

Dynamic Capability in Branding Strategy Development

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ABSTRACT

The study aims to test an empirical model of dynamic capability in branding strategy development (DC-IBSD) that could form the basis for a better understanding of the determinants of the construct. Therefore, the objectives of this paper are threefold: first, to identify the critical factors of DC-IBSD dimension; second, to modify an instrument to measure DC-IBSD based on the identified factors with a specific focus on the small medium scale enterprises in Indonesia; and third, to validate the scale by applying exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). The total of 245 business owners of SMEs has been randomly selected from small-medium scale business owners in Indonesia. The results suggest that in order to achieve competitive advantage entrepreneurs should actively identify opportunities and threats faced by their firms for creating favorable image through branding strategy, aggressively format their new habits to seize opportunities for developing branding strategy, and dynamically strengthen their competence through new system adopted by firms.

Keywords: Branding Strategy; Dynamic Capability, SME.

INTRODUCTION

Brands play a critical role in establishing a firm's positioning in the market and hence influence i.e. brand acceptance (Aaker 1972), purchase behavior (Bian and Moutinho 2011) and differentiate the firms from competition (Aaker 1996, 2003). Branding strategy development usually dominated by big businesses and less clear when SME's carry much force in brand presence (Wong and Merrilees, 2005). However, firms are more likely to adopt the branding

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strategy when they have better capabilities particularly in marketing (Yung-Chang and Chung-Jen, 2013). They also confirm that firms should take into account organizational capabilities when choosing branding strategy. Capabilities in branding strategy development are one of the most critical aspects to sustain a competitive advantage of the SMEs in a dynamic environment. The ability of the SMEs to improve their competence over time in a situation of environmental change is known as dynamic capability.

The dynamic capability of SMEs (i.e. entrepreneurs) in the development of branding strategies has yet to be researched. Up until now, no study has measured dynamic capability in branding strategy development (DC-IBSD). In this background, the study aims to test an empirical model of DC-IBSD that could form the basis for a better understanding of the determinants of the construct. Therefore, the objectives of this paper are threefold: first, to identify the critical factors of DC-IBSD dimension; second, to modify an instrument to measure DC-IBSD based on the identified factors with a specific focus on the small medium scale enterprises in Indonesia; and third, to validate the scale by applying exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). CFA is used to empirically test the proposed instrument for multidimensionality, reliability and validity.

The CFA allows the investigator to test the hypothesis that is whether a relationship between a number of observed variables (survey items) and their underlying latent construct(s) exists. To test a scale for measuring DC-IBSD this study named it as a DC-IBSD-SCALE. In subsequent sections of this paper, it explains the theoretical background of the study, which describes the test of the conceptual model, and discusses the theoretical and managerial implications of the results.

This paper is organized as follows : Section 2 reviews the literature; Section 3 lays out the empirical model and the estimation method; Section 4 contains a discussion of the empirical findings; and Section 5 provides a summary and conclusions

LITERATURE REVIEW

Branding strategy development

This research is one of the first to investigate simultaneously the measurement of DC-IBSD. The primary contribution of this study are the integration of the theories of branding strategy development and dynamic capability into a coherent and parsimonious model that jointly predicts the DC-IBSD of the entrepreneurs.

Branding strategy refers to a managerial process that endows any given brand with unique identity and image, presents brand with a possibility of being clearly and positively identified and thus different and recognizable from competitors (Seric, 2014). Development is defined in the business directory as the systematic use of scientific and technical knowledge to meet specific objectives and requirements (www.businessdirectory.com). Branding strategy development usually aims to determine which target markets of a specific segment will be served by the company, what the company needs to do to serve them and how it builds differentiation

that distinguishes the company from its competitors. The core of the branding strategy development process is to help the company in defining the corporate market position so it is visible to its target markets through its differentiation. The process of branding development requires preparation as it is the result of the need to establish strong images as well as to create attractive recognizable features and forms of the products and firms. Branding strategy is not only a part of a promotional campaign but also a prolonged part of business strategy to teach how to listen to market information, how to recognize consumer's needs and wants and how to behave as better competitors (Seric, 2014).

In corporate branding strategy, the objective is to leverage the corporate image in terms of developing a favorable response towards the product based on association that the consumer established between the offerings and the company (Singh, 2014). By devising branding strategy, companies ensure that their brand portfolio would be managed properly and rejuvenated time to time to offer competitive advantage to the firms in terms of market share and revenue generation as well as developing long term relationship with consumers. Decision on appropriate branding strategy, depends upon the analysis of contribution that the strategy offers in terms of advantages to the company, as well as the ability of the company to fulfill the specific requirement of that strategy (Singh, 2014).

Some advantages of choosing a right branding strategy for the firm are driving a substantial growth of the firms in ensuring a steady future development of the company; enhancing intangible asset of the firms; and strengthening brand identity (Seric, 2014).

Branding strategy of a company largely depends on how the strategy can counter market complexity, competitive pressure and channel dynamics (Singh, 2012). However, none of the research has focused on branding strategy development and captures the dynamic capability of the business owner in countering the changes in the environment. The present study fills this gap by measuring branding strategy development process within dynamic capability.

Dynamic capability

Branding strategy development requires capability, which is the ability to implement and integrate resources to achieve corporate goals. However, due to the increased competition, the firm needs dynamic capability that serves particular practices in ensuring its performance and competitiveness within a continuously changing environment (Mulders *et al.*, 2010). Dynamic capability is the ability of a firm to deploy new configurations of operational competencies relative to the competition by effectively sensing the environment, as well as absorptive, integrating, innovative activities (Hou 2008).

The recent discussion in the field of strategic management broadly favors the idea of dynamic capability in order to overcome potential rigidities of organizational capability building (Schreyogg and Eberl, 2007), i.e. building favorable brand image perceived by target market. Dynamic capability is not only focusing on the resource aspect (i.e. the capability in branding strategy development, financial strategy development, marketing strategy development) but also on the environmental aspect of the firms which suggest that dynamic capability is focusing on creating competitive advantage by renewing and modifying resources (Zaidi and

Othman, 2011). The pattern of effective dynamic capabilities depends upon market dynamism (Eisenhardt and Martin 2000). The more dynamic the external market, the higher the motivation for the organization to exhibit dynamic capabilities in order to meet market changes (Wang and Ahmed, 2007). Dynamic capabilities are at play in both stable and dynamic environments; dynamic capabilities are those that enable a firm to constantly renew functional competences and therefore achieve long-term competitive advantage (Rugami and Aosa 2013). In a stable environment, firms may change i.e. brand positioning to its target market to be more favorable and changing new logo to refresh the image of the firms. These activities require branding strategy development ability. Thus, in both dynamic and stable environment, a firm that can enhance its operations better should theoretically have an advantage over its competitors (Arend, 2013).

The abilities to achieve new forms of competitive advantage are named as 'dynamic capabilities' (Teece *et al.*, 1997). Capabilities are complex bundles of skills and knowledge that are exercised through organizational processes (Hou 2008). The term dynamic shows that firms must constantly monitor and renew functional competencies in response to the market dynamics; and the term capabilities emphasizes the relevance of management in improving and maintaining those functional competencies (Pinho, 2011). Capabilities can be perceived as the capacity to determine opportunities and threats, seize opportunities, and continually maintain, protect, and enhance competitiveness in order to sustain a competitive advantage (Daou *et al.*, 2013).

The term 'dynamic' refers to the capacity to renew competences so as to achieve congruence with the changing business environment; certain innovative responses are required when time-to-market and timing are critical, the rate of technological change is rapid, and the nature of future competition and markets is difficult to determine. The term 'capabilities' emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational resources and functional competences to match the requirements of a changing environment (Teece *et al.*, 1997). Dynamic capabilities refer to the ability of a firm to utilize its resources effectively so as to achieve congruence with the changing business environment (Rugami and Aosa 2013:1239). Dynamic capability perspective refers to the ability of a firm to achieve new forms of competitive advantage by renewing competences, organizational resources, to achieve congruence with the changing business environment (Rugami and Aosa 2013:1240).

Drawing upon the literature review of dynamic capability from the earliest to the latest, i.e. the works of (Teece *et al.*, 1997) initiated the early work on dynamic capability; (Rufaidah and Sutisna, 2015) studied dynamic capability amongst SMEs; (Tseng and Pei-Shan, 2014) focused on the role of dynamic capability on SME's organizational performance (McAdam *et al.*, 2014) investigated the determinants for innovation implementation of SMEs; (Garg and De (2014) suggested dynamic capability as the main rationale for SME internationalization; (Dao *et al.*, 2013) stated that dynamic capability protected and enhanced competitiveness of the firms; this study established a theoretical and empirical contribution towards the development of the measurement of DC-IBSD.

There is no broad consensus on an operational definition of dynamic capabilities and this makes it difficult to identify a generally accepted scale for measuring dynamic capabilities (Kitenga and Kuria, 2014). Although, Teece, Pisano and Shuen's definition on dynamic capability is the most commonly used definition by some researchers (Cabral, 2010:5), this study modified Rufaidah and Sutisna's measurement on dynamic capability which integrates the concept from (Cao, 2011) and (Protogerou *et al.*, 2011). Their dimension of dynamic capability consists of sensing, shaping and reconfiguring. In relation to branding strategy development, brand sensing is defined as the frequency of branding strategy development through the activities of identifying opportunities and threats toward the firms; brand shaping is defined as the frequency of branding strategy development through the activities of shaping new habits to get new opportunities; and brand reconfiguring is defined as the frequency of branding strategy development through the activities of standardizing the system of the firms.

So that, this study measures DC-IBSD construct by three dimensions to reflect the activities of brand sensing, brand shaping and brand reconfiguration in branding strategy development. To illustrate, in validating empirically a multiple-item scale for measuring DC-IBSD, the validity and reliability tests were tested to a three-factor construct of the DC-IBSD, namely, sensing (identifying opportunities and threats), shaping (the formation of new habits to seize opportunities), and reconfiguration (strengthening the new system).

METHODS

Characteristics

The present study is part of larger study that investigated the relationship amongst innovative behaviour, dynamic capability and knowledge creation in branding strategy development. This study considered the two most commonly used research designs namely, exploratory and descriptive research (Aaker *et al.*, 2012) and adopted a mixed approach with these two types of research design being used at some stage of the research. Each of them played a complementary role. This study was executed in two stages. Stage one involved an exploratory research consisting of literature reviews using content analysis and semi structured interviews to gain insights into the research problem and to identify the main issues about the main construct of the study and to generate hypotheses. The study used entrepreneurs of SME's size as respondents. Semi structured interviews were used as a mode of interviewing the entrepreneurs. This gave the researcher an opportunity to obtain a rough idea about entrepreneurs' perspective about the research topic and know more about things that cannot be directly observed and measured (Aaker *et al.*, 2012) such as the branding strategy development of the firms in building their strategic position in the market. Descriptive research was used in stage two to describe the characteristics of phenomena (Malhotra *et al.*, 2010). The objective was to determine the frequency of the occurrence of the activities of the entrepreneurs in the form of sensing, shaping and reconfiguration for enhancing their competence in branding strategy development.

Technique used in the paper

This study presents a validated multi-item scale based on the underlying construct of DC-IBSD that extends previous research. The study conducted exploratory research to develop a new multi-dimensional DC-IBSD. In order to validate empirically the DC-IBSD SCALE, this study adopted scale development that was performed based on the suggestions of (Churchill, 1979, 1992). Churchill's concept has been adopted by many scholars in marketing as one of the most comprehensive steps for scale development [i.e. Rufaidah 2006, 2012, 2014]. (Churchill, 1979) outlines eight basic steps for developing self-report measures of marketing constructs. However, this study combines the first seven steps proposed by Churchill to develop the required scales. These steps are: specify domain of construct, generate a sample of items, questionnaire scaling and questionnaire development, collect data, assess the reliability, and assess validity.

In order to assess the reliability and validity, this study applied four steps of scale development. Stage 1 articulates the meaning and domain of dynamic capability and branding strategy development based on insights from the literature and a comprehensive qualitative study. It results in a preliminary scale containing 16 items that represent three dimensions. Stage 2 describes the administration of the scale to a representative sample of SME's entrepreneurs from West Java province. Using exploratory factor analysis, the scale is then purified which represent three DC-IBSD. In Stage 3, the study conducted confirmatory factor analysis (CFA) to validate the purified scale based on 245 collected questionnaires from a representative sample, which confirms the scale's reliability and validity. Stage 4 introduces the final scale and the conceptual framework of DC-IBSD.

To direct the research, the following hypotheses were tested: $H_0: \Gamma = 0$ Loading factor (validity coefficient) equal to zero and $H_1: \Gamma \neq 0$ Loading factor (validity coefficient) different with zero. Data was collected from small-medium scale business owners in the province of West Java, Indonesia which consists of 26 cities and regencies. The sampling procedure used for the study was convenience sampling. The total of 245 business owners of SMEs have been randomly selected from the data provided by the Department of Industry and Commerce, the Government of West Java Province. Almost 245 samples valid for data analysis, representing a response rate of 100 percent. (Bernard, 2000) suggests that a valid response rate for face-to-face surveys, as it were used in this study, is approximately 80 per cent.

The respondents were approached personally and the survey was explained in detail (including its purpose, the meaning of the items and what is expected of the respondents). Questionnaires were distributed to the respondents and were asked to give their answers on a five-point Likert scale (1 indicating never, 2 indicating ever occasionally (once or twice), 3 indicating had several times (more than 2 times), 4 indicating often, 5 indicating very often). The high response rate is due to the personal-contact approach used during the survey and after completing the surveys the respondents were given the opportunity to discuss the results of the study.

RESULTS AND DISCUSSION

New research results obtained

The sample size employed was within the acceptable limits for confirmatory factor analysis. A total of 245 business owners of SMEs have been randomly selected from small-medium scale business owners in 26 cities and regencies throughout West Java, Indonesia

The background information of the surveyed respondents are explained as follows: the male respondents outnumbered the female respondents (52.24% and 47.76%). More than 33% of them are aged above 36-45 years old. More than 49.8% of their educational background are graduated from high schools and 41,2% are graduated from college. The data also shows that nearly 52,2% of the respondents have been living in the current location of their business. The study identified that the origin of their cities are from 21 cities in West Java region (84,5%) and the rest from cities outside West Java region. More than 59,2% respondents have been operating in the current business for more than one year.

For the EFA, the principal component analysis was used as the extraction method and the factors were rotated using the varimax rotation method with Kaiser normalization. Prior to that, reliability test was performed and only items with an index greater than 0.4 were considered for factor analysis. The EFA (Table. 1) provides a three-factor solution with 48.235% Total Variance Explained (TVE). The score of communalities are above 0.4. The Bartlett Test of Sphericity shows a very small p-value (0.000), indicating that there is a statistical probability that the correlation matrix has a significant correlation among at least some of the variable (Klaus and Maklan, 2012). Furthermore, the Kaiser-Meyer-Olkin Measure of Sampling Adequacy is also very high, 0.906, indicating that the latent constructs can predict the variability in the responses on the observed variables.

Table 1 Results of EFA

No.Item	CODE	Communalities	Component		
			(1)	(2)	(3)
DC-1	DC-SEN1	0.451	0.672		
DC-2	DC-SEN2	0.386	0.622		
DC-3	DC-SEN3	0.507	0.712		
DC-4	DC-SEN4	0.560	0.748		
DC-5	DC-SEN5	0.508	0.713		
DC-6	DC-SHAP1	0.484		0.695	
DC-7	DC-SHAP2	0.620		0.787	
DC-8	DC-SHAP3	0.570		0.755	
DC-9	DC-SHAP4	0.717		0.847	
DC-10	DC-SHAP5	0.600		0.774	
DC-11	DC-REC1	0.565			0.751
DC-12	DC-REC2	0.489			0.699

Table 1 (Cont.)

DC-13	DC-REC3	0.696		0.834
DC-14	DC-REC4	0.655		0.809
DC-15	DC-REC5	0.703		0.839
DC-16	DCREC6	0.573		0.757
Variance Explained			48.235	59.784
				61.356

Note: (1) Sensing on branding strategy development, (2) Shaping on branding strategy development, (3) Reconfiguration on branding strategy development

The internal-consistency was used to evaluate the consistency of the responses for each item within the instrument. A Cronbach alpha factor of 0.731 and the fact that each of the items of the scale displays an item-total correlation of at least 0.731, support the validity and reliability of the scale (Table 2). Nunnally and Bernstein in (Klaus and Maklan, 2012) mentioned that the Cronbach Alpha values for the factors are satisfactory at more than the required level of 0.7.

Table 2 Results of Reliability Test

Dimension, TVE & CR	Item: Frequency of branding strategy development through activities of...	Validity	Cronbach's Alpha if Item Deleted
Brand Sensing (SEN-IBSD) $\alpha=0.731$ CR=0.615	DC-1 Doing comparisons with other businesses, either in the same or not in the same field of business	0.473	0.691
	DC-2 Conducting a comparative study	0.423	0.709
	DC-3 Finding out the wishes of the people for services that need to be given	0.510	0.678
	DC-4 Learning new developments through partnerships with other businesses	0.547	0.661
	DC-5 Testing a new method of managing jobs	0.504	0.679
Brand Shaping, (SHAP-IBSD) $\alpha=0.831$, CR=0.767	DC-6 Implementing innovation to anticipate emerging issues in service delivery	0.539	0.821
	DC-7 Launching a new program or activity	0.650	0.791
	DC-8 Conduct training to the relevant staff new ways of working	0.603	0.804
	DC-9 Providing socialization to the public related to new things	0.726	0.768
	DC-10 Providing socialization of new regulations related business partners	0.627	0.797

Table 2 (Cont.)

Brand Reconfiguration, (RECON-IBSD), $\alpha=0.873, CR=0.835$	DC-11	Standardizing service process for society	0.638	0.858
	DC-12	Developing service business development plan formally	0.581	0.867
	DC-13	Making mechanisms of knowledge management in business and with business partners	0.740	0.840
	DC-14	Creating work teams within the business	0.706	0.846
	DC-15	Applying an appropriate incentive systems with new methods	0.745	0.839
	DC-16	Applying flexibility in required human resources recruitment system	0.641	0.857

Note: TVE: Total Variance Explained; CR: Construct Reliability

The study used the CR (Construct Reliability) to get the result of reliability of each item that is used in this research. (Said *et al.*, 2011) stated that construct Reliability (CR) is intended to determine the consistency of construct validity indicator. The results are a sign of high levels of construct reliability for all latent variables. All t -values were significant, thus convergent validity was established.

The EFA has some major limitations such as items loading on more than one factor, and items are statistically correlate with one another but cannot be explained theoretically (Voon and Lee, 2009). To overcome the inherent limitations of the EFA, the CFA is recommended. In this study, the CFA was performed by carrying out path analysis using a structural equation modelling. A measurement model was specified and the model's overall fit was assessed to determine the degree to which the model is consistent with the empirical data.

The convergent validity of the instrument can be determined using Bentler Bonnet coefficient (Voon and Lee, 2009). The results of the Bentler- Bonnet Coefficient for the various dimensions of DC-IBSD demonstrate good convergent validity (Table 3).

Table 3 Fit Indices

No.	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	SEN-IBSD	5	0.54 -0.71	1.632	0.510	0.97	0.91	0.97	0.94	0.93
2	SHAP-IBSD	5	0.64 - 0.79	2.500	0.780	0.98	0.92	0.98	0.95	0.97
3	RECON-IBSD	6	0.68 -0.88	2.011	0.640	0.96	0.91	0.98	0.97	0.96

Note: (A): Dimension, (B): Number of Items, (C): Range of Std. Regression, (D): chi/df, (E): RMSEA, (F): GFI, (G): AGFI, (H): CFI, (I): TLI, (J): Bentler-Bonnet Coefficient (BBC Coef. Δ)

Concurrent validity refers to the ability of the construct to distinguish between groups that they are theoretically able to differentiate (Voon and Lee, 2009). In this study, the concurrent validity was established by using the independent sample t-test, comparing the differences in gender perceptions scores (male and female).

Gender perceptions are defined as male and female perceptions on DC-IBSD using the median of the average score of the respondents' responses on two items measuring male and female. The results of the t-tests indicate that for all the three dimensions of DC-IBSD, there are significant differences between the two groups (male and female). The respondents belong to the 'male' group possess higher mean score for all the three dimensions of DC-IBSD compared to those in the 'female' group. This is an evident of good concurrent validity.

The discriminant validity of a measure is the degree to which the measure is diverged from the measures that are theoretically not similar (Sureshchandar *et al.*, 2001 in (Voon and Lee, 2009). In this test, the CFA was performed on selected pairs of constructs, allowing for correlation between the two constructs and then the test was rerun again by constraining the correlation between the pairs by fixing it to 1 (Ahire *et al.*, 1996). Which results of the chi-square test examining the discriminant validity of the DC-IBSD scale. The test concluded that DC-IBSD comprises of the three distinct dimensions.

The variable of DC-IBSD is measured using three dimensions (Figure 1), namely Sensing in branding strategy development (SEN-IBSD), Shaping in branding strategy development (SHAP-IBSD), dan Reconfiguring in branding strategy development (RECON-IBSD). The high value of composite reliability (SEN-INSND 73,1%, SHAP-IBSD 77.8% dan RECON-INSND 87,2%) concluded that the selected indicators has met reliable category or the measurement of dynamic capability has been reliable using aforementioned three dimensions.

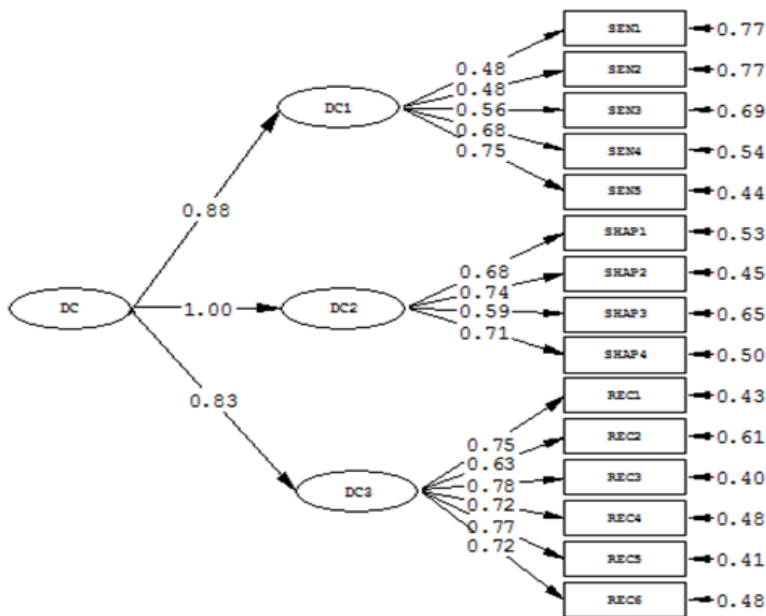


Figure 1 Measurement Model

From the results, it is evident that the respective items indeed belong to the latent constructs as hypothesized. H_0 : $\Gamma=0$ Loading factor (validity coefficient) equal to zero and H_1 : $\Gamma \neq 0$ Loading factor (validity coefficient) different with zero. Therefore it can be concluded that DC-IBSD comprises of the three dimensions and the items representing each construct have a strong convergent validity.

CONCLUSIONS

The main purpose of this study has been achieved; to test DC-IBSD scale for multidimensional, reliability and validity using EFA and CFA. The practical implication of the study is that entrepreneurs generally should improve their competence over time in a situation of environmental change in developing firms' branding strategy. Particularly, in order to achieve competitive advantage of their companies, firstly, entrepreneurs should actively identify opportunities and threats faced by their firms for creating favorable image through branding strategy. Secondly, entrepreneurs should aggressively format their new habits to seize opportunities for developing branding strategy. Finally, entrepreneurs should dynamically strengthen their competence through new system adopted by firms.

The implication of the study is that business owners should enhance their competence in designing the brand of the firms by considering that branding means more than just giving a brand name to a product or products. As firms gradually establish their presence in the markets, modifying firm's competence and expanding entrepreneurs' capabilities in creating favorable branding, are requirements to sustain in the dynamic environment of the business. Firms' target market may evolve as well as their market position if it is created appropriately. The dynamic modification and revision of branding strategy are necessary for continuing success in the competition.

The empirical results, however, have some limitations. This study has only examined the measurement of DC-IBSD amongst entrepreneurs in the SMEs size context. It is a crucial issue for further studies to investigate entrepreneurs' DC-IBS of non-SMS's size context. The limited representative of sample size from SMEs may weaken the generalizability of the findings. Replication of the study by using non-SME's can examine the generalizability of the results.

But the limitations of this study notwithstanding, a few suggestions may be made for building upon the present study and furthering the understanding of the DC-IBSD. Some of the weakness identified in the study may help identify interesting topics for future research. Further study may be undertaken with more entrepreneurs as business owners from various industries in more countries to facilitate generalization of the empirical findings. Second, the study raises some measurement issues involving the constructs investigated in the study. The construct tested in this study, although conceptually valid, need more rigorous investigation to further establish their generalizability across different research settings. The attributes needed to be covered for specific industries i.e. manufacture and service also warrants further study. It would be fruitful to investigate if cross-industry measures exist, and what their underlying dimensions are. This study has established DC-IBSD measures; further probing may help determine if these scales can be adapted for other industries or new scales should be developed.

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