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BUILDING STRATEGIC BUSINESS MODEL THROUGH UNDERPINNING THEORIES

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ABSTRACT

This study enhances the body of knowledge by remodelling the connection of strategic issues by applying several underpinning theories. This paper reveals the relationship of competitive strategy, market orientation and innovation strategy that could underpin by dynamic capabilities, strategic implementation perspective and level of organizational strategy. This study seeks to provide rational consideration on the integration of above-mentioned variables. As a significant contribution to the body of knowledge, this paper expanding the competitiveness theory and strategy theory development. Furthermore, provides several implications to the researchers and practitioners regarding the role of several underlying theories in remodelling organizations' strategic direction.

Keywords: Dynamic capabilities perspective, Strategic implementation perspective, Level of organizational strategies.

1. INTRODUCTION

Today's hoteliers face multiple challenges in their regular business operations. The dynamic competitive business environment, speedy technological development and frequent customer's preference changes rewrote the rules of the game and pushed the hoteliers into very demanding situation. In response to these demands, hoteliers have to remodel their overall organizational strategy which could synchronize with the changing environment. Over the past decades, there has been a growing realization of the imperative contribution of competitive strategy (Parnell, 2011, Hilman, 2009; Allen and Helms, 2006), market orientation (Safarnia, Akbari and Abbasi, 2011; Kumar, Subramanian and Stradholm, 2011; Zhou, Brown and Dev, 2009) and innovation strategy (Tajeddi and Trueman, 2012; Gunday, Ulusoy, Kilic and Alpkan, 2011) on organizational performance. Mutually researchers and practitioners agree that efficient and effective competitive strategy, market orientation and innovation strategy can lead to sustainable competitive advantage. However, very limited empirical evidence accessible relates to the association of these strategic factors. Therefore, this study attempts to address this inadequacy and pursue to bridge the existing research gap.

1.1 Purpose of study

This study discusses the rational consideration on integration of these strategic factors through theoretical background. The discussion on underpinning theories is very significant

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to strengthen the interrelationship among the variables in the study. This study discusses comprehensively about the underlying theories that are supporting the integration of competitive strategy (independent variable), market orientation and innovation strategy (mediators) on organizational performance (dependent variable). By doing so, the researchers are justifying and establishing the strong relationship of these strategic factors that could remodel organizations' strategic direction.

2. REVIEW OF LITERATURE

Over the years, various theories were used in discussing the relationship of strategy, structure and performance. Among them are contingency theory, industrial organization theory (IO), transaction cost theory, agency theory, game theory, and resource based view (RBV) and dynamic capabilities (DC). This study utilised DC, strategic implementation perspective and level of organizational strategies to remodel the overall organization's strategies.

2.1 Dynamic capabilities (DC)

Current study utilised DC introduced by (Teece, Pisano and Shuen, 1997). DC is an extension of RBV which explain how firms can grow their capabilities to adapt and capitalise in the fast changing business environment (Teece et al., 1997). According to Teece et al. (1997) dynamic is referred as ability to renew competences to attain consistency in the changing business environment. Meanwhile, capabilities are referred as the key role of strategic management for appropriate adaptation, integration and reconfiguration of internal or external organizational skills, resources and functional competencies to equal the requisite against the changing environment (Teece et al., 1997). Essentially, Teece et al. (1997) mentioned that DC explains how the organization can leverage their strategies and change the valuable resources to enable them confront and overcome multiple challenges.

Many scholars have defined the concept of DC from various perspectives. For instance, Eisenhardt and Martin (2000) stated DC identified the process such as product expansion and strategic choice creation by adjusting the resource structure. Wang and Ahmed (2007) explained that DC were crucial organizational capabilities that helpful for long-term superior performance. Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece and Winter (2007) mentioned DC as a capability that purposefully build, extend and transform the resource base. Moreover, DC referred as non-imitable ability of business firms which possessed to reshape and reconfigure resources in order to react towards moving technologies and market situation and avoid losses (Augier and Teece, 2009). Ambrosini, Bowman and Collier (2009) stated that to recognise the DC the organization should think through the managerial opinions about the necessity for transformation towards the environment. DC emphasised the transitory nature of both organizational resources and external influences (Parnell, 2011; Ambrosini et al., 2009). Arend and Bromiley (2009) stated that DC answered the essential inquiry how certain firms thrive in a dynamic competitive environment whereas rest fails.

According to Jin and Shi (2010), DC are mainly about the adaptation and linking of firms' internal environment in response to the external environmental transformation. Crucially, DC has some insight from the behaviour theory, transaction cost theory, agency theory, incentives, property rights theory and evolutionary theory (Parnell, 2011; Augier and Teece, 2009). May (2011) pointed out DC included managerial decisions regarding resource allocation for capacity development and innovation activities. Although DC and RBV are both sharing the same assumption (VRIN) and resources focused, but there were two main differences between these two theories (Ambrosini et al., 2009). First, RBV is static in nature while DC is addressing competitive advantage in rapidly changing environment and second, RBV focuses on the utility of organizations' resource bundle while DC focusing on the best way to integrate, adapt and reconfigure the resources (Zaidi and Othman, 2011). DC focuses on resource and environmental aspect to create competitive advantage by integrating and renewing the resources. The organizations' strategy and capability building alignment will create DC that are enabled to achieve better performance and sustaining the competitive advantage (Wang and Ahmed, 2007).

Briefly, DC provides valuable practices in the rapidly changing environment by identifying new opportunities and reconfiguring organizations' internal operations process to gain sustainable competitive advantage. The researchers found that DC could underpin the interrelationship among the variables of this study. To put it differently, internal managerial strategic competencies and capabilities namely competitive strategy, market orientation and innovation strategy assist to gain optimal performance in a changing environment. By applying DC, this study aligns strategies and capabilities towards performance.

2.2 Strategic implementation perspective

The arguments on either organizational dimension (strategy formulation) affects competitive strategy (strategy implementation) or competitive strategy (strategy implementation) affects the organizational dimension (strategy formulation) still continues (Voola and O'Cass, 2010). Essentially, the literatures showed that many marketing scholars and researchers gave more importance and attention to the strategy formulation perspective rather than strategy implementation perspective (Noble and Mokwa, 1999). Hence, marketing scholars should give more importance to strategy implementation perspective (Voola and O'Cass, 2010). Homburg, Krohmer and Workman (2004) stated that strategy formulation perspective as organizational dimensions; belief, behaviour, cultural and structure influence the strategy. Meanwhile, strategy implementation perspective is explained as strategy affecting the organizational dimensions towards performance (Homburg et al., 2004). In order to implement a particular strategy, the organization should develop and deploy the capabilities of organizational dimensions effectively (Voola and O'Cass, 2010). Crucially, more studies are needed on how the marketing and innovation activities are able to facilitate the implementation of business strategies (Parnell, 2011; Voola and O'Cass, 2010; Homburg et al., 2004; Frambach, Prabhu and Verhallen, 2003; Barney, 2001; Slater and Olsen, 2001).

This study adopts strategy implementation perspective which emphasises that strategy has a stronger effect on structure rather than structure influencing strategy (Homburg et al., 2004; Vorhies and Morgan, 2003). In other word, this study examines the effect of competitive strategy (strategy) market orientation and innovation strategy which are considered as organizational dimensions (structure) on performance.

2.3 Level of organizational strategies

The strategic management literatures showed that organizational strategies were classified into three levels; corporate, business and functional. Corporate strategies are concerned on selection of business by deciding the exact competition for the organization simultaneously developing and integrating all the portfolio of businesses. For instance, diversification strategy, acquisition, merger, joint venture, horizontal and vertical integration strategy (Nandakumar, Ghobadian and Regan, 2011).

Corporate strategies enable organizations to identify the key goals and appropriate businesses that organizations should involve and assist to seek synergies by sharing and coordinating the resources and human capital effectively (Nandakumar et al., 2011). However, the researchers don't use corporate strategy to conduct this study because this research mainly investigates the performances of hotel business operation. Business strategies concern about competitiveness of organization in current business environment within its industry (Parnell, 2011). These business strategies determining competitive advantage for organizations by formulating and implementing vital strategies for competitive positioning and compete effectively than competitors. Many strategic researchers have given particular consideration for business level strategy due to its importance on performance (Parnell, 2011; Nandakumar et al., 2011). Hence, this study examines the business strategy with Porter's pure generic competitive strategies.

In order to obtain effective outcome from business strategy, organizations should implement appropriate functional strategies. Organizations should align their business level strategies with functional strategies to achieve superior organizational performance (Slater and Olsen, 2001). Nandakumar et al. (2011) stated that functional strategies concern about improving the effectiveness of functional operations and added value to the organization (Analoui and Karami, 2003). For instance, marketing strategy, purchasing strategy, research and development strategy, financial strategy, human resources and so on. Functional strategies will support the business strategies by providing information about resources and capabilities to achieve efficiency, quality, innovation, customer responsiveness and distinctive competencies (Analoui and Karami, 2003).

Hence, organizations should give importance for functional strategy because it assists in aligning overall organizational strategy to achieve greater performance. Therefore, this study investigates market orientation and innovation strategy as functional strategies.

3. DISCUSSION

As mentioned earlier, the aim of this study is to provide a comprehensive discussion on underpinning theories relating the strategic factors namely competitive strategy, market orientation and innovation strategy towards organizational performance. In order to shape the relationship among strategic factors, this study used dynamic capabilities, strategic implementation perspective and level of organizational strategy.

Hult and Ketchen (2000) identified market orientation and innovativeness as organizational capabilities. Meanwhile, Voola and O'Cass (2010) mentioned market orientation as valuable capability which facilitates the organizations to serve their target markets more efficiently. Maritan (2001) defined organizational capability as capacity to deploy its tangible or intangible assets to conduct a task in order to increase the performance. In line with this, Grawe et al., 2009 stated innovation as capability that determines the efficiency of the organization in the transformation process. By applying DC, this study attempts to align competitive strategy (strategies), market orientation and innovation strategy (capabilities) and performance.

This study uses market orientation of culturally based behavioural perspective as defined by Narver and Slater (1990). Innovation considered as a function of internal resources and the specific behaviour of firms (Ros and Sintes, 2009). Homburg et al. (2004) stated underlying belief, behaviours and cultural as organizational dimension or structure. From a strategic implementation perspective, this study aligning competitive strategy (strategy), market orientation and innovation (structure) towards performance. Both dynamic capabilities and strategy implementation perspective showing an inside-out approach which explains that internal organizational factors playing important role more than external factors in improving organizational performance.

Furthermore, the relationship between business strategies and market orientation is built with consideration of market orientation as a functional strategy (Frambach et al., 2003) and also provides marketing's support to business strategy (Hunt and Lambe, 2000). Meanwhile, innovation strategy is considered as a functional strategy because it assists to add value to the offerings in two ways; lowering the operational cost and add new value by making differentiation (O'Sullivan and Dooley, 2009). From the level of organizational strategy, this study aligns the market orientation and innovation strategy as the functional strategies with competitive strategy (business strategy) and performance. Figure 1 clearly illustrated the conceptual framework of this study.

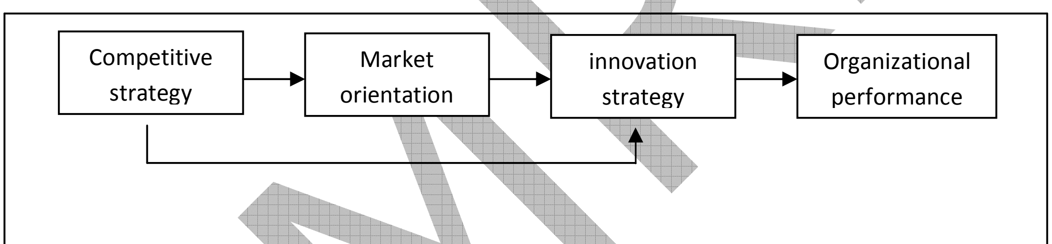

Fig 1: Conceptual Framework

4. IMPLICATIONS AND CONCLUSION

The present study contributes to competitiveness theory and strategy theory development by remodelling the organizational strategies. Several key conclusions can be drawn from the present study. First, this study attempts to explain the relationship of strategy (competitive strategy), capabilities or resources (market orientation and innovation) on performance based on dynamic capabilities. Second, the current study provides insight on the role of organizational dimension or structure (market orientation and innovation) in the relationship of competitive strategy and performance from the strategic implementation perspective. Third, this study informs the role of functional strategies (market orientation and innovation) in facilitating the business strategy (competitive strategy) and performance based on a hierarchy of organizational strategy. For the practitioners, this study provides information to pursue right organizational strategy implementation by highlighting the links and alignment between strategic type, specific capabilities or resources or structure on performance. However, this study presents the implications based on the logical view of underlying theories, so the matter of this study required further investigation to empirically indicate the relationship among these strategic factors towards performance in order to achieve competitive advantage in a fluctuating business condition.

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