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BRAND ORIENTATION: ANOTHER EXPLANATION OF RETAILER PERFORMANCE

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Abstract

This paper postulates that organisational capabilities, particularly brand orientation, may provide an appropriate theoretical framework to explain variations in organisational performance among retailers. Brand orientation is viewed as a strategic capability, just like innovation. This allows for a distinction to be made with such core antecedent (However, it is important to distinguish between strategic capabilities (innovation orientation and brand orientation) and antecedent core) capabilities such as market orientation, operational orientation and human resource orientation which all organisations must have to some degree. This distinction is made to emphasise that all organisations operate with some degree of market, operational and human resource orientation, whereas organisations can choose to operate without either innovation or brand orientation. We argue that it is the inclusion of organisational capabilities with positional advantage and organisational performance that provides an holistic conceptual framework for the empirical investigation we are currently undertaking. The propositions discussed in this paper link the various relationships in the conceptual model within the context of Australian retailing organisations.

Introduction

In the substantial body of literature on competitive advantage two approaches have arisen. The first approach asserts that superior organisational performance is derived from a firms’ ability to seek a defensible competitive position in an industry (Caves and Porter, 1977; Porter, 1980). The second approach proposes that superior organisational performance can be attributed to the firms’ distinctive resources and capabilities, which enable the firm to adopt a defensible competitive position (Barney, 1991; Grant, 1991; Day, 1994). This paper integrates the two approaches and examines the relationship between organisational capabilities, cluding the distinction between core and strategic capabilities, positional advantage and organisational performance in an Australian retailing context.

The influence of various capabilities including market orientation, operational orientation, human resource orientation, and innovation orientation has been investigated in a variety of contexts ranging from retailing to manufacturing. In the context of retailing, the marketplace has become increasingly competitive and the balance of power has shifted from manufacturers to retailers. Retailers have evolved from simply being resellers of manufacturer brands to becoming brands in their own right. Consequently, it is proposed that brand orientation must also be included as one of the organisational capabilities that influence organisational performance. Only a very limited amount of research has investigated the brand orientation construct. Most research efforts to date have primarily been descriptive in nature and have not yet sought to operationalise brand orientation (Urde, 1999).

This paper explores the inter-relationships between the various organisational capabilities and their subsequent effect on organisational performance. It is recognised in the context of
retailing that organisational capabilities alone cannot explain a large proportion of the variation in organisation performance. Thus, it is proposed that positional advantage must also be included, as the offer that retailers make to their consumers must be superior to their competitors if they are to perform well. It is the combination of organisational capabilities, with the inclusion of brand orientation, together with positional advantage that provides a truly holistic framework that seeks to explain variations in organisational performance.

Issues, as customer needs, competitor strategies, internal communication and their own attitude to staff management. We view all organisations as having some degree of market, operational and human resource orientation. Thus these orientations can be considered core capabilities for retailers, whereas strategic capabilities such as innovation and brand orientation may be absent from the organisation. An organisation’s attitudes, value and subsequent behaviours towards innovation and the importance of branding are not developed in isolation. They will be influenced by market, operational and human resource issues. It is therefore proposed that core capabilities are antecedents of strategic capabilities.

Furthermore, the framework (Figure 1) suggests that organisational capabilities influence a retailers’ ability to develop positions of superiority over their competitors. If market, operational and human resource orientations are core capabilities, and innovation and brand orientation are dependent strategic capabilities, then the organisation’s tactical response is reflected in strong positional advantage (Day and Wensley, 1988). The number of sources of positional advantage and the extent to which a retailer is competitively superior, impacts on organisational performance. The development of positional advantages has a positive effect on organisational performance.

Finally, while organisational capabilities have an indirect effect on organisational performance through positional advantage, the framework also suggests that they have a positive direct effect. Operational efficiency, the ability to monitor and respond to customers and competitors, and the recruitment, reward and retention of employees has a direct effect on organisational performance. This is due to their impact on costs. In addition, how innovative the firm is and the extent to which the brand operates as a basis for differentiation insulates the retailer from direct competition and may influence financial performance. The specific relationships proposed in the conceptual framework will be discussed in the following sections.

Figure 1: The Conceptual Framework
Core Capabilities: Market, Operational and Human Resource Orientation

Market orientation authors generally agree that market orientation is a philosophical approach within the organisation (Hooley et al., 1990). The more market oriented the organisation, the more it is able to satisfy customers by creating superior value through coordination of its resources (Narver and Slater, 1990; Day, 1994). Organisations that are more market oriented are, therefore, likely to outperform less market oriented rivals (Jaworski and Kohli, 1993). Empirical investigations of market orientation have been numerous and ongoing. They lend support to the existence of a positive direct relationship between market orientation and organisational performance (Kohli and Bernard, 1990; Narver and Slater, 1990; Jaworski and Kohli, 1993), however, it may also have an indirect effect on organisational performance through positional advantage. Retailers that are more market oriented will monitor and respond to changing customer preferences and competitors’ activities. The tactical outcome of this monitoring and response is superior positional advantage. Hence, we propose that: Proposition 1: Market orientation is positively related to retailer’s positional advantage and organisational performance.

Operational orientation incorporates the organisation’s emphasis on cost efficiency (Fritz, 1996). Operational oriented organisations pursue process-oriented capabilities that allow them to minimise costs in the supply chain. Research in both the manufacturing and service arenas has found support for the proposition that adoption of a production orientation, which is similar to operational orientation practices, leads to positive business performance (Moorman, 1995). However, operational orientation, when adopted as a short-term strategy, is unlikely to lead to positive organisational performance. This is because profits are not sustainable due to the moderating impact of the external environment (Wong and Sauders, 1993). Conversely, operational orientation, when pursued as a long-term strategy, dedicated to minimizing costs and maximizing efficiency, is more likely to be sustainable. It can also be argued that operational orientation may have an indirect effect on organisational performance through positional advantage. For instance, supply chain efficiency can be passed on to customers in the form of lower prices without sacrificing retail margins. Consequently, the retailer gains a positional advantage in terms of price competition. Therefore we propose that: Proposition 2: Operational orientation is positively related to retailer’s positional advantage and organisational performance.

Human resource orientation focuses on employees as the organisation’s most valuable resource (Kubiak et al., 1990). Lam and White (1998) define the characteristics of human resource orientation as attracting, retaining and developing competent and committed human resources. Highly human resource oriented organisations have been found to experience significant performance benefits in terms of profitability, sales growth and asset appreciation (Lam and White, 1998). Caseio (1995) identifies that highly human resource oriented organisations experience lower employee absenteeism and lower staff turnover rates. Human resource orientation is particularly important for retail organisations, as personal service is critical to the retail transaction. Attracting, retaining and developing the right people are keys to achieving the organisation’s performance objectives. Even for those retailers who are operationally efficient, a human resource orientation will enhance organisational performance. Those organisations with a leaner workforce must strive harder to retain and reward their workforce in order to achieve strategic objectives as well as financial performance. It can also be argued that human resource orientation may have an indirect effect on organisational performance through positional advantage because of the role and levels of customer service in the retail experience. Therefore we propose that: Proposition 3: Human resource
orientation is positively related to retailer’s positional advantage and organisational performance

An organisation’s attitudes, value and subsequent behaviours towards innovation and the importance of branding are not developed in isolation. Market, operational and human resource orientations can be considered core capabilities for retailers and act as antecedents to innovation and brand orientation. Highly market oriented organisations that monitor and respond to their customers and competitors are likely to be more innovative and brand oriented. In terms of operational orientation, more operational efficient organisations will be more innovative in pursuit of cost and supply chain efficiency. Operational orientation also has a significant positive effect on brand orientation. This is due to the fact that brand orientation is not in conflict with the pursuit of operational efficiencies. In fact, for some retailers the efficiencies achieved from operational orientation may provide the foundation for their brand strategy. Finally, innovation capabilities may be reliant on the recruitment, retention and reward of highly skilled and creative staff; which is a key aspect of human resource orientation. Similarly, an organisation’s commitment and understanding of the brand as well as communication of the brand to the marketplace (which are critical components of brand orientation) are dependent on competent, committed and motivated employees. Thus it is proposed that: Proposition 4: Market, operational and human resource orientation positively influence a retailer’s innovation and brand orientation

Strategic Capabilities: Innovation and Brand Orientation

Innovation orientation’s basic values and attitudes focus on innovation, perfection and enthusiasm, whereby corporate goals concentrate on product and process quality competitiveness (Fritz, 1996). There has been increasing research over the last few years in terms of the relationship between innovation and market orientation and the impact that high innovation orientation has on organisational performance (Hurley and Hult, 1998). While Jaworski and Kohli (1996) regard innovation as an outcome of market orientation, it is recognised that innovation orientation directly influences positional advantage and organisational performance. The greater the innovation orientation of the organisation the more able they are to add value and satisfy their customers. This leads to superior positional advantage and organisational performance. Therefore we propose that: Proposition 5: Innovation orientation is positively related to retailer’s positional advantage and organisational performance

Brand orientation for a retailer encompasses the strategy devoted to branding the store name, its fascia and, in essence, the total store experience (Mathews, 1995). Brand orientation suggests that the organisation’s processes revolve around the creation, development and protection of brand identity through ongoing interaction with target customers. This is done with the aim of achieving long-term superior organisational performance (Urde, 1999). Building on the work of leading brand authors (de Chernatony, 1993a; 1993b; 1996; de Chernatony et al., 1998; Park et al., 1986; Goodyear, 1996; Urde, 1999) several characteristics are identified which determine an organisation’s brand orientation. First, the competitive significance the organisation places on branding (Urde, 1999). This refers to how branding is used by the organisation including as a means for identification, differentiation and guarantee of consistency for consumers. Second, capabilities in terms of brand functionality. This refers to how the organisation seeks to solve their target customers’ consumption-related problems through offering tangible rationally assessed attributes (de Chernatony et al., 1998). Third, the organisation’s capabilities in terms of adding value to
their brand (de Chernatony et al., 1998). This means the retailer can develop capabilities through service, quality or brand personality attributes to add value beyond their functional capabilities. Fourth, capabilities regarding brand representationality. This refers to the ability of the retailer to develop capabilities that address customers’ emotional needs of self or social image (Bhat, et al., 1998).

Retailers to date have sought to apply brand management practices in the same way as their manufacturing counterparts have done in pursuit of superior organisational performance. Consequently, it is proposed that brand orientation provides retailers with a number of advantages. These include added value to consumers, differentiation from competitors and acting as a compass for organisational decision making, which positive effects organisational performance. Similarly, the benefits of a strong brand orientation support the development of positional advantages. For instance a strong brand orientation enables the organisation to insulate itself from direct competition. Hence we propose that: Proposition 6: Brand orientation is positively related to retailer’s positional advantage and organisational performance

Positional Advantage

The inclusion of positional advantage complements existing studies and assists in further explaining variations in retailers’ performance. Within the retailing context, positional advantage refers specifically to elements of the retailer’s offer including merchandise (quality, range, fashionability, exclusivity, pricing), trading format (store locations, layout, atmosphere, quality of displays), customer service (levels of service, in-store facilities, after sales service, personal selling) and customer communication (advertising and promotion) (McGoldrick, 1995; Vida, 2000). Positional advantage is achieved in two ways. First, retailers can develop an advantage over their competitors across all elements of the retail offer. This alone, however, will not necessarily result in superior organisational performance. The second aspect of positional advantage, which encompasses the degree of advantage over competitors, is also required if retailers are to achieve superior organisational performance. Thus, we propose that: Proposition 7: A retailer's positional advantage is positively related with organisational performance

Conclusion

The propositions discussed in this paper seek to address the lack of previous empirical research in the area of retail brand orientation. The most recent branding studies, while highlighting the importance of brand orientation, have not empirically tested the relationship between an organisation’s brand orientation and other critical organisational capabilities. In addition, existing studies have not examined the distinction between core capabilities as antecedents to strategic capabilities such as innovation and brand orientation. This paper postulates that the distinction between core and strategic capabilities may provide an appropriate theoretical framework to better explain variations in the organisational performance of retailers. It is recognised that organisational capabilities alone cannot explain a large proportion of organisational performance. It is the combination of organisational capabilities, together with positional advantage and organisational performance, which provides a truly holistic framework.
While the context of this paper is retailing it is expected that, with some adaptation, the conceptual framework could be applicable in a number of other industries. If research in the area of brand orientation is to truly advance it is recommended that other researchers test its explanatory power in terms of organisational performance. It is further suggested that the framework would benefit from the inclusion of organisational characteristics such as organisation culture, resources, retail type and location, firm size and structure of decision making. We seek to do this in an empirical study of the Australian retail industry, which is currently underway.

References


