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Abstract

A manager's perception of their industry environment has the potential to impact the firms marketing strategy. This may be particularly so with regard to perceptions driving a firm's market focused learning and marketing capability. This paper theorizes that firms operating within a competitive industry environment tend to build superior market focused learning capabilities which in turn enable them to build superior marketing capabilities. Both market learning and marketing capabilities lead to higher brand performance. The results largely support the hypothesized relationship suggesting the need to examine other firm-specific factors driving the capability-building activity.

Keywords: Industry Environment, Organisational Learning, Innovation, Market Strategy

Introduction

The role of competitive environment on a firm's marketing strategy is an emerging area of interest in the strategic marketing literature (e.g. Day and Wensley, 1988; McKee, Varadarajan and Pride, 1989; Gruca and Sudharshan, 1995; Cooper, 2000). The industrial organization and resource-based views of competitive strategy have traditionally produced competing explanations for the persistence of unequal returns (Powell, 1996) and are seen as being at odds with each other. However, there are suggestions that in fact the two views may complement each other in explaining a firm's performance (Mahoney and Pandian, 1992; Amit and Schoemaker, 1993). This paper examines the impact of industry structure on a firm's market focused learning capability and marketing capability which in turn influence brand performance. Drawing on organizational learning theory and the capability-based view of competitive strategy we argue that a firm's strategic adaptation occurs through managerial perceptions of its industry environment. Firms perceiving their environment as turbulent tend to develop superior market focused learning capabilities which in turn enable them build superior marketing capabilities. Both capabilities lead to higher brand performance.

Conceptual background and theoretical conjectures

The industrial organizational view (the environmental notion of competitive strategy), suggests that that a firm's strategy is constrained by the structural forces of the industry it operates within (Porter, 1985). This view also assigns a limited role to a firm's key decision makers and the firm specific factors in the competitive advantage process. However, an alternate view is that the market environment influences and is in turn influenced by a firm's behaviors. The resource-based view (RBV) on the other hand suggests that it is firm specific characteristics capable of producing core resources (difficult to imitate), which determine the performance differences among competitors (Barney, 1986; Dierickx and Cool, 1989). Although early contributors to the RBV defined organizational capabilities as a resource, a more comprehensive view stresses the need to distinguish capabilities from resources (e.g., Grant, 1991; Mahoney and Pandian, 1992; Teece, Pisano and Shuen, 1997) to provide a better explanation of value creation. In this study we define organizational capabilities as the routines that determine the efficiency with which firms transform inputs into outputs (Collis, 1994). Value-creation is derived from the fit of internal capabilities to the strategy pursued, and of strategy to competitive environment (Barney and Griffin, 1992). Past research primarily focuses on the role of industry structure in firm performance and assumes a direct relationship between the two constructs. However, studies by Schmalanse (1985) and Rumelt (1991) show that industry only explains a small percentage of the variance in (financial) performance, pointing to the need for research into the intervening constructs within the context of industry structure (environment) – firm performance relationship.

Addressing the foregoing concerns there have been attempts to explore the theoretical links between the industry structure and a firm's capability building activities. In this area the 'competition leads to competence' approach (Barnett, Grieve and Park, 1994; Rao, 1994; Levinthal and Myatt, 1994) suggests that, as firms learn how to overcome specific competitive challenges, they develop potentially valuable capabilities. These capabilities, in turn, can give firms important advantages. Such advantages are not available to firms that did not have to respond to the original competitive threats, and thus did not develop the relevant capabilities. In what has been labeled as the 'naïve evolutionary model' Barnett, Greve and Park (1994) suggest that organizational learning is strengthened by competition. Industry dynamics have been viewed as a precursor to market opportunity and the greater uncertainty (and change) within an industry, the greater the market opportunity that exists within that industry (Dean, Meyer and DeCastro, 1993). In a dynamic environment, firms tend to undertake greater learning, challenging their current practices and pursue greater learning with the aim of exploring innovative ways of serving their customers. Learning is seen as a purposive quest for (retain and improve competitiveness, productivity) innovativeness in (uncertain technological and market circumstances) dynamic industry environments. Building on this notion we argue firms within a highly competitive industry tend to actively learn from the market and this enables the firm to adjust the its marketing mix elements to reach its target market with superior products and services. Market focused learning provides a meaningful link between the industry structure and firm specific capabilities and performance.

The notion is advanced here that an analysis of competition in an industry not only relates to the behavior of existing firms, but also includes the structure of the industry's environment. Structural dynamics comprise the competitive forces of 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**.** This is important, because it has been suggested that managers respond to and develop strategies based on their perceptions of enumerating environmental constituencies and trends. It is argued that industry structure as identified in the five forces model, should as an objective fact, be the same for all in the industry and yet perceptions of managers within an industry may vary and not correspond to the reality (Pecotich, Hattie and Low, 1999).

Market-focused learning is the capacity of the firm to acquire, disseminate, unlearn and use market information for organizational change. The literature on market-driven firms suggests that 'market driven firms stand out in their ability to continuously sense and act on events and trends in their markets' (Day, 1994). In a similar manner Slater and Narver (1995) argue that a market-driven firm is well positioned to anticipate the developing needs and to respond to them. Based on preceding discussion it is argued that firms perceiving their environment as turbulent tend to actively learn from markets. Thus,

(H_1): **Industry environment has a significant effect on the market-focused learning of a firm.**

Marketing capability is the 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, 1994). Having a better understanding of markets served by the firm enhances the capacity of the firm to undertake superior marketing programs aimed at creating added value to its targeted customers. Organizational learning influences organizational behavior by action-oriented use, which is the direct application of knowledge to solve a problem, and knowledge enhancing, use which influences managerial perspectives on problems (Menon and Vardarajan, 1992). Therefore, it can be argued that market focused learning enhances the marketing capability of the firm. Approaches to target marketing suggest that understanding market characteristics is a prerequisite for effective use of marketing mix strategies to reach the desired market segment. Thus,

(H_2): **The market focused learning capability has a significant positive effect on and marketing capability.**

Moving from the influence of industry attention is now focused on the impact of market focused learning and marketing capability on firm performance. Whilst much of the discussion of performance is at a macro level (i.e., firm performance), it is argued that a critical perspective is drawn from a firm's product performance and in reality this is a brand (i.e., micro performance). As such, the impact of a firm's marketing strategy is focused towards improving its marketplace performance, which more often than not relates to a specific brand a firm is marketing. Similarly distinctive marketing capabilities enable the firm to out-perform competitors by reaching target markets effectively. Although competing firms may focus on similar market needs, the idiosyncratic way in which each group of individuals within each firm integrates knowledge creates many unique ways of solving similar customer needs (Vorhies and Harker, 2000). As noted by Doyle (1989) successful brands reflects 'getting there first' innovations in many ways: develop new positioning concepts, develop new distribution channels, develop new market segments and exploit gaps created by sudden environmental changes. 'Building an effective, differentiated customer proposition is the core requirement for building a successful brand' (Doyle, 2001, p.267) which requires marketers to perceive new ways of delivering superior value to customers. We conceptualize both market focused learning capability and marketing capability as competitive capabilities having potential to contribute to a firm's brand performance. Thus,

(H_3): **Marketing capability has a significant positive effect on brand performance** and

(H_4): **Market-focused learning has a significant positive effect on brand performance**.

Research design

The study was based on a survey of 1000 firms in Australia. The sample came from a cross section of industries including, agriculture, mining, light industries, metal-working, electronic, chemical and services industries, were provided by a government department. The questionnaire was developed from existing measures and pre-tested using a small sample before the final instrument was mailed to the sample. All items were measured via seven-point scales with scale poles ranging from strongly disagree (1) to strongly agree (7) and never (1) to extensively (7). In this study CEOs were used as the key informants. CEOs have been used as key informants in similar research on innovation-based competitive strategy (Li and Calantone, 1998). Although some researchers have advocated the use of multiple informants (Hogarth and Makridakis, 1981), others have found that CEOs provide data that is as reliable and valid as multiple informants (Zahra and Covin, 1993). Data on strategy gathered from middle and lower managers have been argued to have questionable validity because these managers typically do not have access to information about how the total system operates (Snow and Hrebiniak, 1980). CEOs possess the most comprehensive knowledge of the characteristics of the organization, its strategy and performance (Snow and Hrebiniak, 1980). *Industry structure* was measured via 25 items from the industry structure (industruct) scale originally developed by Pecotich, Hattie and Low (1999). These five factors taken together explain the perceived dynamics of the competitive intensity of an industry via key structural characteristics. *Market focused learning* was measured via the 8-item scale developed by Weerawardena (2003a). The market-focused learning measure captures the extent that the firm undertakes learning via the acquisition of knowledge on consumer preferences and competitor behavior. *Marketing capability* captures the capacity of the firm to use the marketing tools to reach its target market effectively and was measured via a 9-item scale developed by Weerawardena (2003b). *Brand Performance* was measured via three items asking respondents to rate the overall performance of their identified brand via a seven-point scale from 'very good' to 'very poor' and the brand's market share and its profitability..

Results

Two hundred and fifty two useable questionnaires were returned, and the data were initially analyzed using principal components analysis. All items loaded appropriately onto their respective factors and no cross-loadings above .4 were identified. The final reliabilities for all scales were greater than .86. Overall, the factor analysis of industry structure produced 5 factors explaining 57% of the variance, with factor loadings ranging between .81 to .52 and reliability of .86. Market focused learning had 1 factor explaining 56% of the variance with loadings ranging between .8 to .67 and reliability .88. The brand performance analysis produced a single factor explaining 84.2% of the variance and a reliability of .94. Table 1 presents the results of regression analyses corresponding to H1-H4, tested by estimating the following regression equations:

$$MFL = b_1 * INDS + e_1$$
$$TOTALMARKCAP = b_2 * MFL + e_2$$
$$OVERPERF = b_3 * TOTALMARKCAP + b_4 * MFL + e_3$$

Where MFL, INDS, TOTALMARKCAP, and OVERLPERF denote market focused learning, industry environment, marketing capability, and overall brand performance respectively. The results of the regression analyses indicate that environment turbulence has a significant and positive impact upon market focused learning capability (b_1=0.45; $p<0.001$), thus H1 was supported. Industry environment explains 20 per cent of variance of market focused learning capability (Adjusted R^2= .20).

Table 1 – Results of main effects regression analysis standardized regression coefficients

		Dependent Variables		
Hypotheses	Ind Variables	MFL	TOTALMARKCAP	OVERPERF
H1	INDS	0.45***		
H3	TOTALMARKCAP			0.47**
H2 and H4	MFL		0.80***	0.38***
	F	64.93***	464.95***	70.21***
	Adjusted R^2	0.20	0.65	0.36
	R^2 Change			0.05***

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Similarly, market focused learning explains 65 per cent of variance of marketing capability (Adjusted R^2= .65). This is significant (b_2= .80; p<0.001), thus supporting H2. The results also provide support for the effect of market focused learning on overall brand performance (b_4=0.38; p<0.001) and marketing capability on overall brand performance (b_3=0.47; p<0.01). Thus, H3 and H4 were supported. When only marketing capability was included, the model explains 31 per cent of the variance in overall brand performance (Adjusted R^2= 0.31). Adding market focused learning capability explained an additional 6.6 per cent of the variance of overall brand performance (R^2 Change= 0.05).

Discussion

This study was primarily aimed at examining the influence of industry environment on a firm's marketing strategy. We theorized that firms perceiving their industry structure as turbulent tend build superior market focused learning capabilities which in turn enable them to build superior marketing capabilities. These capabilities enable the firm achieve superior brand performance. The results of the study largely support the hypothesized relationships.

The findings of the study contribute to the debate on the role of external environment on a firm's marketing strategy. Although there is an emerging consensus among researchers that the external environment complements a firm's internal capabilities research has not made satisfactory progress in establishing a meaningful link between the external environment and firm-specific capabilities. In the current study market focused learning capability emerges as an important link between a firm's external environment and marketing strategy. Firms perceiving their industry environment as turbulent tend to understand its customers and competitor actions better which enables them to develop a marketing mix to reach its target market with superior products and services effectively. Whilst the market focused learning lead to superior marketing capability both capabilities lead to higher brand performance. The findings contribute to the current dialogue on the role of marketing in strategic management (Day, 1992; Piercy, 1998) in several ways. Firstly, the study introduces industry structure into the strategic marketing research. Secondly, market focused learning leads to marketing capabilities. Thirdly, both market focused learning and marketing capabilities lead to higher brand performance.

An important managerial implication of the study is that the knowledge of and reactions to the industry structure and the competitive intensity faced by a firm consequently influences the strategic decisions made by the firm. Knowledge of the five forces of competitive pressure also highlights the strengths and weaknesses of a firm, and forms a useful basis for the evaluation of its position in the industry (Pecotich et al, 1999). It appears that on such a basis firm learning may occur. Firms striving to achieve higher brand performance must make a concerted effort to understand its customers and competitor actions which in turn enable them to integrate its marketing tools to reach the target market effectively.

A limitation of the study is its cross-sectional setting. Future research may examine the evolutionary processes involved with the industry structure-firm specific capability building process.

The theoretical starting point in this paper was that managerial perceptions of industry structure plays a key role in a firm's marketing strategy. The findings suggest that without a challenging environment there would be no impetus for discretionary managerial decisions on strategy crafting. It is our view that by focusing on key environmental forces and firm specific marketing strategy 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 and micro firm basis to explore competitive marketing strategies and brand performance.

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