

The Relationship between Strategic Capabilities and Competitive Performance: The Moderating Role of Internal Cooperation

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DOI: 10.6007/IJAREMS/v6-i1/2603 URL: <http://dx.doi.org/10.6007/IJAREMS/v6-i1/2603>

Abstract

This study aims to explore the relationship between strategic capabilities and competitive performance and the moderating effect of internal cooperation on this relationship for the machine made carpet manufacturers operating in Turkey. As a result of analyses of 203 questionnaires collected from top and mid-level managers of machine-made carpet manufacturers which are operating in Turkey, it has been observed that marketing capabilities, market-linking capabilities, information technology capabilities and management related capabilities as dimensions of strategic capabilities have a positive effect on competitive performance. Besides, internal cooperation has moderate only the relationship between management related capabilities and competitive performance. Theoretical and practical implications are discussed.

Keywords: Strategic Capabilities, Internal Cooperation, Competitive Performance

1. Introduction

Organizations mostly carry out their activities in a highly competitive environment. The intense competition forces organizations to create strategies which differentiate them from

rivals in order to maintain their presence. Ansoff (1970), one of the pioneers of strategic management literature, assumes that strategy is concerning mainly with product-market positioning where organizations aim to reach. He argues that competitive advantage provides a strong competitive position for organizations. According to Uytterhoeven et al. (1973), competitive advantage is concerning to what extent organizations use their facilities for product-market positioning. Besides, there are a number of studies showing that not only preferences about positioning but also the use of resources play a key role to create competitive advantage (Ferkins et al., 2005; Ordanini and Rubera, 2008; Hofer and Schendel, 1980).

As Porter asserted (1980, 2008) since 1980, the concept of cost leadership and differentiation have been accepted as basic methods of sustaining competitive advantage for organizations. According to his approach, competitive advantage is not only gained by the strategies of cost leadership and differentiation but also focus strategies depending on the goals of organizations and the industries where they operate.

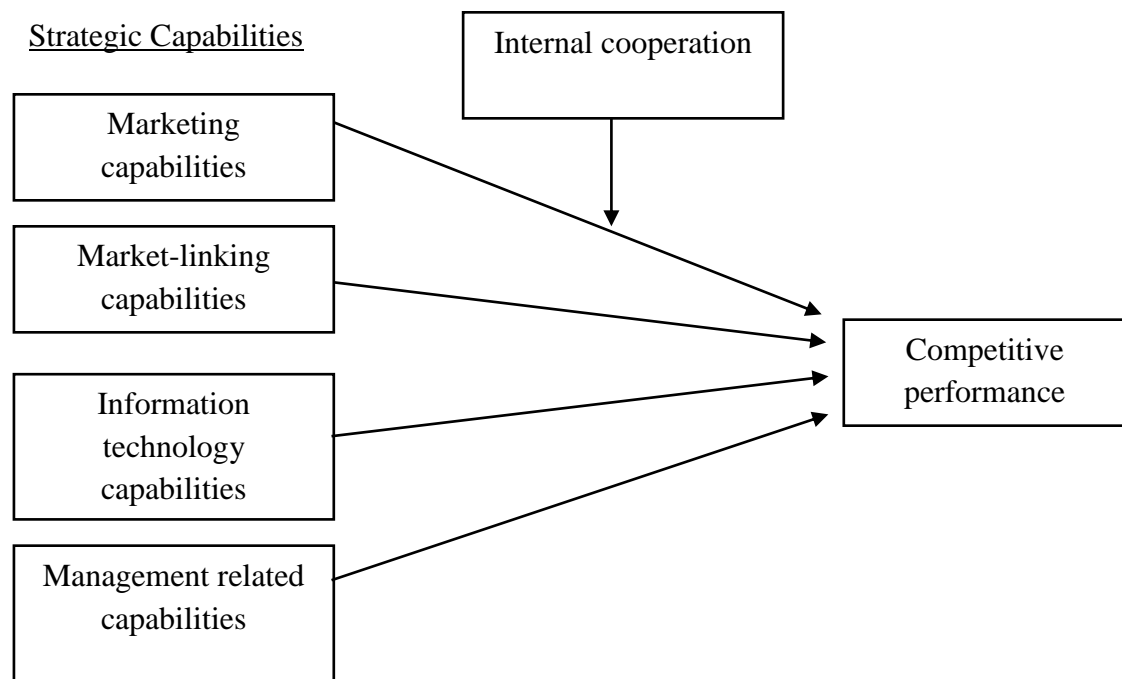
While the loyalty of consumers decreases because of the fact that their preferences are changing, the validity of the generic strategies can be reduced in some cases (Dufficy, 2001). Organizations have started using "flexible" production and service processes depending on changing customer preferences whereas they also use mass production processes for cost efficiency (Johnston, 2001). The change in the role of manufacturers and consumers has caused the environmental complexity (Forster, 2000). The increase in the number and types of environmental issues reduces the predictability of environmental change (Daft, 2001).

As resource-based approach has presumed, organizations need to develop their core competencies in order to cope with growing uncertainty in the economic environment. Organizations' core competences are of very specific nature. These competences occur as a result of the integration of "talent, technology, systems, and business value of managerial behavior" which shape organization itself (Evans et al., 2002).

Need for differentiation, based on superior quality of production processes obliges organization to improve their technical skills and research capabilities (Porter, 1980). In addition, organizations should promote the quality of customer service, ensure customer loyalty and evaluate employee performance more effectively due to enhancing competitive performance (Szpekman, 1992). While companies adapt their activities to rapidly changing competitive environment, they use products, services, human resources, customer relations and technological resources and processes in a more innovative way (Bentley, 1990).

Strategic capabilities has been described as "a complex bundle" consisting of information and competences which enable organizations to perform their activities (Johne, 1992). Strategic competences may have an influence on the improvement of organizational performance in the long term. Besides, it includes the provision of resources from environment directed to a specific strategic goal (Lenz, 1980).

Figure 1: Research Model



One of the decisions made by organizations is to determine the optimum level of each capabilities depending on their marginal contribution (Ethiraj et al., 2005). In the literature, it is frequently expressed that there is a relationship between strategic capability and long-term success (Conant et al, 1990; Jaworski and Kohli 1993; Song and Montoya-Weiss, 2001). There are different opinions about the source of these capabilities. Uytterhoeven et al. (1973) propounds that organization's competences are shaped by "strategic profile" and "environmental dimension". According to another aspect of researchers, organization's strategic capabilities depend on financial and physical assets, organizational structure, technology and human resources (Ansoff, 1970; Hofer and Schendel, 1980).

Thus, it becomes so crucial for organizations to maintain and improve their competences in a highly competitive environment in order to sustain competitive advantage in the market. In this study we assume that organization's strategic competences may have an impact on competitive performance. Furthermore, as stated Figure 1 we analyzed the moderator role of internal cooperation in this relationship.

2. Theoretical Framework

Strategic capabilities are accumulation of knowledge and skills of firms which enable coordinate their operations and evaluate their assets in order to create economic value and achieve sustainable competitive advantage in long term (Day, 1995). Depending on the sector many classification for strategic capabilities can be done. But in general terms technology, product development, production processes, marketing, logistics, and managerial skills can be counted (Day, 1995; De Sarbo, 2005).

The way organizations use their competences may depend on market conditions. Marketing capability includes market segmentation, identifying the target market, pricing and advertising capacity. In addition, creating database about customers and competitors makes organizations integrate their marketing activities much more effectively. It is easy to gain competitive advantage for market-oriented organizations which have developed the marketing skills and prioritized consumer preferences (Jaworski and Kohli, 1993). Organizations need to be much faster than their competitors in the delivery of new products and services and simplify the ordering process in order to create customer value (Jacome et al., 2002). As a result, these functions make it possible to apply marketing programs that organizations consider implementing (Conant et al., 1990; DeSarbo et al., 2005). In other words, when organizations have a higher level of marketing capabilities, it leads to improved competitive performance. Therefore, the first hypothesis was structured as follows.

H1a: There is a positive relationship between marketing capabilities and competitive performance.

One of the strategic competences that organizations should possess is market-linking capabilities which include elements such as prediction of changes in the market, connection within the various channels, the provision of customer loyalty and technology. Organizations developing market-linking capabilities are able to respond effectively to changing customer needs (Day, 1995).

Following the changes in the market and adapting to these changes might increase the effectiveness of the organizations and consumer confidence while producing new products and services. Therefore, effectiveness of the product life cycle would be increased. So it may lead to obtaining a competitive advantage (Jacome et al., 2002). As a result, the second hypothesis was structured as follows.

H1b: There is a positive relationship between market-linking capabilities and competitive performance.

As one of strategic capabilities information technology capability is defined as data analysis and communication skills which enables organization to gain strategic flexibility and to integrate their technical information with market information (Parnell, 2011; Raymond et al, 2010; Bharadwaj et al., 1999). It is not enough to have only technological capabilities but also an effective information system although the technological capabilities are necessary for the existence of these capabilities (Davenport and Short, 2003). These capabilities need to be structured for adapting to the ever-changing conditions while using it for interactions between organization units and external environment (Ray et al., 2004). Organizations with this skills have a possibility to survive in a highly competitive market. To put it another way, information technology capabilities affects the level of competitive performance of organizations. Accordingly, the following hypothesis was constructed.

H1c: There is a positive relationship between information technology capabilities and competitive performance.

Apart from the above listed capabilities, managerial capability improves the ability of adaptation to environmental changes by rationalization of organizational structures and processes which decrease uncertainty and increase flexibility (Raymond et al, 2010).

Management functions directly affect the success of organizational strategic decisions (Walker et al., 1996; Noori, 1990). If these functions are implemented successfully, it will increase the competitiveness of organizations. Resources used in the fulfillment of these functions do not have any effects if they are not directed at a specific strategic direction (Ray et al., 2004). As Stalk et al. (1992) has stated that building blocks of organizations' strategy is not products or services but business process. Each of the skills and resources of organizations may not have any influences on competitive advantage. At this point, managerial skills which are difficult to imitate might be used by organizations in order to gain sustainable competitive advantage (Barney, 1991). The last hypothesis for this section was given below.

H1d: There is a positive relationship between management related capabilities and competitive performance.

The Moderating Role of Internal Cooperation in the Relationship between Strategic Capabilities and Competitive Performance

Organizations are those that include products and services which are made by individual and social activities through the application of organizational principles and rules. These principles determine how to regulate relations between individuals, between individuals and groups, between groups and other groups and between organizations. Furthermore, these principles play a key role as a catalyst which enables to obtain coordination and the flow of information among all actors while increasing the level of internal cooperation (Giffi et al., 1990; Grant, 1996; Parker and Anderson, 2002).

As Anderson and Narus (1990) discussed, cooperation coordinates actions taken by different actors in mutually dependent relationships to attain common outcomes. This description highlights that the aim of cooperation is to help each other and identifies the main features of cooperation (Hillebrand and Biemans, 2004). Therefore, cooperation could be assumed identical to collaboration and integration (Kahn 1996; Kahn and Mentzer 1998) and consists of a series of relations between the actors "the exchange of values between two parties" (Biemans 1989, p. 200). Whereas communication is an essential part of cooperation, they are not completely the same (Kahn 1996).

In internal cooperation literature, there are a number of studies in the literature about the cooperation within each business functions (Lancaster, 1993; Shaw and Shaw, 1998; John and Hall, 1991; Crittenden, 1992, 1993; Kahn and Mentzer, 1994; Williams et al., 1994). Internal cooperation is also interested in cooperation between business functions for product development. Therefore, it becomes so crucial to provide organizations with interface between marketing and R&D because of their dominant role in developing new products (Griffin and Hauser, 1996; Gupta et al., 1986, Hise et al., 1990; Souder, 1988). Especially interaction between marketing and R&D plays an important role (Griffin and Hauser, 1996; Gupta et al. 1986, Hise et al., 1990; Souder, 1988).

Internal organizational collaboration requires cross-functional planning, coordination, and sharing of integrated data bases. External organizational collaboration requires sharing of information across the full range of supply chain participants, as well as sharing of internal cross-functional processes (Schrage 1990). Higher levels of both internal and external

organizational collaboration are expected to increase coordination of operations and logistics processes between organizations.

Further, higher levels of coordination are expected to contribute to improved organizational performance (Bowersox and Daugherty 1995; Sheombar 1992).

In a London School of Economics survey, CEOs rated IT as the firm's top strategic tool (Com-pass Group 1998). However, the CEOs asserted that the source of competitive advantage was not technology per se, but superior information sharing that these systems offer. Although research supports the idea of information technology as an enabler of SCM activities and documents its role in supply chain strategy, studies have not documented the relationship between IT capability, collaboration, and firm performance.

A number of studies have shown that cooperation is associated with organizational performance (Bowersox and Daugherty 1995). Stank, Daugherty, and Ellinger (1999) have shown that there is a relationship between internal integration and customer service performance. Also, Stank, Keller, and Daugherty (2001) provide empirical evidence about the role of internal collaboration on firm performance. As a result, it would be assumed that while internal cooperation affects performance of organizations, it may also affect the relationship between organizations' strategic capabilities and their competitive performance. It is because while internal cooperation concerning with communication and interaction increases, it may cause a surge in strategic capabilities like management related capabilities. Consequently, it may lead to improved competitive performance. The following hypotheses have been developed assuming that there is a moderating effect of internal cooperation on the relationship between strategic capabilities and competitive performance.

H2a: Internal cooperation moderates the relationship between marketing capabilities and competitive performance.

H2b: Internal cooperation moderates the relationship between market-linking capabilities and competitive performance.

H2c: Internal cooperation moderates the relationship between information technology capabilities and competitive performance

H2d: Internal cooperation moderates the relationship between management related capabilities and competitive performance

3. Methodology

This study aims to examine the relationship between strategic capabilities and competitive performance for the machine made carpet manufacturers operating in Turkey. In addition, it will be investigated the moderating role of internal cooperation in this relationship. According to the report published by Association of Southeastern Anatolia Carpet Exporters, there are more than 20.000 workers in the sector of the machine made carpet in Turkey. Besides, export volume per year is over two billion dollars. Turkey following Belgium and China is in the third place for exports of the machine made carpets in the world. Taking into consideration of all these factors, it has been chosen the machine made carpet sector as research scope.

Survey as data collection method was used. A self-report questionnaire was completed by upper-level and middle-level managers of the firms in the industry of machine made carpet in Turkey. Specially, firms operating more than five years in this industry were selected. As a result, 117 firms were identified for research sample. However, only 69 firms has accepted to attend this research. In total 290 questionnaire was distributed but 203 has returned. The return rate was 72%.

All analyses were conducted via statistic software, called PASW Statistics 18. Firstly, descriptive analysis was carried out in order to test whether there were positive, significant intercorrelations among all variables. Secondly, to test the hypotheses, it was conducted regression analyses. Thirdly, in order to test moderation (Hypotheses 2a, 2b, 2c and 2d), regression analysis was used to investigate whether a change in the internal cooperation leads to a change in the relationship between the strategic capabilities and competitive performance.

Variables

Strategic capability was measured by a five-point Likert scale ranging from 1 = highly agree to 5 = highly disagree. The scale was obtained from DeSarbo and his colleagues's (2005) a 30-item-measure. It also includes five factors. However, this study includes only four of them because of validity and reliability issues. Questionnaire includes items such as effectiveness of advertising programs, ability to retain customers, information technology systems for new product development projects and human resource management capabilities.

Competitive performance was measured by four items created by Ramanujam and Venkatraman (1987) on a five-point Likert scale. Questionnaire includes items such as sales growth, earnings growth and market share change. Cronbach's alpha for this measure was 0.93.

Internal cooperation was measured by three items made by Johnson and Filippini (2013) on a five-point Likert scale. Sample items are "Did you use inter-functional teams during the development phase of New Products?" and "During the development of New Products was there collaboration and communication between design and marketing?". Cronbach's alpha for this measure was 0.93.

As demographic variables, 7 questions related to the firms and 3 questions related to respondents were used.

Furthermore, exploratory factor analysis has conducted for validity issues. Results have revealed that KMO is for 0.94 and Barlett's test of Sphericity is significant ($p < 0.01$). Additionally, the percentage of variance explained is above .74. Lastly, factor loading varies between 0.52 and 0.83. As a result, we could assume that the variables used in this study all have validity.

Demographics

Some descriptive indication of the variables used in this paper is necessary in order to understand the characteristics of the sample. First of all, 56 percent of the firms have been in existence for more than five years, whereas 19 percent of firms is over 30 years old. The 71 percent of firms have 250 workers or less. 94 percent of the surveyed firms have their own brand. They are mostly (83%) family owned businesses. The percentage of firms which has a

patent is 66. For demographic features of respondents, the majority of managers are male (81%). Of the sample, 53 percent of respondents are between 30 and 39 years old.

Descriptive Statistics

Table 1 presents means, standard deviations, Cronbach’s alphas and correlations below. The bivariate correlations indicate that competitive performance is highly correlated with marketing capabilities ($r=0.72$, $p<0.01$). Besides, Table 1 shows that the lowest correlation coefficient exists between internal cooperation and market-linking capabilities ($r=0.46$, $p<0.01$). Cronbach’s alphas for the variables included in this study as follows; 0.86 for marketing capabilities, 0.86 for market-linking capabilities, 0.94 for information technology capabilities, 0.86 for management related capabilities, 0.93 for internal cooperation and 0.93 for competitive performance.

Table 1: Descriptive Statistics

Variables	M	SD	Alfa	1	2	3	4	5	6
1. Marketing Capabilities	7,31	1,69	,88	-					
2. Market-Linking Capabilities	7,79	1,47	,86	,656**	-				
3. Information Technology Capabilities	7,24	1,79	,94	,622**	,595**	-			
4. Management Related Capabilities	7,60	1,48	,86	,552**	,559**	,482**	-		
5. Internal Cooperation	6,86	2,16	,93	,589**	,464**	,651**	,479**	-	
6. Competitive Performance	7,23	1,66	,93	,720**	,674**	,611**	,653**	,688**	-

4. Hypothesis testing

As can be seen from the table 2, the findings support hypothesis 1a which predicted that there would be a positive relationship between marketing capabilities and competitive performance ($\beta=0.33$, $p<.001$). Furthermore, the results confirm hypothesis 1b which predicted that there would be a positive relationship between market-linking capabilities and competitive performance ($\beta=0.23$, $p<.001$). The results also provide support for hypothesis 1c which posited that information technology capabilities would be positively and significantly associated with competitive performance ($\beta=0.13$, $p <.05$). Lastly, the findings indicate that there is a positive relationship between management related capabilities and competitive performance ($\beta=0.31$, $p<.001$). Therefore, hypothesis 1d is supported.

Table 2. Results of Hierarchical Regression Analysis Predicting Competitive Performance

	Model 1	Model 2	Model 3	Model 4	Model 5
Independent Variables	β (s.e.)	β (s.e.)	β (s.e.)	β (s.e.)	β (s.e.)
Marketing Capabilities	,33(0.06)*	,43 (0.06)*	,24 0.06)*	,23 (0.06)*	,33 (0.06)*
Market-Linking Capabilities	,23(0.06)*	,25(0.06)*	,29(0.06)*	,24(0.06)*	,23(0.06)*
Information Technology Capabilities	,13(0.05)*	-,02(0.05)	- ,00(0.05)*	,11(0.05)*	,13(0.05)*
Management Related Capabilities	,31(0.05)*	,29(0.05)*	,26(0.05)*	,27(0.05)*	,31(0.05)*
Moderator					
Internal Cooperation	,25(0.05)*	,47(0.05)*	,31(0.05)*	,40(0.05)*	,12(0.05)*
Interactions					
Marketing Capabilities * Internal Cooperation		- ,03(0.06)*			
Market-Linking Capabilities* Internal Cooperation			-,00(0.07)		
Information Tech. Capabilities* Internal Cooperation				- ,02(0.07)*	
Management Related Capabilities*Internal Cooperation					,17(0.07)*
F	98.047**	84.175**	81.447**	82.572**	81.309**
R	.84	.74	.84	.84	.84
R ²	.71	.71	.71	.71	.71
N	203	203	203	203	203

Standard errors in parentheses

*P<0.05

**p<0.01

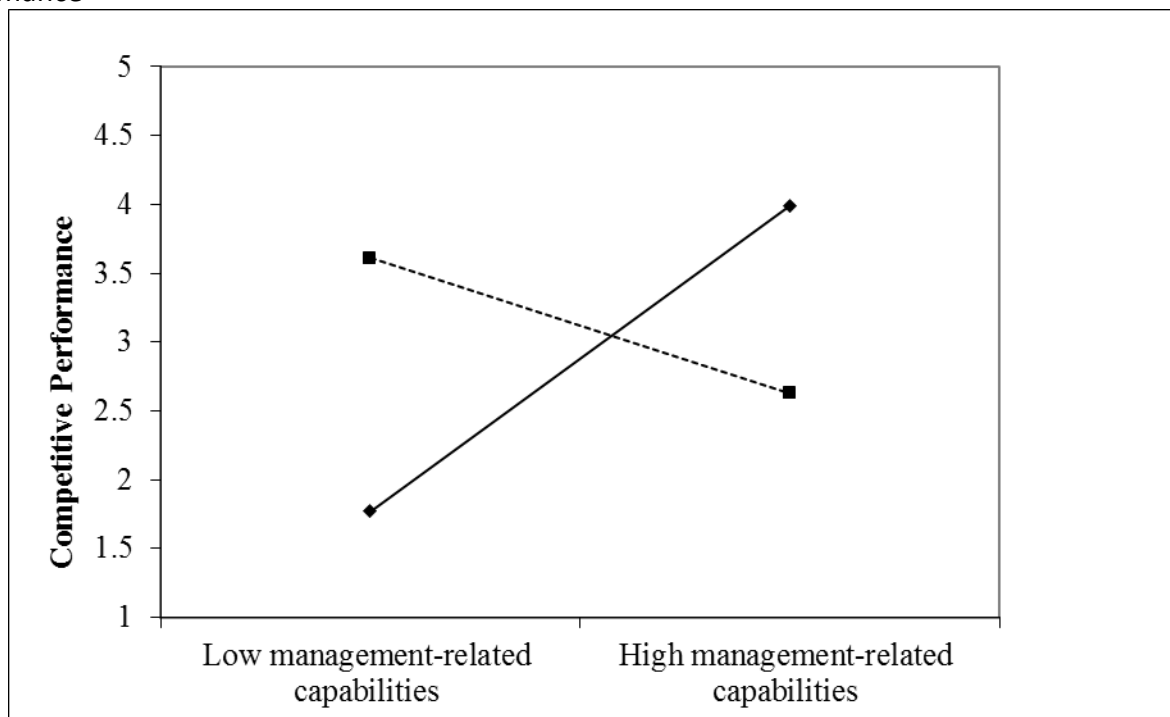
To test the hypotheses regarding moderation, it was conducted hierarchical regression analysis after we have created standardized versions of all independent variables and the moderator. Table 2 summarizes the regression results for testing Hypothesis 2a, 2b, 2c and 2d, which states that internal cooperation moderates the relationship between strategic capabilities and competitive performance. If coefficient of the interaction term (internal capability*strategic capabilities) is significant, there is a moderation effect.

Analysis have been conducted to find out that the proposed moderator (internal cooperation) does moderate the effect of predictor (marketing capabilities) on the outcome variable (competitive advantage). Contrary to Hypothesis 2a's assumption, the results showed that the unstandardized coefficient of the interaction is significant but negative ($\beta = -.03$ $p < .05$). In other words, there is negatively significant moderation although we have expected it as positively related. Thus, hypothesis 2a was not supported.

Hypothesis 2b predicts that high internal cooperation moderates the relationship between market-linking capabilities and competitive performance in such a way that for firms higher on internal cooperation, market-linking capabilities have a stronger, positive relationship with competitive performance than for firm lower on internal cooperation. However, the result of research failed to support H2b ($\beta = .00$, p : non-significant.).

Findings also showed that the unstandardized coefficient of the interaction for hypothesis 2c is negative and significant ($\beta = -.02$, $p < .05$). In other words, there is moderation but not positive. However, the hypothesis 2c assumes that there is a positive moderation. Consequently, the proposed moderator (internal cooperation) does not moderate the effect of predictor (information technology capabilities) on the outcome variable (competitive performance). Thus, hypothesis 2c was not supported.

Figure 2. Management related capabilities – internal cooperation for competitive performance



Again, hierarchical regression analysis was conducted to test the moderation effect of internal cooperation (See Table 2). The beta associated with the interaction term (management related capabilities X internal cooperation) was found statistically significant and positive ($\beta = .17$,

$p < 0.05$). Figure 2 also demonstrates that internal cooperation moderates the relationship between management related capabilities and competitive performance. Thereby, hypothesis 2d was supported.

5. Discussion

Organizations firstly need to gain competitive advantage in order to survive. At this point, it becomes so important how effective organizations use their assets. According to the data obtained in this study, it is important to create strategic capabilities in organizations for obtaining competitive performance. The most effective capability on the competitive performance is marketing capabilities. Managerial capabilities come after marketing capabilities. It is because activities undertaken inside the organization and outside the organization create capabilities which lead to increased competitive performance. Information technology capabilities and management related capabilities also influence competitive performance. Accordingly, it is crucial to improve these capabilities and use them effectively in order to maintain competitive advantage.

These results are similar to the findings of Parnell (2011). The main difference between these two studies is that Parnell (2011) examines organizational performance including ROA and ROE whereas we investigate strategic capabilities on only competitive performance. Second difference is that Parnell (2011) found a significant association only between marketing capabilities -market-linking capabilities and performance conducted in Argentina. However, we discover the links between all strategic capabilities and competitive performance. In the line with assumptions made by Chumaidiyah (2011), capabilities is a crucial component for sustaining competitive advantage.

In addition, there are also other factors which influence the relationship between strategic capabilities and competitive performance. In this study, we examine the moderating effect of internal cooperation on this relationship in such a way that for companies higher on internal cooperation, strategic capabilities has a stronger, positive relationship with competitive performance than for companies lower on internal cooperation. Our findings indicate that internal cooperation moderates only the link between management related competences and competitive performance. The reason behind this could be because internal cooperation is seen as a crucial part of organizational knowledge sharing systems. Furthermore, knowledge sharing could be provided only by management related competences compared to other capabilities. In other words, while internal cooperation promotes management related competences, organizations can enhance their competitive performance faster. Moreover, managerial skills which are difficult to imitate might be used by organizations in order to gain sustainable competitive advantage (Barney, 1991) while internal cooperation might moderate this relationship only.

Contributions, Limitations and Further Studies

This study makes both theoretical and practical contributions to the strategic capability and internal cooperation literature in several ways. First of all, this research could be accepted primarily attempt to looking at the moderating role of internal cooperation in the association

between strategic capability and competitive performance. In addition to that, as strategic capability literature is growing, this study helps this field expand by determining the outcomes of strategic capability.

From practical view, as this study has been conducted on the machine-made carpet sector, it guides top management of companies as how to maintain competitive performance. As organizational capabilities is a key antecedent for performance and competitive advantage, top managers are more likely to improve performance and competitive output when they are more engaged in strategic capabilities.

The most critical limitation of this study is that it does not include any cross level analyses. In other words, it only includes the attitude of upper and middle level of managers. Therefore, it could be included all level of managers and examining the difference between their perceptions. Additionally, competitive performance could be measured by asking organizations' rivals and also by archival data of the machine-made carpet sector. Otherwise, it may be biased by collecting data based on only answers of managers. Future research could replicate these findings in other manufacturing sectors and compare results. Further studies may also examine the results for both small and medium sized enterprises (SME) and large enterprises and investigate whether there are any differences based on the size of companies. Perhaps this further findings may offer reasonable explanations for unsupported hypothesis in this study. Lastly, this study might be conducted in different countries whether cultural variations may be the case in this concept.

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