Evans, Jody, Bridson, Kerrie, Byrom, John and Medway, Dominic 2005, The mediating role of competitive advantage in the relationship between organisational capabilities and retail performance, in ANZMAC 2005: Broadening the boundaries, conference proceedings, University of Western Australia, School of Business, Perth, W.A., pp. 21-27.

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The Mediating Role Of Competitive Advantage In The Relationship Between Organisational Capabilities And Retail Performance

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Abstract

This paper investigates the relationships between market, learning and brand orientation with competitive advantage and organisational performance in the context of the UK retail industry. The results indicate that competitive advantage contributes to strategic effectiveness and mediates the relationship between learning and brand orientation and strategic effectiveness. No significant relationship was found in relation to financial performance. Moreover, market orientation was not found to have a significant direct effect on competitive advantage or indirect affect on performance.

Background

The Resource Based View has attracted heightened research interest of both a conceptual and empirical nature over the past decade. Empirical research on organisational resources and capabilities has focused on US manufacturing firms. This study focuses upon the UK retail industry and thereby seeks to extend the resource based theory and demonstrate its generalisability. The RBV suggests that superior performance is derived from an organisation’s ability to achieve a competitive advantage. Such an advantage over competitors is the result of the organisation’s inherent capabilities (Barney, 1991; Day and Wensley, 1988). Hooley and Broderick (1998) contend that business orientations are fundamentally corporate capabilities of the firm, as they set the firm’s direction and activities to ensure resources are fully exploited. The purpose of this paper is to explore the affect that organisational capabilities have on retail performance through the mediating role of competitive advantage (see Figure 1). The specific capabilities examined in this study are market, learning and brand orientation.

Figure 1. Conceptual Framework
This study adopts Narver and Slater's (1990) conceptualisation of market orientation. In terms of competitive advantage, market orientation can be suggested to aid the retailer in monitoring competitor positioning in order to benchmark themselves for comparative purposes. In this way, the retailer will be more informed about areas where they are superior to competitors. Customer orientation may enable the retailer to focus on adding value to its offer leading to a customer service advantage. By being more aware of competitor activities a retailer may be able to develop a trading format that is unique. In addition, greater interfunctional coordination may enhance a retailer’s merchandise advantage by keeping all staff in all departments abreast of problems experienced by customers. Therefore, we hypothesise that \( H_1: \) Market orientation will have a significant positive relationship with retail competitive advantage.

Learning orientation, in the form of commitment to learning, open-mindedness and shared vision, is also expected to have a positive influence on retail competitive advantage. It has been asserted that superiority, in terms of the speed of learning, may be the only sustainable source of competitive advantage (Slater and Narver, 1995; Dickson, 1996). Learning orientation affects an organisation’s willingness and ability to question existing assumptions, processes and strategies. This focus on continuous improvement and the creation and use of knowledge may result in the development of superior sources of differentiation. For instance, improvements in market information processing may enable a retailer to identify changes in consumer preferences and respond to these at a faster rate than competitors. Thus, it is hypothesised that \( H_2: \) Learning orientation will have a significant positive relationship with retail competitive advantage.

Brand Orientation is defined as the degree to which the organisation values brands and its practices are oriented towards building brand capabilities through interaction with their target consumers (Bridson, 2002). Brand orientation is conceptualised as a multidimensional construct encompassing the store brand as a mark of distinction, a means of satisfying consumers functional purchase needs, a source of value adding and a symbolic reflection of their consumers. While empirical evidence of a relationship between brand orientation and competitive advantage has yet to be established, it is reasonable to assume that these concepts are related. Academic literature makes anecdotal associations between the two constructs. Simoes and Dibb (2001) argue that “in order to enhance their competitiveness, businesses need to establish unique features that distinguish their offerings from those of their competitors” (p.217). Distinctive capabilities can provide retailers with an advantage by enabling the business to be easily identifiable in consumers’ minds. The brand then becomes a valued asset that is extendable to other formats, selling mediums and merchandise, which may be difficult for competitors to replicate. Moreover, symbolic capabilities can provide a competitive edge by encouraging the retail brand to have a personality of its own. The brand can reflect consumers’ own personality and enhance their self image better than competitors. Thus, we hypothesise that \( H_3: \) Brand orientation will have a significant positive relationship with retail competitive advantage.

Within the retailing context, competitive advantage refers specifically to elements of the retail offer including merchandise, trading format and customer service (McGoldrick and Blair 1995; Vida, Reardon et al. 2000). Although the investigation of competitive advantage and organisational performance within the context of retailing has yet to be conducted, existing literature provides support that the relationship, while anecdotal, is logical. Day's (1990) text on market driven strategy asserts that future performance is dependent on the firm’s ability to create
and sustain competitive advantage. For instance, a merchandise advantage can have financial dividends if the merchandise correctly matches consumer needs, resulting in higher sales levels overall, sales across a number of merchandise categories and improved gross margin through price premiums. Trading format advantage, in regard to such aspects as location convenience and improved store navigation relative to competitors may also have positive financial. Consumers may prefer the brand, shop more frequently and increase their dollar spend across categories. The inherently high levels of staff turnover associated with the retail industry may also negatively impact retail profitability and strategic effectiveness (Sparks, 1992). Through minimising staff turnover retailers are able to improve their financial performance, as the costs of continuous staff recruitment and training will be reduced.

It is anticipated that competitive advantage mediates the relationship between organisational capabilities and organisational performance. This proposition is based on the premise that organisational capabilities are implemented through the retail offer. It is the retail offer which influences consumers, and therefore, any distinction between one retailer’s offer and its competitors. It is the achievement of a superior and differentiated position, which will then positively influence performance. We hypothesise that \( H4: \) Competitive advantage will have a significant positive relationship with organisational performance. \( H5: \) The relationship between organisational capabilities and organisational performance is mediated by competitive advantage.

### Methodology

The sampling frame for the study consisted of randomly selected retailers (including food, specialty and general merchandise) operating in the UK. The mail survey method was used to collect data from respondents through a formal structured questionnaire. Using the key informant method questionnaires were distributed to Chief Operating Officers / Managing Directors who were responsible for strategic planning. A useable sample of 101 responses was obtained, yielding a 13% response rate.

All the scales used in this study were developed from existing literature (brand orientation (Bridson, 2002); learning orientation (Sinkula et al. 1997); market orientation (Narver and Slater, 1990)). For all three business orientations, respondents were asked to indicate the extent to which their business undertakes certain practices. The scale ranged from not at all (1) to to a great extent (7). Items for retail competitive advantage were also based on existing literature (Vida at al. 2000; McGoldrick and Blair, 1995; McGoldrick and Ho, 1992). Respondents were asked to indicate their firm’s competitive position relative to their closest competitor. The scale ranged from major disadvantage (1) to major advantage (7). In measuring organisational performance, a multidimensional approach was applied. A retailer may be considered successful if the organisation’s objectives are being achieved, despite poor financial results and vice versa. In the case of financial performance, respondents were asked to indicate the extent to which a number of financial indicators had changed in the last 3-year period on a 7-point scale ranging from (1) decrease of more than 20% to (7) increase of more than 20%. Strategic effectiveness (such as achievement of strategic and financial objectives) was measured using a 7-point scale ranging from (1) very unsuccessful to (7) very successful. The reliability of the measurement
scales was found to satisfactorily meeting Nunally's (1978) recommendation, as the Cronbach α's were all above 0.7. Exploratory and confirmatory factor analyses were performed and all items significantly loaded on the hypothesised constructs in the hypothesised direction.

Research Findings

Based on the conceptual framework depicted in Figure 1 a path model using AMOS Version 5.0 was used to test the hypotheses. A chi-square of 3.67, df = 5, p = 0.60; GFI = 0.99; AGFI = 0.95; Cmin/df = 0.73; TLI = 1.02; NFI = 0.98; CFI = 1.00; RMSEA = .36 indicate that the data fit the proposed model well, but was over-specified somewhat. As market orientation was not found to have a significant affect on competitive advantage it was removed and an alternative model was tested. A chi-square of 3.45, df = 3, p = 0.33; GFI = 0.99; AGFI = 0.93; Cmin/df = 1.15; TLI = 0.99; NFI = 0.98; CFI = 1.00; RMSEA = .38 indicate that the respecified model is superior. The results of this path model are summarized in Table 1.

<table>
<thead>
<tr>
<th>Relationships</th>
<th>Direct Effects</th>
<th>Indirect Effects</th>
<th>Total Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>β</td>
<td>S. E.</td>
<td>t-value</td>
</tr>
<tr>
<td>LO ➔ CA</td>
<td>0.29</td>
<td>0.14</td>
<td>2.07</td>
</tr>
<tr>
<td>BO ➔ CA</td>
<td>0.28</td>
<td>0.11</td>
<td>2.55</td>
</tr>
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<td>CA ➔ FP</td>
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<td>0.16</td>
<td>0.38</td>
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<td>CA ➔ SE</td>
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<td>0.11</td>
<td>3.18</td>
</tr>
<tr>
<td>LO ➔ FP</td>
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<td>FP ➔ SE</td>
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<td>7.00</td>
</tr>
</tbody>
</table>

(LO = Learning Orientation; BO = Brand Orientation; CA = Competitive Advantage; FP = Financial Performance; SE = Strategic Effectiveness)

No support was found for Hypothesis 1. While it was expected that market orientation would have a positive influence on retail competitive advantage, the non-significant finding can be explained by several factors. First, just because a firm measures competitor strategies and performance, does not necessarily mean that the retailer will attempt to better their competitor. Firms often research their competitors as part of benchmarking activities, which result in competitive parity as opposed to superiority. Second, the aggregated market orientation construct may not be as powerful a predictor as its individual dimensions.

The results suggest that learning orientation has a significant positive relationship with competitive advantage. This finding supports Slater and Narver’s (1995) conclusion that learning orientation provides a platform for competitive advantage because “it is well positioned to provide superior value to customers, complex to develop, difficult to imitate, and appropriate in a turbulent and dynamic environment” (p.71). The results also provide support for H3 and confirm that valuing brands and developing practices that are oriented towards building brands can distinguish a retailer from its competitors. One possible explanation for this positive relationship is that brand orientation acts as a compass for decision-making. This ensures that all elements of
the retail offer, from the merchandise and displays to store atmosphere and customer service reflect and reinforce the brand position. Consequently, the store experience is enhanced and consumers will demonstrate a preference for the brand in comparison to competitors. In addition, although it was not hypothesised, brand orientation was found to have a positive direct and total affect on financial performance.

Hypothesis 4 is supported in relation to strategic effectiveness only. This substantiates Day's (1990) assertion that performance is related to the firm’s ability to create and sustain a competitive advantage. It can be inferred that an advantage in customer service, for instance, enhances the firm’s strategic effectiveness. Sparks (1992) suggests that those retailers who can minimise staff turnover will retain more knowledgeable staff, which may enhance the consumer’s shopping experience and therefore customer satisfaction. This improved customer satisfaction may lead to the achievement of overall strategic goals. Our results suggest, however, that while competitive advantage assists retailers in achieving their strategic objectives, this does come at a financial cost, at least in the short-term. Finally, Hypothesis 5 is supported as both learning and brand orientation have significant indirect and total affects on strategic effectiveness. This is consistent with the RBV and suggests that competitive advantage mediates the relationship between organisational capabilities and performance. Thus, learning and brand orientation augment competitive advantage, which in turn enhances the firm’s strategic effectiveness.

Conclusion

The findings of this study enrich the RBV and retail literature in several ways. First, the study sought to contribute to the growing body of research using a resource-based view to explain variations in retail performance and the mediating role of competitive advantage. The RBV model examined in this study explains a reasonable proportion of the variance in competitive advantage and organisational performance. The model explains 31% of the variance of competitive advantage, 13% of the variance of financial performance and 55% of the variance of strategic effectiveness. Second, the study contributes to a more comprehensive understanding of competitive advantage by examining its antecedents and their indirect affect on performance. Learning and brand orientation were identified as critical determinants of retail competitive advantage and performance. Moreover, the results confirm that a strong brand and learning orientation facilitate the achievement of competitive advantage, which in turn enhances the firm’s strategic effectiveness. While market orientation has been identified as a critical success factor in a variety of contexts, it does not contribute to retail competitive advantage or performance. This may be due to the fact that in such a dynamic and fiercely competitive industry, market oriented capabilities are simply standard business practice. It is recognized, however, that nature of the sample must be considered when interpreting the findings of this study. Although the response rate was relatively low, the sample characteristics suggest that the sample is reasonably representative of the UK retail industry. Finally, while it was beyond the scope of this paper, a suggestion for further research is to investigate the affects of other organisational capabilities, such as innovation and entrepreneurial orientation, on competitive advantage and retail performance.
References


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