

The Strategic Alignment between Competitive Strategy and Dynamic Capability and its Impact on E-business Value

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Abstract. Drawing on Contingency Theory and Resource-Based Theory (RBT), we examine the existence and value impact of competitive strategy-dynamic capability alignment. The existing literature review shows that there is no systematic research, which considers the alignment between competitive strategy and dynamic capability and its impact on e-business value in a holistic view by using these two theories in e-business context. In fact, much of the research conducted in this regard has employed a traditional reductionistic approach, which examines the impact of these constructs in isolation, and therefore fails to consider them in a holistic view. Hence, this research aims to propose a conceptual framework to conceptualize the alignment between these two constructs and the way it can lead to e-business value creation. In so doing, four expected alignment configurations, in terms of four e-business value sources: novelty, lock-in, complementarities, and efficiency, will be proposed. We plan to verify our research framework through an online survey from 350 UK telecommunication firms. Findings tied to this initiative will provide important contributions to both research and practice.

Keywords: Competitive Strategy, Dynamic Capability, Value Creation, Configuration, Strategic Alignment

1. Introduction

Nowadays, conducting e-business is no longer a choice for many organizations in the current knowledge economy. As e-businesses need to be agile and flexible, they tend to react quickly to highly changing external conditions. The results of these quick responses are not always desirable, and it is sometimes damaging to the company's performance. This problem arises since the strategic decisions are not usually made in "strategic alignment" with firm's internal characteristics. The significance of the strategic alignment concept, also known as coalignment, fit, match or congruence [1] to managers has sparked the interest of scholars in the field and contributed to a considerable increase in research over the past two decades. Strategic alignment is rooted in Contingency Theory [2], which suggests that strategy is not a universal concept, and which must be fitted into its context in order to enhance firm performance [3]. This fit is crucial, as it needs to support competitive strategies within a firm. In fact, it can aid organizations in acquisition and development of resources and capabilities, which fit into a firm's competitive position [4].

The significance of the strategic alignment in an e-business context has been devoted to the fit between e-business competitive strategies into internal factors, particularly capabilities [5], which can be best postulated based upon RBT. It is one of the main strategic management approaches, which suggests that organizations enhance their performance if they develop and implement their competitive strategies based upon their resources and capabilities [6]. Nevertheless, due to the inherent dynamic nature of the strategic alignment [7], a particular type of capabilities - namely dynamic capabilities - has been advocated as a necessary part of any strategic alignment [8]. Dynamic capability is "the firm's ability to sense and shape the opportunities and threads in the market, seize these opportunities, and reconfigure firm's resources and competencies to maintain competitive" [9]. The significant role of dynamic capabilities in developing value-creating strategies is undeniable. Hence, the alignment of dynamic capabilities with competitive strategies is important, particularly in an electronic marketplace, as e-businesses must make their strategic decisions quickly to respond to high level technological and market changes [10].

Although several prior studies have examined the strategic alignment, it is subject to several critical limitations. First, there are still some questions of whether and how the strategic alignment creates value. In fact, almost all the existing research, except a very recent one [11], has examined the impact of alignment on

financial measures of “performance”. Value is seen as the non-financial aspect of performance measurement from stockholders’ view [12], and has been suggested as a better predictor to study the impact of capabilities on firm’s overall outcomes, particularly in the field of IT and e-business [13]. In this regard, it has been suggested that e-businesses may create value in terms of novelty (innovative offerings), lock-in (retaining customers and partners), complementarities (providing bundles of offerings) and efficiency (mainly through cost reduction)[12]. Second, there are very few studies, which have postulated the alignment of competitive strategies and capabilities, and there is almost no systematic research to consider dynamic capabilities in an e-business context in particular. In fact, much of the existing literature in this regard, has employed a traditional ‘reductionistic approach’ in which a linear, often bivariate association has been examined to exist between dynamic capabilities and performance. The holistic approach of alignment, rather than the reductionistic approach, has a greater power to explain the complex interrelationship between different constructs [1].

In view of the aforementioned limitations, this research aims to narrow the identified gaps by proposing a strategic alignment framework to investigate the joint impact of competitive strategies and dynamic capabilities on e-business value creation in organizations.

2. Conceptual framework

2.1. Underlying assumption: The Need to View Competitive Strategies and Dynamic Capabilities Holistically

In strategic management area, the relationship between strategy and other factors is investigated based on strategic alignment. The fundamental assumption of strategic alignment is that firm performance may not be enhanced, if the firm’s competitive strategy misfit its internal characteristics as well as external environmental factors [3]. Our extensive literature review proves that there are very few studies which have examined the relationship between competitive strategy and different types of firm’s capabilities through a holistic approach of alignment (e.g. e-business capabilities in [5] and manufacturing capabilities in [14]). Nevertheless, alignment has been never used for dynamic capabilities in alignment with competitive strategies in an e-business context, which is the focus of the present study. Therefore, the conceptual framework of this study is demonstrated as Figure 1. This framework suggests that successful development and implementation of competitive strategies depend on a proper deployment of dynamic capabilities.

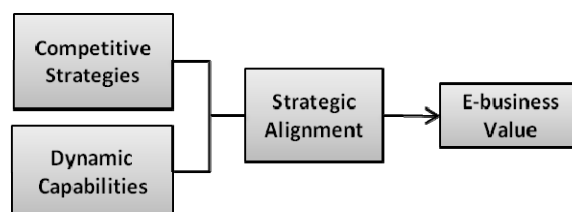


Fig. 1: A conceptual framework

2.2. Covariation of Competitive Strategy and Dynamic Capability

As suggested throughout the literature, competitive strategies and dynamic capabilities should be connected, since strategy decisions influence dynamic capabilities and vice versa. Henderson and Venkatraman [7] posit that capabilities - including dynamic capabilities - can positively contribute to the development of new strategies or supporting of current strategies. In this vein, Mathews [15] believes that in any strategic examination, dynamic capabilities must be taken into consideration. In fact, dynamic capabilities cannot work in isolation, but they should fit into its organizational context, particularly strategy. In this regard, it has been suggested that dynamic capabilities, as the mirror of competitive strategies [16], should be laid at the core of competitive strategy development [10]. On the other hand, following a certain competitive strategy persuades e-business to develop the required dynamic capabilities. For instance, differentiation strategies may develop dynamic capabilities of a firm in a way they might be hard for competitors to imitate [17]. Thus, this research posits that if an e-business does not dynamically align its strategies to dynamic capabilities, it will automatically lead to misfit or misalignment. This, therefore, may make the firm unable to derive value. The foregoing arguments lead the researcher to expect that:

Proposition 1: In e-business, competitive strategies and dynamic capabilities co-vary.

2.3. The Impact of the Fit on E-business Value Creation

In this section, four propositions are suggested to shape four configurations, based on the four e-business value sources: novelty, lock-in, complementarities and efficiency, to conceptualize the relationship between the alignment and value.

- Configuration 1: Novel e-businesses

Watson et al. [18] assert that due to an oversupply of products and services, organizations must be innovative to keep their customers satisfied. They claim that failure to be as innovative as competitors, may lead the organization to lose its market share, or even collapse. Therefore, e-businesses are successful if they are able to extract new ideas from customers, as the main sources of innovation by using new Internet-based technologies. Particularly, it is expected to find those e-businesses adopted product-service strategy, to make a great level of novelty value. The reason is that they focus on identifying the key attributes of products and services for better responding to customers' needs. Therefore, to deliver differentiated business value, as one of the main objectives of e-business [19], having a differentiated business configuration is required [20]. Hence, it is suggested that e-businesses pursue superior novelty value by properly allocating resources through dynamic capabilities and providing innovative value-added products and services for customers. This, therefore, proposes that:

Proposition 2: As alignment between e-business competitive strategies and dynamic capabilities increases, the e-business value creation increases in terms of novelty.

- Configuration 2: Loyal e-businesses

The key objective of these e-businesses, pursuing lock-in value is to develop long-term relationships with their customers and partners [12]. This study posits that this goal may not be perfectly accessible, if e-businesses do not develop their competitive strategies properly according to their market position, and second, their planned competitive strategies are not fostered by their dynamic capabilities. This strategic alignment may help e-businesses to make a trade-off between costs and benefits in the market to maintain their customers and partners.

The ability to retain customers requires a flexibility to meet their needs; therefore, it must be followed based on a dynamic process. Those e-businesses that benefit from a high level of dynamic capabilities should be more able to respond to the dynamic process of sensing the changes in customers' preferences and therefore, prevent their migration. In this regard, Kim et al. [21] assert that "firms that reduce customer search costs, engender trust, and offer products, services, and online experiences tailored to their users' needs are likely to elicit initial and repeat purchases" (p.23). Thus, what is crucial to activate actual buying transaction in electronic marketplace, is using Internet to reduce the costs as much as possible and provide high level of satisfaction and convenience for customers to retain them. For these reasons, it is expected that:

Proposition 3: As alignment between e-business competitive strategies and dynamic capabilities increases, the e-business value creation increases in terms of lock-in.

- Configuration 3: Complementarities driven e-businesses

E-businesses can leverage the potential for delivering superior complementarities value by offering their customers bundles of complementary innovative products and services. This leads managers to have a customer perspective to understand exactly what their customers need. It is suggested that developing differentiation strategies aligned with the capabilities of firms to identify and respond to customers' needs might be the key message for those e-businesses intending to obtain a high level of this value source.

One of the main aspects of complementarities in e-business is offering customers complement channels [22]. Compared to pure players, click-and brick firms may provide greater customer service by offering both online and physical product returns. Thus, they should present greater complementarities value [21]. Moreover, e-business and its customers may not benefit from a range of complementary offerings if there is any conflict in them. Thus, the dynamic capability of e-business to leverage information technologies in order to integrate and coordinate organizations' resources, processes and systems, is the key to providing integrated and supplementary offerings. Based on the aforementioned discussion, it is proposed that:

Proposition 4: As alignment between e-business competitive strategies and dynamic capabilities increases, the e-business value creation increases in terms of complementarities.

- Configuration 4: Efficient e-businesses

In e-market, customers are more sensitive, demanding, informed and impatient. They look for lower prices, but better service, and efficient processes to benefit exceptional value. The Internet aids firms to decrease their cost and take the advantages of a higher level of pricing flexibility, therefore enhancing the efficiency of firms [21]. Thus, efficiency is associated with profitability, effectiveness, and nonfinancial goals [23]. Lumpkin et al. [24] postulate that cost competitors, who offer cheaper prices to customers, are more efficient as they have to keep the prices at the lowest possible level to compete in the market. Nevertheless, they posit that the advantages of this value source can be easily imitated if they are not underpinned by high level dynamic capabilities. The reason is that the Internet itself is ubiquitous; therefore, it might not be the source of value creation. In this regard, Fahy and Hooley [25] believe that although the Internet is not a strategic resource to e-businesses, firms may not obtain the same benefits from it. They assert that two important issues, which are a firm's capabilities and competitive strategies, significantly affect a firm's outcomes from the Internet. Thus, those e-businesses who can take the most advantage of the Internet by their dynamic capabilities to find and seize optimal cost-cutting ways are more efficient. This efficiency may be greater, if the firm's competitive strategies and dynamic capabilities are matched together to leverage the Internet and its technologies to become cost efficient. In this regard, some firms may decide to work solely online, as they can cut costs related to physical locations. Some firms may reduce their cost by outsourcing their activities to third parties, even to their customers. These types of decisions to enhance efficiency are all strategic, which may not be implemented successfully, if they are not supported by firm's dynamic capabilities. Hence, it is suggested that:

Proposition 5: As alignment between e-business strategies and dynamic capabilities increases, the e-business value creation increases in terms of efficiency.

3. Theoretical and Empirical Contribution

In reconciling our findings with previous theoretical and empirical work, this research has a number of contributions. From a theoretical perspective, the holistic approach of strategic alignment, based on Configuration Theory, put forward a valid theoretical foundation on how to achieve value from the fit between competitive strategies and dynamic capabilities. In this regard, it attempts to extend the application of configuration Theory and strategic alignment concept in an e-business context. Furthermore, it contributes to RBT literature by examining how different configurations of dynamic capabilities and competitive strategies can contribute to a high level of value creation in organizations. From an empirical perspective, it assists managers to answer some of their fundamental questions of whether and how e-business investment creates value, which factors contribute most, and which of them are more crucial. Moreover, managers have little direction from the existing literature that informs them of how to achieve the highest benefits from their dynamic capabilities. In this regard, the present study endeavours to improve managers' and strategists' understanding of their strategic decisions, not only based on their dynamic capabilities, but also based upon their expected value creation.

4. References

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