

CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

This introductory chapter is intended to give an overview of the study in two main aspects. Firstly, it explains the purpose and the rationale of the study by outlining the research objectives that are developed based on the research gaps found in the literature. Secondly, it provides an overview of the thesis by highlighting the structure of the remaining chapters of the thesis. This introduction will assist the flow of the thesis so as to provide a clear and wholesome understanding of the development of the research study.

1.1 IDENTIFICATION OF THE RESEARCH PROBLEM

The strategic management literature believes that in order to succeed, firms need to identify and develop their superior core capabilities in order to continuously renew their competitive advantage (Rindova & Kotha, 2001), and this provides a fertile ground for researchers to establish key factors that relate strategy to performance. In line with this, the strategic management literature has recently acknowledged the importance of knowledge-related factors and even regarded knowledge as the key factor in generating dynamic capabilities (Garcia, Calantone & Levine, 2003; Teece, Pisano & Shuen, 1997; Zander & Kogut, 1995; Zollo & Winter, 2002). In other

words, knowledge is increasingly regarded as the critical resource for firms in ensuring performance and survival in the industry, especially in highly uncertain and volatile environments (Drucker, 1993; Quinn, 1992; Reich, 1991; Teece, 1998).

The importance of knowledge has stimulated researchers to define what counts as knowledge in organisational contexts. Not surprisingly, different classifications of knowledge have been proposed, such as tacit and explicit knowledge (Polanyi, 1962) and procedural and declarative knowledge (Corsini, 1987). Initially, firms are assumed to compete on the basis of superiority of their information and know-how due to the belief that competencies are dependent on the uniqueness of resources and idiosyncratic knowledge, and that this will have a positive impact on competitiveness (Barney, 1991; Hamel & Prahalad, 1990). However, the work of Kogut and Zander (1993) has pointed out that firms compete with each other on two premises; firstly, they compete on the basis of differences in capabilities, and secondly, the differences in capabilities are the result of firms' abilities to create and replicate new knowledge faster than the imitative and innovative efforts of competitors. In other words, it is the ability of social communities in firms to create and diffuse knowledge internally while protecting its novelty, which is actually the source of competitive advantage. Therefore, it is not solely the unique attributes of knowledge that determine competitive advantage, but how individuals inside firms manage and exploit knowledge, that generates differences in performance (Kogut & Zander, 1993).

Based on these arguments, this study is an attempt to reconcile organisational learning research that has largely remained disconnected from strategy (Crossan & Berdrow, 2003). From the literature, several gaps have been identified to justify the necessity of this study. The narrowing of these gaps by this study's findings will, therefore, contribute to the existing literature of strategic management and organisational learning, and specifically the following areas that need to be further explored will be dealt with in this study.

1. Among the many internal factors that have been analysed by prior studies in an attempt to understand the strategy-performance relationship, the variation in learning approach has not received extensive attention. This is surprising given that knowledge has been suggested to be the missing link in the discussion of strategy and performance (Asoh, 2004; Sun & Chen, 2008). In fact, Crossan and Berdrow (2003) have even suggested that attempts to forge a link between strategy and organisational learning have been hindered by several shortcomings due to the narrow conceptualisation of organisational learning in relation to strategy. While the concept of learning has fascinated organisational theorists (Pisano, 1994), the proposition that competitive advantage stems from firm-specific skills and dynamic capabilities has made learning a focal point of concern in the discussion of competitive strategy and strategic renewal (Crossan & Berdrow, 2003). Furthermore, in relation to explorative learning, even less empirical research has been devoted to test the validity of the models of exploration and exploitation, and their impact on firms' performance as a function of strategy types (Auh & Menguc, 2005).

2. Although some studies have attempted to relate organisational learning issues to the strategy-performance discussion (e.g. Jiang & Li, 2008; Noble, Sinha & Kumar, 2002), these studies have been confined to examining the direct effects between strategy and learning (Wang, 2008). It is suggested in the literature that by simply examining the direct relationships between strategic orientation and performance, it will not be possible to obtain a complete picture of the dynamics of organisational behaviour from a strategic management perspective (Wiklund & Shephard, 2005). Therefore, the concept of 'fit' or 'alignment' has been extensively suggested and applied in strategic management research to offer a wholesome view of the relationship.

Over the years, there has been increasing interest from academia and practitioners, in the fit between a firm and its external and internal factors (Beer, Voelpel, Leibold & Tekie, 2005; Chandler, 1962; Gimenez, 2000; Lawrence & Lorsch, 1967; Miller, 1991). On this issue it is important to understand the mechanics of all variables, and in order to do so, an analysis of an integrated model of fit is required to explain the contingent relationships. As suggested by Naman and Slevin (1993) in their study of the concept of fit, the concept is shown by the findings to be fairly important. The Naman and Slevin (1993) model provides support that fit as a construct is empirically related to firm performance. This is supported by Olsen, Slater and Hult (2005) who suggest that without alignment between strategy, environment and internal factors, firms may face obstacles in achieving long-term success.

3. Emerging studies have acknowledged the relationship between learning and performance, but less focus is given to the processes involved to support different types of learning. As noted by Crossan, Lane and White (1999), the discussion on exploration and exploitation has directed attention to the interplay of the processes involved in both types of learning, however, it does not specifically address how firms deal with this tension. Although firms are perceived to have information processing capacity to acquire, interpret, distribute, and store information throughout the firm (Huber, 1991), very few studies have addressed the importance of combinative capabilities in the facilitation or prevention of organisational learning. As Frederickson (1986) asserted, a balanced view of strategy must acknowledge that the strategic decision process and its outcomes can be facilitated, constrained, or simply shaped by organisational mechanisms.

4. Despite the overwhelming recognition of the importance of knowledge in developing competitive advantage, this issue has not been examined sufficiently to generate a wholesome understanding of how to ensure that knowledge contributes to firm performance. In line with the conclusion of previous research on strategy, both internal and external factors must be considered as contingent factors (Su, Tsang & Peng, 2008; Van de Ven, 1986) that lead to performance. In addition to this, variation in learning approach is still under-researched although knowledge has been recognised to be the missing link in the discussion of strategy and performance (Asoh, 2004; Sun & Chen, 2008).

In line with contingency theory, studies have presented various configurations of organisational characteristics that fit the strategic stance of firms that yield superior performance (e.g. Olson et al., 2005). As noted by Zajac, Kraatz and Bresser (2000, p.429), “*strategic fit is a core concept in normative models of strategy formulation, and the pursuit of strategic fit has traditionally been viewed as having desirable performance implications*”. The central objective of strategic research has always been to understand contingent factors that alter the effects of strategy on firm performance (Zott & Amit, 2008) and inadvertently suggest that there is no best or optimal strategy. Based on this argument, studies to address the role of learning and combinative capabilities are still lacking despite their importance in the strategy-performance relationship, which is highlighted in existing literature.

5. Knowledge management researchers have investigated factors such as knowledge enablers, processes and performance, but unfortunately, most empirical efforts have explored these relationships in isolation. Although there are studies that have presented integrated models of knowledge management (e.g. Lee & Choi, 2003), the mediating role of knowledge-enabling processes have not been explicitly incorporated in the discussion. Specifically, less research has been devoted to reconciling the issue of organisational learning and strategic management, and minimal attempts have been made to evaluate the combined effects of explorative learning and combinative capabilities on firm performance.

1.2 RESEARCH OBJECTIVES

Drawing from the above criticisms and limitations of previous literature on strategic management and organisational learning, the ultimate aim of this study is to develop a research model that interconnects strategy to performance by integrating combinative capabilities and explorative learning as mediating variables. In other words, this study is an attempt to explain the internal dynamics in prospector strategic-oriented firms in fostering explorative learning through the establishment of combinative capabilities. Using contingency framing, the study addresses the issues by investigating the fit between prospector strategic orientation, combinative capabilities and explorative learning that is postulated to influence firm performance. Based on the assertion that learning is more pertinent in volatile and uncertain environments, this study attempts to provide evidence that performance does not entirely depend upon types of strategy or the organisational learning approach adopted by firms, but rather, on the effort to match learning and appropriate internal mechanisms to the strategy adopted by firms.

Based on the research gaps identified in the literature, specifically the objectives of this study are:

- i. To determine the importance of strategy and learning constructs in performance determination;
- ii. To examine the relationship between prospector strategic orientation and explorative learning, and the relationship between prospector strategic orientation and combinative capabilities;

- iii. To examine the role of combinative capabilities in determining the extent of explorative learning pursued by firms with prospector strategic orientation;
- iv. To examine whether combinative capabilities and explorative learning act as the contingent factor in the strategy-performance relationship;
- v. To test a structural model that explains the mediating role of combinative capabilities and explorative learning in the strategy-performance relationship.

1.3 STRUCTURE OF THE THESIS

This thesis is organised into seven chapters, each of which is briefly outlines as follows:

Chapter Two starts with the discussion of the main concepts involved in this thesis. Firstly, the chapter explores the concept of strategic orientation and eventually focuses on prospector strategic orientation. This is followed by a discussion on the strategy-learning relationship in which previous studies on organisational learning and strategic literature that focuses on the Miles and Snow (1978) typology, are reviewed. After establishing the connection between strategy and learning, the chapter introduces the concepts of explorative and exploitative learning which represent one of the main constructs in this study. The discussion is also extended to the paradox of ‘balance or trade-off’ in the explorative and exploitative learning discussion, from the resource-based perspective.

The chapter then introduces the concept of combinative capabilities and establishes linkages between combinative capabilities and prospector strategic orientation based on findings from prior organisational research. Subsequently, the relationships between these two constructs are translated into the hypotheses that are to be tested in this study. This is followed by a discussion on the relationship between explorative learning and combinative capabilities, and likewise this too, is translated into hypotheses for this study.

Drawing on the relationship established by previous literature, an integrated theoretical model of strategy-performance is presented. The model incorporates the mediating role of both combinative capabilities and explorative learning in determining the performance outcome of a prospector strategic orientation adopted by a firm. The model illustrates the importance of the alignment of strategy with the internal repertoire of the firm, in the determination of performance.

Chapter Three describes the methodology involved based on the research design justified for this study. The chapter starts with a discussion on the methodological concerns associated with previous research into strategic orientation and explorative learning. Basically, these concerns focus on the method of classifying prospectors and the measurement of explorative learning. This is followed by a justification for the research design, data collection procedures, and a detailed explanation of the research instrument developed and employed in this study.

The second part of this chapter focuses on Structural Equation Modelling (SEM), and a detailed explanation of the instruments and procedures is presented. The

discussion begins with an explanation of the reasons for using this method of analysis, the importance of fulfilling certain requirements and assumptions, and the rules of evaluating the overall model.

The findings obtained from the study are divided into two chapters, Chapters Four and Five. Chapter Four presents the basic analysis of demographic variables and the fundamental statistical analyses such as exploratory factor analysis and confirmatory factor analysis, and Chapter Five focuses on statistical analyses which are required to justify SEM and the results of SEM procedures which involve mediation testing and analysis of the measurement and structural model. Chapter Four opens by presenting the demographic information relating to the sample and proceeds to offer an analysis of non-response bias based on the demographic characteristics of the respondents and non-respondents. This is followed by a discussion on explanatory and confirmatory factor analysis that includes an examination of the reliability and validity of the measures. Chapter Five starts with a discussion of the analyses that were used to determine whether the study data were able to fulfil the requirements of SEM, based on the sample size requirement, normality assumption, homoscedasticity, and multicollinearity. Finally, the discussion moves to the measurement and structural model and for that, mediation analysis is presented to justify the hypothesised full information structural model.

Chapter Six presents a more detailed discussion on the findings, using comparisons with previous research to determine the consistency of the outcomes. In addition, the discussion also presents supporting arguments for significant relationships and justifications for insignificant relationships.

Chapter Seven summarises the findings and the discussions, and establishes the linkage between the findings and the research gaps based on the evaluation of existing literature. Theoretical and practical contributions are also presented together with the implications of this study for theory as well as for organisations. The limitations of the study and suggestions for future research are also discussed in order to encapsulate the contributions of this study to the existing body of knowledge.

1.4 CONCLUSION

This chapter has presented the rationale for this study, thereby fully justifying the effort expended in undertaking the research. Based on the discussion of research gaps, this chapter has described the aims of this study, and outlined the structure of the thesis as a means of providing an overview of the research. Generally, this study represents an attempt to explicate the strategy-performance relationship by using an integrative framework based on contingency framing. In line with recent works that acknowledge the importance of organisational learning in strategic research, the primary objective of this study is to develop a model that justifies the importance of combinative capabilities and explorative learning in the strategy-performance relationship and to evaluate the combined effects of these two factors on performance. The findings of this study will therefore contribute to the scant literature that attempt to link strategy and organisational learning from the perspective of strategic management.