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## **A Resource-Based View of Retail Competitive Advantage**

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### **Abstract**

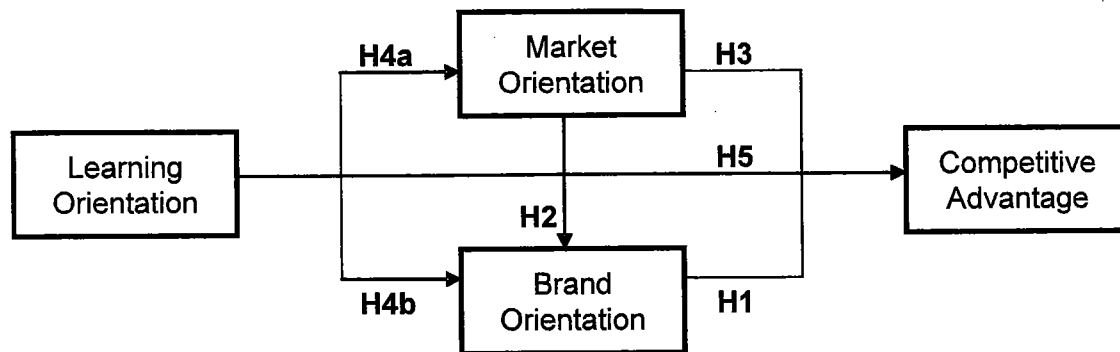
*This paper investigates the relationships between brand, market and learning orientation with competitive advantage in the context of the UK retail industry. The results indicate that both brand and learning orientations have a significant positive relationship with competitive advantage. However, market orientation was not found to have a significant influence on retail competitive advantage. These findings suggest that market orientation may result in competitive parity only, while superiority in the retail sector is dependent on the speed of learning and the application of knowledge in the form of a strong brand orientation.*

Keywords: resource-based view, retail, competitive advantage

### **Introduction**

Embedded in the Resource Based View (RBV) theory is the premise that an organisation's distinctive or superior capabilities may be a source of advantage over competitors and lead to superior performance (Barney, 1991; Day and Wensley, 1988). Organisational capabilities are defined as the organisation's abilities to combine, develop, and use its resources to achieve new and innovative forms of competitive advantage. 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. Thus the purpose of this paper is to explore the relationships between three business orientations, namely; brand, market and learning orientation with competitive advantage (see Figure 1)

**Figure 1 Conceptual Framework**



**Theoretical Framework**

**Brand Orientation**

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 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. Empirical evidence of a relationship between brand orientation and competitive advantage has yet to be established in the retail or general brand literature. It is reasonable to assume, however, that these concepts are related and academic literature makes consistent anecdotal associations between the two. 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 uniquely individual and 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. Functional capabilities distinguish retailers from their competitors by influencing advertising campaigns that communicate the rational benefits of shopping at a specific retail store brand relative to their competitors. Adding value capabilities again focus on distinguishing the brand from competitors through the addition of service facilities, quality differences or a distinctive store experience. 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

**H1:** *Brand orientation will have a significant positive relationship with retail competitive advantage.*

**Market Orientation**

This study adopts Narver and Slater's (1990) model of market orientation. Numerous studies have emerged to investigate the relationship between market orientation and other organisational

capabilities (Conrad, 1999; Vazquez et al., 2001; Baker and Sinkula, 1999; Hurley and Hult, 1998; Slater and Narver, 1995). Noticeably absent is the investigation of market orientation and brand orientation. It can be argued that a positive relationship would exist between market orientation and brand orientation. For instance, market orientation has the benefit of focussing the organisation on collecting information about customer needs, competitor capabilities and using the information to develop customer value (Slater and Narver, 1995). This may influence the retailer's functional capabilities by ensuring that they are aware of consumers most rational purchase needs and the relative performance of competitors in meeting those needs. In addition, it may support retailers' distinctive capabilities through the ability to monitor customer perceptions of the firm's retail image. Such constant investigation of consumer needs and competitor activities may also enhance a retailer's value adding capabilities by identifying gaps in the marketplace where consumers are not currently satisfied. Furthermore, superior customer analysis may encourage a retailer's symbolic capabilities by having a clear understanding of its target market's personality and social aspirations. Thus, it is hypothesised that

**H2:** *Market orientation will have a significant positive relationship with brand 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. Furthermore, it will aid in identifying areas that the retailer needs to address with more resources in order to develop positional superiority. 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. This may also assist the firm to work as a team in developing a merchandise advantage if they address competitor weaknesses relating to merchandise. Therefore, we hypothesise that

**H3:** *Market orientation will have a significant positive relationship with retail competitive advantage.*

### **Learning Orientation**

Learning orientation goes beyond mere learning as a result of error correction, and involves an organisation's ability to constantly question the organisational norms that guide their market information processing activities and organisational actions (Day 1991; Sinkula et al., 1997). While some academicians have identified overlaps between learning and market orientations (Slater and Narver 1995), others have highlighted the distinctions with a particular focus on the pre-eminence of learning orientation (Dickson, 1996; Baker and Sinkula, 1999). Learning orientation generates a set of organisational values that influence the propensity of the firm to create and use knowledge (Baker and Sinkula, 1999). An organisation with a strong learning orientation is also likely to possess a strong market orientation because it will be focused on collecting customer and competitor information as a source of knowledge creation. Moreover, learning orientation will result in a strong brand orientation, as branding capabilities may be developed as a means of applying knowledge in pursuit of a sustainable competitive advantage. Hence, we hypothesise that

**H4:** *Learning orientation will have a significant positive relationship with market orientation (H4a) and brand orientation (H4b).*

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; Hamel and Prahalad, 1989; 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

**H5:** *learning orientation will have a significant positive relationship with retail competitive advantage.*

### **Methodology**

The sampling frame for the study was based on a database drawn from the population of retailing firms operating in the UK. The mail survey method was used to collect data from respondents through a formal structured questionnaire. The study adopted the three key principles advocated by Dillman's (1991) Total Design Method: minimise the cost for the respondent, maximise the reward for responding and establish trust. Using the key informant method questionnaires were distributed to Chief Operating Officers / Managing Directors. 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 et 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). The reliability of the measurement scales was found to satisfactorily meeting Nunally's (1978) recommendation, as the Cronbach  $\alpha$ '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**

A path model using AMOS Version 4.0 are summarised in Table 1. A chi-square of 3.388,  $df = 2$ ,  $p = 0.184$ ; GFI = 0.984; AGFI = 0.918; Cmin/df = 1.694; TLI = 0.961; NFI = 0.970; CFI = 0.987; RMSEA = .421 all indicate that the data fit the proposed model rather well.

**Table 1 Summary of Research Findings for Retail Competitive Advantage**

Hypothesis	Standardised Regression	t-value	Support
H1 Brand Orientation → Competitive Advantage	.292**	3.314	Yes
H2 Market Orientation → Brand Orientation	.493***	5.663	Yes
H3 Market Orientation → Competitive Advantage	ns	ns	No
H4a Learning Orientation → Market Orientation	.598***	7.452	Yes
H4b Learning Orientation → Brand Orientation	Ns	ns	No
H5 Learning Orientation → Competitive Advantage	.373**	4.231	Yes

\* =  $p < 0.05$ , \*\* =  $p < 0.01$ , \*\*\* =  $p < 0.001$ , ns = not significant

The results provide support for H1 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. Support was also found for H2. Market orientation directs the firm's attention towards identifying customer needs, competitor capabilities and using this information to create and maintain customer value (Slater & Narver, 1995). Consequently, through research into customer perceptions of both the firm's and competitors' brand image, branding capabilities may be enhanced. 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 purpose of this research, however, was not to examine the explanatory power of the dimensions of market orientation, but to test the effect of market orientation, as a capability, on brand orientation and competitive advantage.

Learning orientation was found to have a significant positive relationship with market orientation, but not with brand orientation, which supports H4a only. This finding is consistent with that of Sinkula et al. (1997) who concluded that an organisation with a strong learning orientation will participate in higher levels of market information generation and dissemination. A possible explanation for the non-significant relationship with brand orientation is that market orientation may mediate this relationship. Development of a strong brand orientation is a direct result of a deeper understanding of customers and competitors, which, in turn, is influenced by the firm's commitment, open-mindedness and shared understanding of the importance of knowledge creation and dissemination. Finally, 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).

## Conclusion

The study sought to contribute to the growing body of research using a resource-based view to explain variations in competitive advantage. The findings suggest that brand and learning orientation are critical determinants of retail competitive advantage. While market orientation has been found to positively influence competitive advantage and performance in a variety of contexts, its value to organisations is not universal. This implies that in the retail context, at least, developing a strong market orientation is not enough to secure an advantage over competitors. 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. It is also noted that the key constructs of learning, market and brand orientation are highly correlated and the interpretation of results may be affected by multicollinearity. While it was beyond the scope of this paper, a suggestion for further research is to investigate interaction models and the indirect affects of learning and market orientation on competitive advantage.

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