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Managing market intelligence: The comparative role of absorptive capacity and market orientation

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ABSTRACT

Technological knowledge and market knowledge are among the most valuable resources that a firm can utilize for competitive advantage. Absorptive capacity (ACAP) or a firm's ability to acquire, assimilate, transform, and apply knowledge, has long been a central construct in organizational studies. Yet, limited research exists on ACAP in a marketing context. Marketers tend to utilize market orientation (MO) in similar theoretical contexts. This study extends the scope of ACAP beyond a technology-related context and develops a model to compare the performance of both potential and realized ACAP as well as that of MO to assess shared performance in a market-related context. The survey results suggest that ACAP of market knowledge positively influences firm performance by enhancing customer acquisition & retention of the firm. The findings also indicate that market orientation operates through the innovation process to add its effects to that of ACAP. Finally, this study discusses the moderating role of a firm's balance in cost leadership and differentiation strategy, suggesting comparative and distinguishable effects of ACAP of market knowledge and market orientation.

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1. Introduction

If firms with superior market knowledge perform better, what is a key performance indicator of the firms' being more knowledgeable in the most useful fashion? Many answers exist to this question. However, key performance indicators must explain the source of knowledge, identify the use of knowledge, and accommodate the context specific to the firm. Considering these criteria, which construct should one use as a key indicator to define the firms' smartness? An even bigger dilemma arises when two similar theories collide on the issue.

Absorptive capacity (ACAP) is a central construct in several research areas in organizational studies. Researchers propose several conceptual models of ACAP (Camison & Fores, 2010; Cohen & Levinthal, 1990). Zahra and George (2002) reformulate a term "ACAP" and further broaden the definition to be a set of organizational routines and strategic processes by which firms acquire, assimilate, transform, and apply knowledge to gain and sustain competitive advantage. Researchers widely use these four dimensions of ACAP to empirically test ACAP's influences on a variety of product and firm performance outcomes (Atuahene-Gima, 1992; Jansen, Van den Bosch, & Volberda, 2005; Lichtenthaler, 2009).

ACAP is evidently an indicator of firm performance and seems to fit the criteria as mentioned above, hence can one conclude that a firm with higher ACAP will be smarter than the others? Unfortunately, the answer remains unclear. Most of the past ACAP literature does not pay much attention to the importance of context specific effects of ACAP. In particular, research studies mainly focus on R&D context rather than marketing context when studying ACAP. Besides technological knowledge, market knowledge—customer and competitor intelligence—is a critical component of a firm's ACAP in a free market economy since a firm's central principle and driving force is a competition (or, in other words, the intensity of the rivalry between sellers for the demand of buyers or customers; Dickson, 1992).

Thus, firms that are most alert to learn directly from competitors' moves and strive hardest in their search for more efficient and effective ways to serve their customers' needs will be the most competitive in the market (Dickson, 1992). Significantly, firms with customer and competitor intelligence ACAP can apply and commercialize opportunities for the use of technological knowledge in creating new products, improving quality, or developing process innovation (Teece, 2007; Van den Bosch, Volberda, & de Boer, 1999).

In order to address this shortcoming and answer the key question of how to identify firms' market knowledge, this study proposes a model, integrating performance-enhancing mechanisms of ACAP in a marketing context. Also, the study provides empirical evidence of and insight into how market orientation (MO) enhances a firm's capability to acquire and apply both competitor and customer intelligence; and how these

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two aspects of MO that echo ACAP operationalization enhance firm performance. The goal is to clarify the essence and the role of ACAP in the marketing context in organizational learning and sustainable competitive advantage.

The result will permit an initial comparison of the relative strength of ACAP versus MO in this particular context. The findings also provide insights for managers and executives in managing their market knowledge ACAP to improve customer acquisition & retention as well as firm performance. This study has five additional sections. Following the [Introduction](#), the second section presents the theoretical background and proposed hypotheses. The third section covers research methodology, and the fourth presents the results. The fifth section discusses the main conclusion and managerial implications. Finally, the sixth section outlines limitations of the study and provides direction for future research.

2. Theoretical background and hypotheses

The nature of the issue being investigated in this study compels the conceptual basis for the hypotheses to be drawn from two streams of literature: market orientation and absorptive capacity. The MO literature suggests that the essential component of market orientation is learning, which substantially overlaps with the firm's ACAP of market knowledge (i.e., customer and competitor intelligence). The study proposes that the two mechanisms are comparable but distinctive. Specifically, market orientation drives customer acquisition & retention through firm innovativeness, while the realized absorptive capacity is a necessary vehicle transferring the impact of potential absorptive capacity. Moreover, cost/differentiation balance is a moderator to strengthen both relationship streams. Overall, the effects of both relationship streams motivate sales growth and firm profit through customer acquisition & retention (see [Fig.1](#)).

2.1. Potential and realized ACAP

The ACAP literature has grown over the past two decades. The first definition of ACAP by [Cohen and Levinthal \(1990\)](#) is “an ability to learn from external knowledge through processes of knowledge identification, assimilation and exploitation.” [Zahra and George \(2002\)](#) reconceptualize and define the term “ACAP” as a firm's dynamic capability pertaining to knowledge acquisition, assimilation, transformation, and application to gain and sustain a competitive advantage. [Lewin and Massini \(2003\)](#) decompose the concept into two dimensions: internal versus external, where the internal dimension relies on the outside-in process of knowledge and the external dimension relies on the management of absorbed knowledge. Furthermore, [Jansen et al. \(2005\)](#) explicitly name the sub-dimensions as potential (knowledge acquisition and

assimilation) and realized absorptive capacity (knowledge transformation and exploitation/application). In addition, strategy scholars empirically examine and demonstrate different developmental paths of the two dimensions. In this line, [Volberda, Foss, and Lyles \(2010\)](#) recommend that “multidimensional characterizations of AC (ACAP) are important because they can explain more variance.” Following the scholars, this study adopts the two dimensions in a conceptual framework and examines the distinctive effects of potential and realized absorptive capacity.

The empirical studies of absorptive capacity substantially focus on the context of R&D. This study emphasizes the advantage of absorptive capacity in the strategic marketing field, particularly competitor and customer intelligence. Several definitions of competitor and customer intelligence with various dimensions exist. For example, [Wright, Pickton, and Callow \(2002\)](#) define competitor intelligence as the activities by which a company determines and understands its industry, identifies and understands its competitors, determines and understands their strengths and weaknesses, and anticipates customer intelligence through their moves. [Kelly \(2006\)](#) defines competitor intelligence as a comprehensive understanding of customers and their behavior, which will enable more pointed customer contact and a higher degree of customer loyalty. In summary, competitor intelligence is the knowledge that enables us to know what competitors have and their competing strategy, while customer intelligence is the knowledge that enables us to know what the customers need and their buying decision model. For simplicity, potential absorptive capacity refers to the extent of the acquisition and assimilation or, in other words, the exploring activities of customer and competitor intelligence. Likewise, realized absorptive capacity in the marketing context refers to the extent of the transformation and application or, in other words, the exploiting activities of customer and competitor intelligence. In addition, since this study examines the ACAP of customer and competitor intelligence, the expected result is to benefit customer relationship management. Accordingly, as one centric outcome of customer relationship, the study proposes that both dimensions of ACAP have positive relationships with customer acquisition & retention.

A challenging point for managing the firm's ACAP of customer and competitor intelligence is that many firms fail to a) consistently acquire and disseminate competitor and customer intelligence collected from or by the front-line units (e.g., marketing and sales managers), b) transform or integrate this knowledge into the general market intelligence system, or c) successfully apply the intelligence to increase their competitive differentiation and/or customer value delivery, which in turn will enhance superior performance ([Festervand, Grove, & Reidenbach, 1988](#); [Le Meunier-FitzHugh & Piercy, 2006](#)). Accordingly, this study proposes that the processes are sequential and the effects occur in a progressive fashion; thus:

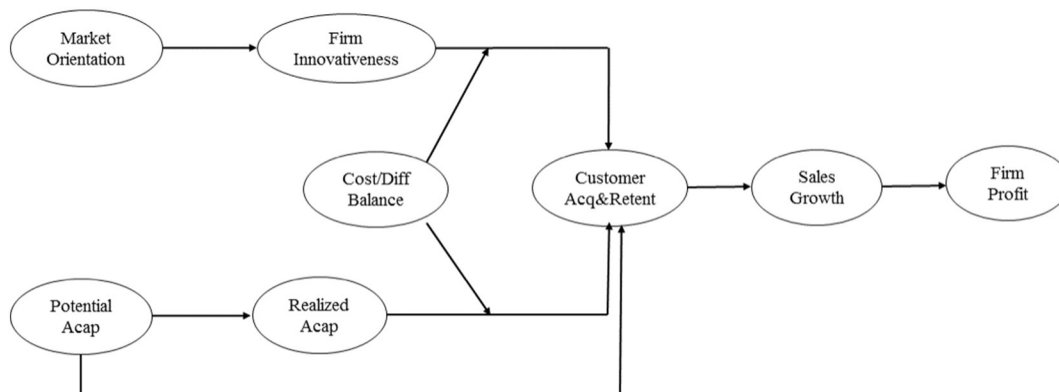


Fig.1. Conceptual framework.

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