, 1993). There has been an overemphasis on variables at the company level, which has led to a lack of empirical studies investigating these complementarities (Mauri & Michaels, 1998).It is believed that strategy research has veered too far in the direction of firm-centered studies, neglecting the level of competition within industries (Levinthal, 1995). Notably, empirical research has paid little heed to Porter's (1985) industrial structure framework, which was integral to the environmental model (Powell, 1996). Nevertheless, according to RBV advocates, the majority of the empirical research that has been influenced by Porter's (1985) paradigm has neglected to examine the role that unique company characteristics play in determining business success (Barney, 1991). To remedy this shortcoming, there have been endeavors to investigate the function of several concepts that might provide light on the structure-performance link in industries (i.e., perceived industry competitive intensity). The impact of industrial structure on learning capacity, innovation, and performance was investigated by Weerawardena, O'Cass, and Julian (2006), for instance. There was a clear correlation between the business climate and market-focused education, they discovered. Also, according to O'Cass and Ngo (2007a), a company's strategic type and the traits that lead to better brand performance are affected by the degree of competition. According to O'Cass and Ngo (2007a), firms' strategy types (i.e., postures) and the level of competition are two factors that explain the diversity of company characteristics. Overall, there hasn't been a ton of research along these lines. One reason for that is that no one has really looked at how the competitive environment affects a company's capacity to learn more about its customers and rivals, and how that knowledge helps them provide better customer service. That is to say, research on the effects of industry competition on marketers' capacity to learn about and adapt to new markets, as well as their ability to build successful brands, has been scant.

Addressing the gap in the literature, this paper examines the role of competitive environment on a firm's market learning, marketing capabilities and brand performance. Market learning captures learning from customer preference changes and competitor behavior whereas marketing capability captures the firm's capacity to integrate the marketing mix elements to reach the target market effectively. Drawing on the organizational learning theory and the capability view of competitive strategy we argue that firms perceiving their environment as turbulent will tend to develop superior market learning and marketing capabilities allowing them to achieve greater brand performance.

To explore the above issues the paper firstly, focuses on the complementarities between the environmental model and the RBV as the conceptual background, with a view to developing a conceptual framework that explores the role of industry competitive intensity in a firm's marketing-related capability development. Secondly, the con- ceptual framework and hypotheses are presented. Thirdly, the methods used to test the hypotheses are discussed, followed by the study's findings. The paper concludes by discussing the implications for marketing theory and practice, identifying the limitations of the study and providing directions for further research.

1. Industry competitive intensity versus

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firm resources: capability determinants

Classical industrial organizational scholars have largely assumed that a firm's management can influence neither industry conditions nor its own performance (Spanos & Lioukas, 2001). This determi- nistic view, which is also known as the environmental model, suggests that a firm's strategy is constrained by an industry's struc- tural forces and assigns a limited role to a firm's key decision makers (Bain, 1956). However, the modified framework advanced by Porter (1990, 1991) departs markedly from the traditional industrial organization literature in a number of important ways (Spanos & Lioukas, 2001). One of the most important differences is that Porter (1991) views the market environment as partly exogenous and partly subject to influences by the firms' actions. Porter (1991) chose to focus on the role of a firm's activities and positioning as a fruitful avenue for the development of a dynamic theory of strategy. For Porter (1991), a successful firm is one with an attractive relative position, which can arise from either the selection of a cost base lower than the competition or from the firm's ability to differentiate its offerings and command a premium price that exceeds the accu- mulation of extra costs (Spanos & Lioukas, 2001). This view reflects a departure from the traditional industrial organizational economics and accommodates the 'strategic choice' view advanced by Hrebiniak and Joyce (1985) and Child (1972).

The emergence of the resource-based view (RBV) marked a shift in the emphasis of business level strategy from 'industry-driven' to 'internal strength-based' strategies. The RBV suggests that the strategic resources possessed by the firm determine its competitive advantage. In this area early contributors to the RBV defined resources to include, all assets, capabilities, organizational processes, firm attributes, information, knowledge, and the like, controlled by a firm that enable it to conceive and implement strategies that improve efficiency and effectiveness (Barney, 1991). Although this definition views capabilities as a resource, subsequent contributors to the RBV highlight the need to distinguish capabilities from resources to provide a better explanation of value creation and service delivery (Teece, Pisano, & Shuen, 1997). For example, Mahoney and Pandian (1992), building upon the work of Penrose (1955), argue that a firm achieves rents not because it has more or better resources, but because the firm's distinctive capabilities allow it to make better use of its available resources. Unlike resources, capabilities are based on developing, carrying, and exchanging information through the firm's human capital (Amit & Schoemaker, 1993). The capability-based view of competitive advantage suggests that a firm can achieve a sustainable competitive advantage (SCA) through distinctive capabil- ities possessed by the firm (Grant, 1991; Prahalad & Hamel, 1990; Hayes, Pisano, & Upton, 1996). The development of capability theory has been primarily founded upon the resource-based view, which takes an "inside-out" perspective to offer an explanation for firm success (Day, 1994a). Businesses must possess and utilize specific processes, which are necessary to transform resources into valuable outputs (Day, 1994a; Vorhies & Morgan, 2005). Capabilities, mani- fested in such business processes, are something beyond resources, which are valuable inputs for businesses to develop and maintain competitive advantage (Srivastava, Fahey, & Christensen, 2001).
Researchers advocating the view that the environmental model
compliments firm-level factor-based strategies suggest that the two views constitute two sides of the same coin (Spanos & Lioukas, 2001; O'Cass & Ngo, 2007a). Intuitively, value creation stems from the fit of internal capabilities to the strategy pursued, and of strategy to the competitive environment (Barney & Griffin, 1992). However, the primary focus of past research has been the role of industry competitive intensity on firm performance. Studies by Schmalansee

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(1985), Wernerfelt and Montgomery (1988) and Rumelt (1991) have produced consistent findings, where industry competitive intensity could account for between 17 and 20 percent of the variance in financial performance (Powell, 1996). For example, Schmalansee (1985) found that the remaining 80 percent of unexplained perfor- mance variance suggested the existence of non-industry variables not explored in his research (Powell,1996). These studies, in general, point to the need for research into the mediating constructs shaping the industry competitive intensity–firm performance relationship. We conjecture that industry competitive intensity impacts upon firm performance through the marketing-related capabilities of the firm. These capabilities reflect the firm's capacity to learn from markets and apply the knowledge gained to the effective use of marketing tools.

1. During the last decade several researchers have explored what could be described as the theoretical links between industry competitive intensity (termed originally industry structure) and firms' capability building activities. This ‘competition leads to competence’ approach (Barnett, Greve, & Park, 1994; Levinthal & Myatt, 1994) 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 these firms important competitive advantages in subsequent compet- itive settings — advantages that are not available to firms that did not have to respond to the original competitive threats, and thus did not develop the relevant competencies (Barney & Zajac, 1994). Levinthal and Myatt (1994) argue that a firm operating within a competitive industry tends to make several strategic choices related to its survival and growth, in that such “choices provide managerial direction over the evolutionary path that the firm's capability set takes” (Levinthal & Myatt, 1994, p.46). Further, Barnett et al. (1994), in what they label as the ‘naïve evolutionary model’ suggest that organizational learning is strengthened by competition, in that when “an organization competes with others to achieve its objectives, results are more likely to fall short of expectations. This can cause current practices in the organization to be inadequate and in this sense an organization that faces competition is more likely to refine current routines or to make innovations and this process often leads to performance enhancing capabilities” (Barnett et al., 1994, p.12). Theoretical development and hypotheses

Based on the foregoing discussion we advance the view that firms operating within an industry characterised as highly compe- titive, dynamic and or turbulent learn through positive feedback effects. We further posit that, in a dynamic environment, firms tend to undertake greater learning, challenging their current practices with the aim of exploring innovative ways of serving their customers. Learning is seen as a purposive quest for innovativeness in dynamic industry environments. Building on this notion we suggest that firms within a highly competitive industry tend to actively learn from the market. Similarly, we conjecture that firms perceiving their immedi- ate environment as highly competitive, tend to build and nurture superior marketing capabilities. Whilst market learning captures learning from both customers and competitors, marketing capability captures a firm's capacity to integrate marketing tools effectively. A logical consequence of market-focused learning is enhanced capacity of the firm to design an effective marketing mix to reach its customers better. This suggests that firm's that excel in market learning excel in marketing capabilities as well. In this conceptua- lization, market learning provides a meaningful link between industry competitive intensity and firm-specific capabilities and brand performance.

The conceptual framework presented in Fig. 1 incorporates four constructs, namely, industry competitive intensity, market learning capability,

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marketing capability and brand performance. The model is deeply rooted in the market-driven firm paradigm which is well- established in the strategic marketing literature (Jaworski, Kohli, & Sahay, 2000; Day, 1994a,b). We argue that this paradigm can be viewed in terms of two stages. First, 'market sensing' (Day, 1994a) or learning from markets and the second, integrating the market knowledge to build superior marketing capabilities which is at the heart of deploying tools of marketing to serve the customers better. The theoretical conjecture advanced here suggests that managers who perceive their firms operating within a competitively intense industry environment will have a greater tendency to develop distinctive capabilities in market learning and marketing. Market learning enables the firm to develop superior marketing capabilities. Both market learning and marketing capabilities enable firms to achieve better brand performance. Importantly, on these issues O'Cass and Ngo (2007b) identify that the challenge facing managers today is to achieve congruence between firm and environment to enhance brand performance.

1.1 *Conceptualising industry competitive intensity*

Porter's (1985) theoretical framework of what was labeled as industry structure is based on the foundation built in industrial organization view by Bain (1956) and Scherer (1980). However, within Porter's (1985) theoretical contention an analysis of competi- tion in an industry not only relates to the behavior of existing firms, but also includes the structure of the industry's environment (Pecotich, Hattie, & Low, 1999). The notion of industry competitive intensity is hypothesized to comprise five competitive forces: threat of entry, threat of substitute products, power of buyers, power of suppliers and rivalry among existing firms that are present in a firm's environment (Pecotich et al., 1999; Weerawardena et al., 2006; O'Cass & Ngo, 2007a). This view uses managerial perceptions to capture the industry competitive intensity the firm operates within and the prior research that has examined industry effects and firm performance have used perceptual measures (e.g. Powell, 1996). The strategic management literature suggests that managers develop strategies after observing and enumerating environmental trends. "It is expected that industry competitive intensity as described by Porter's (1985) five forces model should be the same for all in the industry yet perceptions of managers within that industry may vary and not strictly correspond to reality" (Pecotich et al., 1999, p. 419). Thus, the key here is how a manager perceives and interprets the five forces. Recently, focusing on the impact of competitive environment and using the notion of five forces as the key foundations of competitive intensity, O'Cass and Ngo (2007a) argued that a prominent schema for managers to represent their own industry's intensity across the five forces is achieved via the use of industry competitive intensity. They concluded that it is the managers' perception of the intensity of these forces that is of paramount importance in impacting strategy development and firm characteristics. Arguing that firms could be grouped together accord- ing to how they see the forces. Their study showed that perceived competitive intensity does in fact influence key firm characteristics.

1.2 *Market-focused learning capability*

Whilst the importance of market learning in a firm's marketing strategy has been widely discussed in the literature, a similar interest has been shown on the need to conceptualize and measure it in the form of a capability. Such a capability will have the potential to contribute to the competitive strategy of the firm (Day, 1991; Sinkula, 1994; Weerawardena, 2003a). The organizational learning literature suggests that there are four learning activities, which constitute an overall organizational learning process

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(Huber, 1991; Sinkula, 1994; Slater and Narver, 1995). These activities are *knowledge acquisition* (the development or creation of skills, insights, relationships), *knowledge sharing* (the dissemination to others of what has been acquired by some), *knowledge utilization* (integration of learning so that it is assimilated, broadly available, and can also be generalized to new situations) and *unlearning* (the review and renewal of existing knowledge and communicate changes within the firm). Several researchers have advocated conceptualizing organizational learning capability using these four learning processes (Day, 1991; Sinkula, 1994). For example, Day's (1994a) fourteen-item inventory for 'assessing market learning competency' expands on the four learning activities, where the four processes constitute the process model of organizational learning that has been widely embraced by strategic marketing researchers over the last decade (Bell, Whitwell, & Lukas, 2002) and provides the foundation for the conceptualization of market-focused learning capability in this study.

Taking the notion of industry competitive intensity we contend that it can viewed as a precursor to market opportunity and it is argued that the greater the uncertainty and change (dynamism) within an industry the greater the market opportunity which exists within that industry (Dean, Meyer, & Castro, 1993). In a dynamic industry environment firms tend to undertake greater learning from the marketplace. When environments are dynamic, managers have a greater need for market information (Menon & Varadarajan, 1992; Vorhies, 1998) and thus must have a greater ability to learn from the marketplace. In most organizations, market intelligence gathering is a key source of environmental information (Kohli & Jaworski, 1990; Menon & Varadarajan, 1992). Sinkula (1994) identified five reasons which make market-based organizational learning unique in the creation of knowledge. First, it is a core competency pertaining to external foci and it is less visible than most internally focused organizational learning competencies. Second, market-based learning results in fundamental bases of competitive advantage. Third, the market information that resides in organizational memory is typically more difficult to access. Finally, market-based learning is unique in that market-based learning is more equivocal. We define market- focused learning capability as the capacity of the firm relative to its competitors, to acquire, disseminate, unlearn and use market information for organizational change. This definition extends the concept of market orientation in that managers perceiving their industry's competitive intensity as dynamic tend to build and nurture distinctive market learning capabilities (see Fig. 1).

Building on our earlier conceptualization of perceived industry competitive intensity we conjecture that what matters in strategy formation is the way managers perceive the competitiveness in the immediate industry environment. We advance the view, that managers perceiving their industry environment as competitive will make a concerted effort to understand the environment. They will attempt to understand their customers better and monitor what competitors are doing. Therefore we argue that perceived industry environment leads to increased market-focused learning. Thus,

H1. Perceived industry competitive intensity has a positive and significant effect on the market-focused learning capability of a firm.

1.3. *Marketing capability*

During the last decade, attention has been given to the exploration of the links between industry environment and firm capability building activities. One of the approaches in this area is the 'competition leads to competence' approach (Barnett et al., 1994; Rao, 1994;

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Levinthal & Myatt, 1994), which suggests that, as firms learn how to overcome specific competitive challenges, they develop potentially valuable capabilities. These capabilities, in turn, can yield important competitive advantages — advantages not available to firms that did not have to respond to competitive threats by developing relevant capabilities (Barney & Zajac, 1994).

Extending this view Weerawardena et al. (2006) argue that in the context of the nexus between industry structure and firm character- istics a competitive industry environment forces the development of a knowledge base, which will enable the firms within it to exploit the emerging market opportunities. To this end while they focus on organizational learning as a capability we contend here that their arguments are also valid in the context of marketing capability. To this end we argue that a competitive industry environment can cause firms to pursue innovative ways of creating superior value for their customers by requiring the development of distinctive capabilities (Weerawardena et al. (2006), especially marketing capabilities.

This view of arguing for the generic impact of environment on capability development is built on the premise that all capabilities posses common underlying characteristics. As such, capabilities are effect complex bundles of knowledge, skills and abilities embedded within firm business processes operating at various levels within firms (Krasnikov & Jayachandran, 2008). As such, capabilities are built upon the processes developed by firms by bringing people and resources together in repeated efforts (Vorhies, Harker, & Rao, 1999). On this point Amit and Schoemaker (1993) advocate that capability refers to the organizational capacity to deploy resources, generally in combina- tion, using organizational processes to affect a desired end. Impor- tantly, Day (1994a) notes that it is impossible to enumerate all possible marketing capabilities because they generally vary among businesses owing to the nature of the business environment. In this context marketing capabilities are defined here as integrative processes designed to apply the collective knowledge, skills, and resources of the firm to the market-related needs of the business, enabling the business to add value to its goods and services and meet competitive demands (Day, 1994a).

1.4. *Research approach*

The study was based on the design and administration of a survey of CEOs of firms drawn from IncNet Business Database. This database is a National database of firms and the sampling frame were randomly drawn from a list provided by the professional database supplier. Although the selection of the sample was based primarily on convenience, we considered variations in firms across the manufac- turing and service sector as a suitable environment to test the theory. In this study CEOs were identified and used as the key informants for completing the surveys. CEOs have been used as key informants in similar research on competitive strategy (Li and Calantone, 1998). Although some researchers have advocated the use of multiple informants (Hogarth & Makridakis, 1981), others have found that CEOs provide data that is as reliable and valid as multiple informants (Zahra & Covin, 1993). Also, data on strategy gathered from respondents below the CEO level have been argued to have validity issues because such managers generally do not have access to information about how the total system operates (Snow & Hrebniak, 1980). CEOs possess the most comprehensive knowledge of the characteristics of their organization, its strategy and performance (Snow & Hrebniak, 1980). The sample of 1000 CEOs came from a cross- section of industries, with the predominant industries being; manufacturing in the light industries, metal-working, electronic, chemical and services industries and a small number of mining and agricultural firms.

1. Conclusion

The theoretical setting for this study

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was that managerial perceptions of industry competitive intensity play a key role in a firm's market learning capability and marketing capabilities and together these drive brand performance. The study findings suggest that a challenging environment would trigger managers to commit their strategic resources to better understand their customers and competitors which shall enable them to use their marketing tools effectively to serve their markets. It is our view that by focusing on key environmental forces and firm-specific marketing-related capability development, marketers will be benefited in understanding the factors influencing a firm's brand performance. Such an approach brings together both external and internal determinants and in effect provides a macro (industry-wide) and micro (firm-level) basis to explore competitive marketing strategies and brand performance. The key is brand performance as it is perceived to be the primary asset for firms. Factors that impact on a brand's success are not well understood. As such, it is the market and marketing capability that form a solid basis to understand and explore the creation of a brand that performs well in the marketplace.

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