

A Dynamic Capabilities Perspective on the Strategic Management of an Industry Organisation

Kwaku Ahenkora (Corresponding author)

Christian Service University College

PO Box 3310, Kumasi, Ghana

Tel: +233-545-569-239 E-mail: k.ahenkora@yahoo.co.uk

Esther Adjei

Gem Consultancy

PO Box 2370, Chigwell, IG7 4WA, UK

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Abstract

This paper provides perspectives on organisational effectiveness and a theoretical rationale for the strategic development of an industry organisation (association). A qualitative approach using case study and grounded theory was adopted in this study. Semi-structured interviews were held with the leadership and an expert group of stakeholders to explore perspectives on the strategic development of the industry organisation. The data were complemented by documentary analysis of strategic plans and articles on the organisation. Strategic perspectives highlighted the themes of effective organisational development (organisational capability): governance, people development, financial viability, operations, service delivery and external relations; and the dynamic capabilities framework of capability exploitation (extracting maximum economic returns from current resources) and capability exploration (development of new capabilities). While the research approach may limit generalisability, the study suggests that the dynamic capabilities perspective provides the much needed theoretical rationale that can be an aid to management endeavouring to build competitive industry organisations.

Keywords: Dynamic Capabilities, Organisational Capability, Association, Strategic Management, Industry Organisation

1. Introduction

Current thinking and international commitments to trade development emphasise supporting key players in the industry value chain, especially strengthening associations or industry organisations. An industry is a group of establishments that produce similar products or provide similar services. Industry organisations or associations are membership organisations that are established to pursue the interests of members and the industry. The rise and fall of industry organisations typified by microfinance associations and farmer based organisations in emerging economies suggest the need for strategic approach to organisational development. In this direction, strategic imperatives for building a competitive industry identify the priorities of value chain players as the basis of informed choice for funding and long term organisational development (Ahenkora, 2012). This study, therefore, explores stakeholder perspectives on the strategic development of an industry organisation and provides a theoretical rationale embedded in strategic management. The fundamental question in the field of strategic management is how firms achieve and sustain competitive advantage (Rumelt, Schendel & Teece, 1994). The competitive 'five-forces' approach of strategic management view the essence of competitive strategy formulation as relating a company to its environment and how these forces determine the profitability of different industries and industry segments (Porter, 1980). The key aspects of the firm's environment is the industry or industries in which it competes. Industry structure strongly influences competition and shapes the strategies of firms. Increasingly, industry organisations or associations in carrying out their missions are expected to play a role in shaping the industry and the future of the sector. However, there is dearth of information on what the strategic intent of industry organisations could be. In today's hypercompetitive business environment such information is vital if industries are to stay dynamic and competitive.

Dynamic capability is defined as the firm's ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments (Teece, Pisano & Shuen, 1997). Dynamic capabilities thus reflect an organisation's ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions (Leonard-Barton, 1992). While the concept of dynamic capability has been applied to firms within industries (Teece, Pisano & Shuen, 1997; Lyytinen, Rose & Yoo, 2002; Hou & Chien, 2010) and in the internationalisation efforts of firms (Luo, 2000; Shenkar and Luo, 2008) there is need to explore it in industry organisations (associations). The gap in knowledge raises key questions which this study seeks to address. What are stakeholder perspectives on the strategic development of industry organisations? Can the theoretical propositions of dynamic capabilities help to guide the development of a long-run industry organisation? We anticipate that building a dynamic view of the industry organisation would enhance the probability of establishing a useful theoretical rationale that can assist practitioners in the building of long-run industry organisations.

2. Theoretical Background: Strategic Management and the Dynamic Capabilities Perspective

The concept of dynamic capabilities as the ultimate source of competitive advantage is at the forefront of strategy research (Hou & Chien, 2010). The field of strategic management is normative as it seeks to guide those aspects of general management that have material effects on the survival and success of the business enterprise (Teece, Pisano & Shuen, 1997). The capability approach tends to steer managers toward creating distinctive and difficult-to-imitate advantages and avoiding games with customers and competitors. Teece et al. (1997), used the term dynamic capabilities to stress the firm's ability to exploit internal and external firm-specific competencies to address the changing environment. Strategic management research has provided information on the environment and its relationship with a firm. Using a structural approach, based on the structure-conduct-performance (S-C-P) paradigm and industrial organization (IO) economics. Porter (1980) outlined a framework that can be used in understanding the structure of an industry and its usefulness for assessing an industry's attractiveness and facilitating competitor analysis. Strategy research, in addition to industry structure as a unit of analysis, has also looked into the firm's internal structure, resources and capabilities.

Our understanding of the firms' internal organization has been aided by transaction costs economics (TCE) (Williamson, 1985) and agency theory (Fama 1980). TCE has been used to provide a theoretical rationale for the adoption of the multidivisional structure, the relationship between the multidivisional structure and firm's performance (Hoskisson et al. 1991) and to explain the functioning of hybrid forms of organisation (Williamson 1991). The resource-based approach also focuses on the relationship between firm resources and performance. A resource can be thought of as a strength or weakness of the firm (Wernerfelt, 1984) and different firms possess unique bundles of productive resources. The resource-based theory includes the resource-based view of the firm (Wernerfelt 1984), dynamic capabilities (Teece et al. 1997) and knowledge-based approaches (Grant 1996). The theory of invisible assets (Itami 1987) has been developed in parallel to the resource-based theory of competitive advantage and its proponent argues that information-based invisible assets, such as technology, customer trust, brand image, corporate culture and management skills, are the real sources of competitive advantage because they are hard and time-consuming to accumulate, can be used in multiple ways simultaneously, and are both inputs and outputs of business activities.

Reviews on the dynamic capabilities perspective provide five research streams that include the nature of dynamic capabilities (Eisenhardt & Martin, 2000), factors influencing dynamic capabilities (Griffith & Harvey 2001; King & Tucci, 2002), the process of dynamic capability (Newbert, 2005; Zollo & Winter, 2002), performance and dynamic capability (Prim & Butler, 2001; Zott, 2003) While the dynamic capabilities perspective has enhanced the resource-based view of the firm by addressing the evolutionary nature of firm resources and capabilities in relation to environmental changes, thus enabling the identification of firm- or industry-specific processes that are critical to firm evolution, there is scant attention paid to industry organisations. However, there is much to be gained from an understanding of the industry organisation's capability in relation to its role of shaping the future of the industry. It is suggested in the literature that in stable competitive environments companies can sustain their competitive position by engaging in extensive and prolonged exploitation processes that are only occasionally punctuated by relatively short and disruptive continuities in markets and technologies (March, 1991). Firms, through the exploitation process, refine competencies through repeated actions over extended periods of time (Eisenhardt & Martin, 2000), while through explorations they search and create new competencies (Christensen, 1997, Winter & Szulanski, 2001). In hypercompetitive environments, defined by "intense and rapid competitive moves, in which competitors must move quickly to build advantages and erode the advantages of their rivals" (D'Aveni, 1994), fast change is endemic, less predictable and blurs boundaries and market players. In competitive environments, the company's strategic agenda is to increase agility: it must outpace competition by constantly exploring and pursuing new sources of competitive advantage;

it must engage in small, easily duplicated strategies that maximise their likelihood of survival (Lyytinen, Rose & Yoo, 2002).

Different approaches to strategy view sources of wealth creation and the essence of the strategic problem faced by firms differently. The competitive forces framework sees the strategic problem in terms of industry structure, entry deterrence, and positioning; game-theoretic models view the strategic problem as one of interaction between rivals with certain expectations about how each other will behave.. The resource-based perspective focuses on strategies for exploiting firm-specific assets (capability exploitation) and also invites consideration of managerial strategies for developing new capabilities (Wernerfelt, 1984; Luo, 2000). The review of the literature leaves gap which needs exploring; specifically, the theoretical rationale for the strategic development of industry organisations that shape the survival and success of certain industries or industrial sectors. This study, therefore, focuses on industry organisations whose members are firms and players in the industry but operates as a single organisation with its own sources of competencies and capabilities.

3. Approach

This study opted for case study approach using the industry organisation ‘Mushroom Growers and Export Association of Ghana’ and explored the perspectives of its stakeholders. Documentary analysis and qualitative modes of enquiry were used to elicit information on ways of moving the industry forward and strengthening the organisation. Semi-structured interviews were conducted with eight of the executive members of the organisation. This was followed by a national stakeholder meeting on the industry involving 30 people representing key value chain players of the industry and institutional stakeholders (Export Promotion Authority, Food Research Institute, Standards Authority, Food and Drugs Board, Ministry of Food and Agriculture, the media, Agriculture Development Bank). All institutional stakeholders made presentations on strategic development of the association and engaged in focused discussions on improving the competitiveness of the industry and the association. Presenters provided hard copies of their presentations and the discussions were tape recorded. At recess the researchers teased out the tentative themes and on resumption presented them to participants for further discussions and agreement on themes and issues relevant for the strategic development of the organisation, its survival and success. Data analysis was done using the traditional inductive method (Strauss & Corbin, 1999); documents and transcripts were subject to analysis that involved repeatedly reading the transcript and taking thorough notes about stakeholders’ perceptions of the way forward for the industry and strategic development of the industry organisation (Lyytinen, Rose & Yoo, 2002). Emergent themes were interpreted using the theoretical propositions of organisational and dynamic capabilities.

4. Findings and Discussion

4.1 Perspectives on the Strategic Development of the Industry Organisation

Documentary analysis and stakeholder perspectives revealed the need to improve the competitiveness of the industry, the crucial role of the organisation and its probable developmental path.. Documentary review and perceptions indicated declining trends at a stage where the industry should be at the growth cycle. A stakeholder emphasised:

‘We are just at the initial stages of exploiting the wealth creation potential of this industry; the potential is huge but the industry is currently underdeveloped’.

There were indications that the industry was losing its competitiveness and some key players had exited. Discussions on improving the competitiveness of the industry placed the strategic development of the industry organisation at the centre. In fact, documentary analysis showed that the industry organisation seeks to become a key player in the industry, capable of meeting members’ needs and advocating for matters of the industry. The executives affirmed the organisation’s vision and goal:

‘It is our vision to become the leading advocate for matters of the industry’.

‘We want to be recognised as an important and capable representative of the industry’.

However, the mission statements of the organisation did not constitute a compelling strategic intent If the organisation is to be a driving force for the industry, then the key themes that emerged from the study are worth considering. The themes included governance, human resources, service delivery, operations and financial viability. Results revealed that governance is important if the association is to accomplish its mission. The association must have as its goal the development of a strong and well resourced organisation that has the capacity to advocate for matters of the industry. This has to be backed by a well developed nationwide membership that reflects value chain players of the industry. There would be a decentralised governance system with clearly defined roles, responsibilities and accountabilities.

It was obvious that leading an industry organisation to shape the future of the industry required building the capacity of leaders to fulfil the vision of the organisation. The leadership should be able to drive innovation within the organisation.

Industry players also mentioned the need for regulation and standardisation of training for all members. More importantly, there was the need to develop systems to facilitate organisational learning and contribute towards building the learning organisation. A member of the organisation indicated:

‘We have become a community and sharing local knowledge is important for our success’.

There was the perception of an urgent need to grow the market for the industry’s products and services, both locally and internationally. A more proactive marketing approach spearheaded by the industry organisation was needed. Additionally, the organisation must take the lead in supporting research and development in critical areas to ensure the competitiveness of the industry. The organisation should demonstrate operational excellence by becoming more strategy focused and should have well developed strategic plan that guides its operations. This will enable members and stakeholders to have an objective basis for monitoring and evaluating the industry organisation.

Shaping an industry through an association demands financial stability. As the organisation generates income and access international funding, there were affirmations that the value chain priority needs of players and stakeholders should be the basis for prioritising funding. The organisation should also commit to financial planning, monitoring and evaluation and should develop strategy that enables it to access credit facilities on behalf of members. A stakeholder from the banking industry remarked:

‘Your organisation should use its assets to guarantee loans for members.’

The organisation needs to develop strategic partnerships, locally and internationally to enable it realise its vision of becoming a voice on matters of the industry and a driver of its success. The organisation also has to strengthen its network of local partners.

4.2 Organisational Capabilities

When firm-specific assets are assembled in integrated clusters spanning individuals and groups so that they enable distinctive activities to be performed, these activities constitute organisation routines and processes or organisational competence/capability (Teece, Pisano & Shuen, 1997). The stakeholder perceptions have elements in common with the organisational effectiveness framework in Table 1 (Seep, 2011a). The themes emerging from the current study concur with the framework’s overarching areas-governance, operations, financial viability, human resources, external relations and service delivery. The framework posits that the association’s membership should be representative of the industry and be defined and held accountable by common standards of performance and practice. There should be a participatory decision-making process supported by transparent and consensus-oriented systems to define priorities and organise activities in the short and long term. Systems must be in place to ensure efficient flow of information, compliance, and transparency. Leaders should consistently demonstrate success in carrying out the mission of the organisation and shape the future of the sector. Personnel management policies and processes should be clearly documented and communicated and the professional development of members should be a priority. Core services should reflect the organisation’s comparative advantage. The association should be market oriented, responsive to changing conditions and should evaluate its performance on a regular basis. Financial planning is an integral part of short- and long-term organisational plans and appropriate financial performance measures must be used to set goals and monitor performance. The association should have contacts with a diverse range of industry stakeholders and must be recognised as an important and capable representative of the sector. In summary, the strategic management of the industry organisation should in the first instance develop organisational capabilities.

4.3 Dynamic Capabilities

Beyond building organisational capability, stakeholder perceptions also indicated that the organisation has to build its capacity to exploit current resources, capability exploitation, and engage in capability building. In essence, the organisation is conceptualised to have absorptive capacity to explore new possibilities and exploit old certainties (March, 1991). Dynamic capability requires a capacity to extract economic returns from current resources (i.e. capability exploitation) as well as the capacity to develop new capabilities, capability building (Shenkar & Luo, 2008). Capability exploitation is not a one-step activity; rather it is a dynamic process involving continued resource commitment. Perceptions on building new capabilities included the industry organisation becoming a *social community* that specialises in the creation and internal dissemination of knowledge, the *social collateral* through which members access funds, *strategic ‘coopetition’ promoter*, in which all actors in the industry value chain *compete* and *cooperate (collaborate)* to grow the industry, the *strategic partner* that networks with internal and external stakeholders for mutual benefits. In internationalisation efforts, multinational corporations also develop and deploy new capabilities through social community development, knowledge sharing and relational structures ((Shenkar & Luo, 2008).

As already indicated, the leadership of the industry organisation is expected to drive innovation as product and service continues to be a priority for the industry. The need for continuous innovation within industries is an indication of the hyper-competitive external environment and the need for building capabilities –capability exploration. As a market leader, the association can leverage interactions with partners in other associations, as well as with other regional and global actors, to adapt new ideas to local contexts; as a knowledge centre, the organisation can assist members and players to identify and overcome barriers to innovation and to evaluate lessons learned from new initiatives and experimentations in other markets, sharing both negative and positive experiences with members (Seep Network, 2011b). The industry organisation must have strategic intent. A company exhibits strategic intent when it relentlessly pursues an ambitious strategic objective and concentrates its competitive actions and energies on achieving that objective. Such objectives must, of necessity, include the industry organisation ultimately building dynamic capabilities.

5. Summary and Conclusion

Strategic management research incorporates simple concepts of strategy intended to give practical advice to managers and rigorous research to enrich theory. A dynamic capabilities perspective on the strategic management of the industry organisation shows the necessity to simultaneously pursue the exploration of ‘new possibilities’ and the exploitation of old certainties’ to shape the future of the industry in dynamic markets. While organisational capabilities enable the organisation to produce goods and services, dynamic capabilities guide and facilitate the development of organisational capabilities by changing the underlying resource base in the firm. Although the research approach may limit generalisability, this study suggests that the dynamic capability perspective can be an aid to management endeavouring to build a strong industry organisation to enhance competitiveness. The perspective also provides the much needed theoretical rationale that may inform the strategic development of industry organisations.

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Table 1. Stakeholder Perspectives, Organisational Effectiveness and Dynamic Capabilities

Themes	Stakeholder Perceptions	Seep Organisational Effectiveness Framework* or Organisational Capability	Dynamic Capability Perspective
Governance	<ul style="list-style-type: none"> The goal is to build a strong and well resourced organisation that advocates for matters of the industry Strengthen the organization and membership at the district, regional and national levels with well defined roles, responsibilities and accountabilities 	Representative membership Democratic participation Accountable Board	Capability exploitation Resource commitments to develop a strong organisation
Human resources	<ul style="list-style-type: none"> Build capacity of leaders to fulfill the vision of the organisation Standardisation of training for all members Develop systems to facilitate organisational Learning 	Purpose and results- driven leadership Clear personnel management policies and processes Professional development of staff Open and dynamic organizational culture	Social community' that creates and disseminates knowledge
Service delivery	Extend channel partners and develop market penetration plans <ul style="list-style-type: none"> Be more market oriented and provide funds to support research and development 	Market oriented and responsive Service mix provides comparative advantage Members focused	Extract maximum returns from current resources.
Operations	<ul style="list-style-type: none"> The association should be strategy focused and should well developed strategic plan Members should evaluate the performance of the association at all levels. 	Comprehensive and participatory planning Effective systems in place Monitoring and evaluation of performance	Strategic 'co-opetition promoter-members compete and collaborate to grow the industry
Financial viability	<ul style="list-style-type: none"> The value chain priority needs should be the basis for prioritising funding Organisation should commit to financial planning, monitoring and evaluation. Members should operate their enterprises with business plans to enhance access to loans Association to access loan facilities on behalf of members. 	Financial planning integral Strong financial performance measures Transparent financial administration processes	Capability building – social collateral
External Relations	Access resources from government and partners Consolidate partnership with national stakeholders and build international network of strategic partners.	Wide network of stakeholders Clear strategy for partnerships Credible representative and advocate	Capability building- alliances Strategic partner

*Seep Network (2011a).