From Knowledge Management to Learning Organisation to Innovation

The Way Ahead!

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Edited by

Fawzy Soliman

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FROM KNOWLEDGE MANAGEMENT TO LEARNING ORGANIZATION TO INNOVATION: THE WAY AHEAD!

FAWZY SOLIMAN
UTS BUSINESS SCHOOL, UNIVERSITY OF TECHNOLOGY, SYDNEY, AUSTRALIA

Perfect competition has been a central theme of economics since at least Adam Smith's times. In fact, for theorists like Adam Smith the creation of wealth is a powerful vision and they believe that competition could lead to financial benefits. However, the task of defining and developing competition models has been rather complex and lengthy.

The Industrial Organization Economics model developed by Bain (1968) provided a framework based on the Structure-Conduct-Performance paradigm. Although the Industrial Organization model helps understand competitive retaliations, product pricing and differentiation, it was inadequate for handling the rapid changes in the business landscapes of the 1980s. These changes may have led to expanding the application of the Industrial Organization Economics model by Michael Porter (1980). Porter's Five Forces model has assisted in identifying market positioning strategies and has led to developing further insights into firms' primary strategies for competitive advantage. One of the main criticisms of the Five Forces model has been the lack of emphasis on innovation and its role in sustaining a firm's competitive advantage.

Porter's model of five competitive forces, introduced in 1980, has lifted competition to higher levels. However, the role of innovation in competition appears to have been understated in the literature. Therefore reporting on recent research that links innovation and learning has become a priority of this book. Accordingly, this volume presents a set of thirteen chapters written by acclaimed experts in their fields of knowledge.

In the first chapter, Hermens and Hermens argue that consumers could respond to perceived risk by applying consideration sets. Hermens and Hermens define a consideration set as *a cognitive reduction strategy that reduces the number of available options in making retail, product or service decisions to a more manageable size*. Their chapter provides more insights in an area of research where better knowledge about products and/or service operations could lead to a better understanding of the order in which the consideration of products and/or services and retailers occurs in production processes.

In chapter two, Soliman argues that good innovation knowledge could impact positively on the performance of innovation and ultimately on the performance of the innovative firm. He suggests that knowledge should be appropriate and useful for the innovation project and that usefulness of innovation knowledge should be carefully evaluated before any knowledge transfers takes place. Soliman also proposes a method for assessing attributes of knowledge. The chapter introduces the concept of *Knowledge Gap Spirals*, which are shown to be created during Nonaka and Takeuchi's (1995) conversion processes – i.e. from tacit to explicit knowledge and vice versa at each of the four segments of the SECI (Socialization, Externalization, Combination and Internalization) model.

Chapter three, by Silva, Kovaleski and Gaia, examines knowledge management in the process of the transfer of technology in a technological innovation centre in Brazil. The authors use a qualitative approach to analyse infrastructure, based on the Federal Law of Innovation, which exposes barriers related to knowledge management. The approach is useful for detecting problems that could be preventing an effective process of technology transfer.

In chapter four, Perrott points out that the strength of the forces of competition and globalization could create awareness and an urgency to focus how an organization controls and nurtures its intellectual capital. The concept of knowledge and its management are presented as enablers of thoughts and ideas that could increase the application of technologies such as the Internet, Customer Relationship Management (CRM) and advanced software capabilities. Perrott suggests that the time has come for a debate on a new paradigm for knowledge management. As a contribution to this debate, this chapter examines the knowledge literature and reviews the experience of a leading private healthcare group with the objective of gaining a better understanding of the issues confronting effective knowledge management in contemporary organizations. The role communities of practice play in the structuring and dynamics of knowledge flows is also reviewed in the chapter. A tentative knowledge process model which is intended to guide future discussion in the ongoing knowledge debate is presented.

Connell, in chapter five, explores creativity, innovation and knowledge sharing, why they are important in the workplace, and how they may be supported through both intra-firm and inter-firm collaboration via co-working and networking. Connell proposes that at the group and organizational levels, managers are expected to facilitate the optimum context for creativity. There is a particular focus on an organization's culture, structure and ethos, in addition to the physical workspaces that can support innovation and creativity at work. These factors draw on Cummings's (2003) 'contexts of knowledge sharing' framework, which is adapted for the chapter. This chapter thus helps to fill a gap in the literature by linking creativity, innovation and knowledge sharing to co-working and collaboration both within and outside the organization.

Zineldin, in chapter six, examines the integrating role of Knowledge Management, Technology and Innovation (KIT) and their effect on the competitiveness of learning organizations. Zineldin proposes that innovation is a function of learning and experiences, which in turn should be driven and developed by knowledge. Thus, effective knowledge management is a prerequisite for learning and innovation. Furthermore, the author points out that knowledge, learning and Information Technology (IT) could form the basic cornerstone for innovation in many learning organizations. Zineldin also suggests that the IT revolution requires learning organizations to be more flexible, fast, lean and innovative. At the same time, he provides the tools to use a KM strategy effectively in order to make these changes possible. Zineldin's argument is that KM, IT and Innovation need to be well coordinated, integrated and managed across external and internal actors, i.e. both inside and outside the learning organization, for the effective management of resources and competences.

Beckett, in chapter seven, presents innovation as a means of solving community problems and/or as a source of economic competitive advantage. Timely access to knowledge may stimulate innovation, and it is suggested here that learning is an integral part of the process of innovating – learning how to overcome problems in the development and deployment of a particular innovation, and learning more about the process of innovating. What has to be managed is contingent on a significant number of factors. This chapter initially explores what some of those factors are, then draws on Adaptive Structuration Theory as an integrative framework to consider the interplay of innovation, organizational learning and knowledge management. A set of 21 capabilities which support knowledge management that stimulates innovation and organizational learning are suggested.

In chapter eight, Soliman and Mehrez discuss the concept of framing the effectiveness of innovation management processes. They argue that evaluating the effectiveness of innovation management is necessary for better performance in innovation efforts. The authors highlight the usefulness of gap analysis in assessing the impact of knowledge defects on the expected outcomes of the innovation process. Furthermore, they explore the management characteristics associated with the success or otherwise of innovation management in organizations. In so doing, the importance of addressing issues arising from knowledge management is discussed.

Recent research on the transformational leader's role in innovation is presented by Soliman in chapter nine. The chapter demonstrates that transformational leadership components could impact on the five disciplines of the Learning Organization concept. The chapter identifies three transformational leadership components that have a positive impact on the three known learning organization disciplines. The results presented in the chapter also confirm that the four components of Transformational Leadership do not have any negative effects on the development of the five disciplines of the Learning Organization. The chapter also discusses the findings in the light of other related innovation chain activities, which may lead to understanding better the research findings.

Schweitzer and Jakovich present in chapter ten the emerging potential of crowd-sharing in relation to learning and innovation. They point out the difficulties of improving organizational processes and learning mechanisms for innovation in increasingly complex and ambiguous business environments. Schweitzer and Jakovich argue that while innovation is traditionally seen as a product of knowledge and learning that happens within the organizational context, innovation is now moving towards an activity that increasingly involves a greater number of external partners, including the crowd. They discuss the intricacies of design thinking and open innovation processes as drivers and enablers of learning and innovation, and propose crowd-sharing as a new and promising concept for achieving innovation outcomes and creating innovation cultures that go beyond the realm of the single organization.

In chapter eleven, Wang, Clegg, Tang and Fang discuss learning and social facilitation in Small–Medium Enterprises (SMEs). They argue that SMEs play an increasingly important role in economies and are usually seen as resource-poor, and as lacking technology and innovative competencies. How SMEs manage to survive, catch up and grow in competitive industries dominated by large firms is seen as critical in developing an understanding of the dynamics of management practices. The authors also show that previous studies attribute the relative competitiveness of SMEs to a number of factors, including exploitative learning and social capital. The chapter addresses the research question of how social and learning facilitation enhance knowledge exploitation and incremental innovation in SMEs. Wang et al. argue further that proposing a learning–innovation framework could overcome SMEs' needs and could lead to improvement in innovative capacity through the implementation of learning mechanisms.

Given the importance of the Middle East region, Magd and McCoy examine in chapter twelve the relationship between leadership and knowledge management in a Middle Eastern context. The various dimensions of culture and the impact that culture can have on the success of knowledge management initiatives are considered, in addition to what leaders can do at a practical level in order to ensure that an environment conducive to knowledge creation and sharing is established. A distinction is made between leadership and management; the roles of both parties in the management process are examined. Finally, the authors discuss the literature on the critical success factors of the knowledge management process.

In chapter thirteen, Talaja and Hajdić present a relationship between absorptive capability and knowledge management. They discuss the conceptual foundations of knowledge management and absorptive capacity, and relate them to dynamic capabilities. Talaja and Hajdić argue that absorptive capabilities can be viewed as part of the knowledge process capability; taking this approach would enhance knowledge management activities of acquiring, converting, applying and protecting knowledge resources. The implications of linking absorptive capacity to knowledge management are also presented. The discussion in the chapter as a whole could be used as the basis for developing a model that integrates the core concepts of absorptive capability and knowledge management.

It is hoped that this book will be beneficial for practising management, and for researchers and business professionals in their managerial roles. The theoretical frameworks and discussions could help firms to ensure that their innovation activities are so positioned as to assist them in achieving competitive advantages. Should appropriate knowledge and learning processes not be carefully considered, firms could expose themselves to unnecessary risks.

Fawzy Soliman, Editor

CHAPTER ONE

KNOWLEDGE MANAGEMENT TO LEARNING ORGANIZATION TO INNOVATION: AN EXAMINATION OF CONSUMERS' CONSIDERATION SETS

HERBERT HERMENS AND ANTOINE HERMENS
UTS BUSINESS SCHOOL, UNIVERSITY OF TECHNOLOGY, SYDNEY, AUSTRALIA

Abstract

Consumers have been found to respond to perceived risk, which is their subjective belief about the characteristics and severity of a risk to their organization, by applying consideration sets. The use of a consideration set is a cognitive reduction strategy that reduces available options in making retail, product or service decisions to a more manageable number. Little research has been devoted to understanding the order in which the consideration of products and/or services and retailers occurs in this reduction process.

The basic sequences consumers can apply in constructing a consideration set are retail store first, product brand second; or product brand first, retail store second. The first sequence implies a retailer preference and the second suggests a product preference.

The purpose of this chapter is to investigate the order of the consumer's consideration set. A qualitative research design, ex post facto, was employed, exploiting a grounded methodology in three focus group interviews, and the Delphi method in two expert panels used to review the data obtained from the focus groups to provide more robustness to the conclusions.

The study focused on the participants' main concerns in their decision-making, and how they tried to resolve them. This study suggests that

decision risk was reduced by the home-improvement consumers forming consideration sets populated in part or in whole by retailer brands as an experiential shortcut. The data demonstrates that trust, perceived risk, involvement and brand are originators of this formation. Brands are seen by the home-improvement consumer as a bundle of attributes with the ability to deliver problem-solving benefits. Brand loyalty is the proxy in the decision process. The use of this proxy as a heuristic reduced the perceived risk of the home-improvement consumers. It enables the customer, at least in part, to sidestep the final decision about which product or service to purchase when choosing from amongst the options presented by the retailer.

Keywords: Consumers' perceived risk, cognitive reduction strategy, product brand preference, decision-making risks, brand loyalty.

Introduction

The literature suggests that most methods of learning are underpinned by the dialectic logic of comparison (Brannen and Voisey, 2012). The research described in this chapter is designed to provide insights into the knowledge-seeking and decision-making processes of customers in the context of consumers of home-improvement products. The aim here is to understand the order in which home-improvement consumers' consideration sets are organized. Research investigating how consumers organize consideration sets and their implications for organizational learning is relatively scarce and underexplored. This leads to the first question: 'How does a consumer organize the sequence of their consideration set?'

One possibility is for the consumer to organize their set according to retailer brands; that is, by the name, design, symbol, or any other feature which identifies one retailer as distinct from another. A second possibility is for the consumer to organize their set according to product brands; that is, the name, design, symbol, or any other feature that identifies one manufacturer's or merchant's goods or services as distinct from another's. A third possibility is a combination of both of these.

The emergence of retailer self-labelling as a knowledge problem for consumers

The twentieth century was arguably the epoch of manufacturer brands. Using all of the contrivances at their disposal, manufacturers persuaded consumers to buy their brands (Alreck and Settle, 1999; Kumar and

Steenkamp, 2007). Retailers were at the mercy of these manufacturing companies, who controlled distribution in order to build and develop connections with the consumer. This situation changed in the 1970s. Retailers expanded, becoming national and international contestants (Kumar and Steenkamp, 2006, 2007), so that names such as Bunnings, Masters, Mitre10, Wal-Mart, Target and IKEA became brands in their own right. Many retailers now offer their own multi-tier ranges of exclusive or private-label brands alongside manufacturers' brands. These products range from lower-price, lower-quality products to those of a premium standard that rival national manufacturers' brands. The private-label and/or the exclusive brands are now considered brand weapons allowing retailers to optimize the balance between consumers' needs and their own profit motives (Davies, 1998; Grewal, Levy and Lehmann, 2004; Wang, Anderson and Hansen, 2007).

The development of private or exclusive brands is mirrored in the growth of big box retailers, which are typified by their substantial floor space, extensive selection of products and services, and location in suburban areas. These stores are also known as supercentres, superstores and mega-centres. In Australia these retailers include Bunnings, with exclusive brands such as Ryobi, Homelite and Ozito; Mitre10, with exclusive brands such as Warrior and Rockwell; and the newly launched Masters stores and Big W. In the US and Canada they include Home Depot, Wal-Mart, Sears, Target and Walgreens (Spector, 2005). Such retailers dominate their retail market segments, overwhelming smaller neighbourhood retailers whose trade is typically based on local and national brands. The big box retail business model is all about self-labelling, building a brand around themselves, rather than the local and national product and service brands of the corner stores (Kumar, 1997; Nirmalya, 1997; Kumar, 2004; Kumar and Steenkamp, 2006).

This retailer brand-building is also observed in companies such as Boots, which is the UK's leading pharmacy chain. The company is a trusted brand, known for good service and knowledgeable staff. It develops its own private labels, such as the No. 7 cosmetics and makeup line, as well as country-specific brands, such as Boots Apotek in Norway. Boots surveys 25,000 people each week to gain a better understanding of its customers' evolving needs. In contrast, Sainsbury's emphasis is on price without compromising on quality, underpinned by a strong private-label brand that responds to consumers' needs. OBI, the leading German home-improvements business, builds its brand by being an innovator in altering store formats and shopping experience. With more than 330 stores in Germany, 98% brand awareness and over 200 outlets in 13 Central and

Eastern European countries, OBI is expanding into Russia, Poland, Italy, the Czech Republic, Hungary and the Balkans (Frampton, 2011). Carrefour, a French big box retailer, introduced its private-label program in 1976, and by 1993 it offered almost 4,300 lines of its own-branded products (Holtreman, 2000). For example, in some countries there are only Carrefour products in some categories. The quality of these products is perceived by their customers as equivalent to national brand products, but with prices that are 15 to 35% lower than those of their national counterpart brands.

Dimensions of brand knowledge management

The Private Label Manufacturers Association suggests that the popularity of retailer brands has a 'halo' effect on home/office, household and DIY products, in which the qualities of one brand are attributed to another (Aaker and Jones, 1971; Aaker, 1990; Tadelis, 1999; Aaker and Joachimsthaler, 2000; Aaker, 2004; Thal, 2006). That is, the consumer accepts that the retailer's product offerings have the retailer's imprimatur. Private label, exclusive or generic brands are characteristically a limited number of brands that comply with a retailer's own list of requirements. Aldi, for example, offers its customers one coffee brand, one toothpaste label and one nappy brand. The company has acknowledged that this gives it an important strategic advantage over its competitors, reducing cost and benefiting its customers through lower prices and reduced stress over product choice (LeBlanc and Turley, 1994; Davies, 1998; D'Alessandro and Owens, 2001; Berman and Evans, 2004; Del Vecchio and Smith, 2005). In Australia and New Zealand, Bunnings is an excellent example of the concept of deferential advantage. For example, its Nippon paint and Ryobi power tool ranges show the power of an exclusive range in building up a retailer brand and encouraging customer loyalty.

The halo effect is driven by brand loyalty; a bias is shown towards certain brands because of a favourable experience with that brand. These organizations have learned that when customers are favourably predisposed towards their retail brand name, the customers lower their price sensitivity, and the stress of decision-making as well as the perceived risk are also reduced (Zentes, Morschett and Schramm-Klein, 2011).

Brand as a retailer's identity

Brands exist with two marketplace constraints. First, consumers have limited information about retailers and/or products, and second, retailers' shelf space is limited (Aaker and Jones, 1971; Hagel, 2005). For consumers, brand image fills the void between knowledge and experience (Lindstrom, 2005; Keller, 2010). Before the Industrial Revolution, brands were attached to the retailer. From the mid-1700s onwards however, product brands emerged as an indicator of quality (Ulrich and Smallwood, 2007). As more and more products entered the market, shelf space became a scarce commodity and the decision about which product brands were displayed shifted back to the retailers, the owners of that space (Hagel and Singer, 1999; Ulrich and Smallwood, 2007).

The retailer's imprimatur was attached to those limited products available in the store. This imprimatur is a consequence of the retailer having made part of the decision for the consumer by reducing the total number of products they have to choose from. Thus the retailer has taken responsibility for this part of the decision. It is, then, only an extension that this imprimatur is seen as the retailer's endorsement. However, before brand owners can ratify a relationship through a sale, consumers need to complete the decision-making process. Retailer preference ascribes the consumer's perceived valuation of the retailer to the products offered by the retailer, enabling consumers to apply their knowledge in their decision processes to a particular product or service. The consumer–brand learning relationship, then, is between the retailer brand and the consumer, rather than between a manufacturer's product brand and the consumer.

Brand as a heuristic

As introduced above, there is a shift taking place in the balance of power between manufacturer and retailer. Consumers are making product decisions based on the knowledge of the retailer's brand, rather than on the knowledge they have of the product's brand. Hagel (2005, p. 1) argues that marketers are missing an important development in the consumer choice model: one of the most profound shifts in brand power that has been playing out over the past several decades. We have witnessed a broad-based shift in brand power from product brands to retailer brands. Retailers like Wal-Mart, Tesco, Best Buy, Home Depot, Nordstrom's and CompUSA have been steadily amassing brand power at the expense of more traditional product brands.

A survey of Australian power tool sales by BIS Shrapnel lends weight to this argument, finding that 65% of consumers did not have a product brand in mind prior to going to the store and that 77% only decided which product to purchase once in the store (Giles and Hill, 2007).

Research Design

The research design employed in this project is ex post facto, as it is exploratory and conducted after the fact (Patton, 1990; and Guba and Lincoln, 1994; Myers, 2000; McMurray, 2006). The study used a qualitative method of data collection, namely focus groups (McMurray, 2006) and expert panels. These methods were chosen in the belief that group discussion would uncover and explain issues and reactions which were not necessarily expected to surface during quantitative surveys or able to do so (Charmaz, 1983; McMurray, 2006). The focus group discussions sought rich and insightful information and data, while the expert panel provided quality feedback. Examining issues in depth, rather than more broadly as would be the case in a quantitative survey, was considered to be a critical component of this exploratory research (Neuman, 2006), and thus the work will act as a foundation stone for further research on this topic.

The focus group sessions were underpinned by a grounded theory approach that affords a stage for developing the foundation of a theory (Charmaz, 1983). To reduce the risk of a critical issue being overlooked in the focus groups, data from two expert panels – one representing retailers, the other manufacturers – was used to validate the results obtained from the focus group discussions. The two expert panels' views were aggregated using the Delphi method (Cengage, 2000).

The Study

The data was collected from focus groups and expert panels. The purpose of the data was to shed light on retailer preference and its causes. Decision-making is knowledge-seeking driven by the consumer trying to solve a problem, minimize risk and ultimately satisfy their needs. To aid in this process, consumers scan for problem-solving support. The home-improvement consumer engages in a knowledge-seeking process, i.e. the brands that deliver benefits, principally the minimization of the likelihood of adverse outcomes for their home, and the minimization of any risk. Consumers perceive brands as a bundle of attributes with the potential to deliver problem-solving benefits to satisfy their needs. In order to satisfy those needs, the consumer must select specific items and specific outlets. They can do this: 1) simultaneously; 2) item first, retailer second; or 3) retailer first, item second. The data gathered in this study supports the third way, in which the retailer is chosen first.

The concepts of involvement, perceived risk, trust and brand suggest that brand loyalty, in this case to the retailer brand, is the proxy in the decision-making process for home-improvement consumers. This use of a proxy, the retailer brand, as a heuristic reduced the perceived risk taken by the home-improvement consumers. Interestingly, risk in a general sense was not the paramount driver; rather, it was risk to their home that was the primary driver. Consumers abrogated, at least in part, the final decision of which product to buy by choosing from amongst the options presented by the retailer, and by extension accepting the retailer’s imprimatur on the final choice set. Retailer branding is a type of learning shortcut for the home-improvement consumer, embodying the need to reduce the risk of adverse effects to their home.

These emotional and logical learning thought processes first reduced the options to retailers. Focus groups indicated that the product or service brand was relevant, but only in terms of building retailer brand rather than product brand. This pragmatic dimension integrates elements of emotion and logic: a general knowledge-driven process is incorporated into the personal experience of a brand to motivate reassurance and ease for the consumers. The familiarity that home-improvement consumers have with the retailer is important for their awareness of, and loyalty to, a particular brand. It reduces the complexity of their choice, helps them to commit to a particular product and/or service, minimizes risk, and reinforces trust. Home-improvement consumers have learned to trust the retailer to deliver what they want even when they are not sure that an unfamiliar product or service will do so.

The data in this study demonstrates that trust, perceived risk, involvement and brand are the antecedents to product or retailer brand selection. Trust is placed in the service provider, the retailer brand. Thus it appears that the consumer’s knowledge of a brand defines the experience of purchase in terms of service attributes and their impact on the functionality of the service encounter. Trust in the brand arises out of a learning experience, e.g. service acts as a foundation on which trust is built between consumer and brand. Home-improvement buyers’ decisions are based on criteria other than the product brand, such as the retailer’s advice and imprimatur.

Brands play an important role at the retail point of sale. Yet commitment to individual product brands is growing weaker. Product brands have values for home improvement such as durability, reliability and quality. However, the underlying issue indicated by the data is that product brands lack a recognizable added value, whereas retailer brands do not. Retailer brands are able to provide added value in the form of advice and post-purchase dissonance resolution. This idea is noted by the group members as the notion that retailers have created brand image by creating brand equity, and by extension trust, in their own stores. They have learned to transfer that image to the products and/or service offered by the retailer, such as advice and warranty support. Retailers are thus able reduce the perceived risk to consumers' homes. These organizations have acquired knowledge about consumers' consideration sets and have subsequently reconstructed the value of their brand as perceived by consumers.

Discussion

The research described in this chapter was designed to explore the decision-making processes of consumers of home-improvement products. The focus, in light of the popularity of big box retailers, was on whether DIY home-improvement consumers' consideration sets are first populated by retailer brands or by products brands. An interpretive paradigm underpinned this research project. The study's qualitative methodology utilized three focus groups and grounded theory in interviewing DIY consumers to research the order in which they formed their consideration sets. The emergent concepts from the focus groups were submitted to expert panels to give more substance to the findings. These two panels served to provide depth and an expert review of the derived theory. While the qualitative research is not generalizable, the Delphi process involving city-based executives shows that this process may hold elsewhere, not just in the location of the original research in Australia.

The traditional models of unbounded rationality and optimization in cognitive science and economics have tended to view decision-makers as having supernatural powers of reason, limitless knowledge and endless time, which is not realistic for home-improvement consumers. Understanding decisions in the real world requires bounded rationality, which is a more psychologically plausible notion. Heuristics are simple rules in the mind's toolbox for making decisions with limited resources. They enable quick choices with a minimum of information by exploiting the way that information is structured in particular environments.

Data analysis in this study showed that the participating home-improvement consumers formed a retailer preference. In doing so, they articulated their desire to reduce the risk inherent in their purchase decision. Risk was perceived in the context of a specific potential negative impact on their home, rather than simply as a risk or the probability of a negative outcome. This finding contrasts with the findings from risk-perception research which suggest that risk or the probability of a negative outcome are the driving demands for risk reduction (Gardner and Stern, 1996; Sjöberg, 2000, 2008; Viklund and Sjöberg, 2008).

DIY home-improvers purchase products about which they lack know-how. In making their purchases, they need to deal with the perceived risk involved in such decisions. The risk is ameliorated by the trust they place in a retailer. In effect this trust places a great deal of power with the big box retailer, who is able to make product brand decisions on behalf of its customers. The consumer is using the retailer brand as a proxy, in other words as a heuristic, where prior experience and knowledge about the brand leverage trust in that brand, reducing perceived risk.

Brands play an important role at the retail point of sale for home-improvement products and services, and consumers may point to the importance of superior product quality, durability, reliability and better materials when describing what they are looking for in a product. However, the data in this study indicated that product brands lacked a recognizable added value when compared with retailer brands, such as application advice and post-purchase dissonance resolution. Group members suggested retailers have created brand image by creating brand equity, and by extension trust, in their own stores. Furthermore, they have transferred that trust to their products through the advice and services they provide, and in doing so have reduced the perceived risk to the consumer’s home of their purchases.

Retailers were for a period a distribution channel for manufacturers’ brands. The emergence of big box retailers has changed that model by building a brand around itself. Thus, brand manufacturers have become ‘suppliers’ to retailers, earning their listings on the basis of their ability to improve the retailer’s profits. The big box retailers offer superior value to their customers by becoming a source of risk reduction, in effect becoming a destination shop. Retailers understand that consumers use the ‘I might as well while I’m here and I can trust them’ notion to edge into adjacent markets, and to increase volumes and buying power. They use this power to drive harder bargains with suppliers, thereby offering even better value, and appropriating even higher sales and market share. Thus, they realize ever-greater supply chain effectiveness and savings to invest in even lower prices and to drive all these effects to a new level.

The momentum of big box retailers such as Bunnings looks unstoppable. However, what the consumer has bestowed the consumer can take away. Retailer preference is conferred by the consumer, driven by his/her need for risk reduction, but recent social media campaigns by consumers demonstrate that retailers are vulnerable if consumers’ demands are not met (Evans, 2012). More than one billion people are posting information online, whether through blogs, social networks or photo/video sharing (Statistic Brain, 2012). They share their experiences, observations and opinions with a global audience as freely as we picked up a newspaper yesterday. Their combined power is now formidable and may require regulation.

The big box retailers generate sales into the billions, while the revenues of thousands of their suppliers and competitors often run only into the millions. Many of these big box retailers are negotiating exclusive arrangements with their suppliers. Or they want exclusive rights to a brand or nationwide service from their suppliers at the cost of their competitors. These retailers are also requesting rebates, not available to the smaller competitors of the big box retailers, of 23% on their purchases. These rebates are reducing competitive tensions as the smaller businesses fail, and squeezing the profit margins of suppliers, who can find no relief from these costs (Mitchell and Stewart, 2013). These big box retailers often require the supplier to drop-ship to hundreds of stores across the country on the same day at the same time, so the supplier is commonly unable to handle more than one large retailer. The end result: increased customer concentration.

Big box retailers, in flexing their immense muscles, require guaranteed margins and consignment, sometimes referred to as vendor-managed inventory. These terms are often much more generous than those offered to other retailers (Mitchell and Stewart, 2013).

Allowing market forces rather than regulation to manufacture the medium- to longer-term outcome may result in a substantial increase in customer concentration amongst a few large retailers, to the detriment of smaller retailers, and to what could be reasonably argued to be the best interest of the consumer. In this light, legislators may be required to take some controlling action.

The Dynamics of Power and Decision-Making in Consideration Sets

The present study adds to the existing literature on decision-making and consideration formation in a number of ways:

a) By arguing that there is a ‘retailer preference’ in home-improvement consumers’ decision-making. Hagel’s (2005, p. 1) assertion that power is moving from the manufacturer to the retailer appears to have some substantiation in the home-improvement segment of the market. Previous research has focused on the drivers for consideration set formation, and on some of the effects of set formation, including the application of the concept to retailer choice (Spiggle and Sewall, 1987). However, the notion of the order of formation proposed in 1992 (Hawkins et al., 1992) has not previously been considered. Hawkins et al. provide insights into the order of consideration set formation in the home-improvement market. The retailer is chosen before or at the same time as the product brand.

b) By showing that Simon's (1955) principle of bounded rationality is supported in the home-improvement market. With the constraints of time, certainty and values in the real world, home-improvement consumers' decision-making does not allow for rational decision-making, and therefore for true optimization, to exist (Reber, 1993).

For researchers, the value of this research is in the increased understanding of the customer–brand relationship – the relationship formed between consumers and the retailer brand. The consumers' aversion to loss is an explanation for the establishment of retailer preference based on the assumption that consumers attempt to avoid negative outcomes, in this case to their home, rather than to maximize value. This supports empirical research which has found that, whilst reducing effort to solve problems by employing selective, heuristic searches, decision-makers seek to reduce risk (Edwards and Tversky, 1967).

Greater understanding of the order in which consumer consideration set formation occurs is a useful contribution to knowledge about the consumer decision process, and will encourage further research into this area of consumer behaviour. The potential for the inappropriate use of market power by retailers is a real concern of state and federal government legislatures. The concentration of product and service offerings as a legacy of big box retailers due to retailer preference may raise this potential further. This power could be exerted by the retailers in their shortlisting of product and/or service offerings which in turn could potentially harm the manufacturer and/or consumer through reduced choice, product innovation and competition, thus distorting the competitive process. Such exclusive arrangements may well help selling and promotion endeavours and shareholder returns, but they can also weaken competitive tension. Additionally, these arrangements raise the issue of marketplace barriers to the entry of new products, retailers and retailing systems, an issue that now appears to be of prime concern for our policy makers at local, state and federal levels.

The presence of home-improvement big box retailers is gaining increasing significance in the marketplace. For business and retail practitioners, it is important to understand retailer preference and its impact on the development of these retail chains both in building market opportunity and in building their brand.

Big box retailers continue to grow and extend their grip, and it is unclear which brand will dominate. Brand domination is a major concern in the global retail world, particularly with respect to the positioning of manufacturer-branded products versus private store labels. With this brand domination in mind, which brand is chosen first is a key indicator for which brand will ultimately dominate. Thus, the understanding gained regarding the order in which consumer consideration set formation occurs increases understanding of the consumer decision-making process, and it will encourage further research into this area of consumer behaviour.

If the formation of a retailer preference precedes that of a product consideration set, then the products offered by preferred retailers are more likely to populate the product consideration set. Marketing strategies employed by brand owners, managers and retailers should differ. Rather than focusing only on their potential consumers, they should also develop a concurrent program that encourages the retailers to stock the products. The notion of retail preference supported in this study means that the manufacturer must ensure that its strategy recognizes the decision-making of the retailer. Understanding the nature of the brand relationship from the consumer's perspective forms the basis of stronger ongoing consumer–brand relationships.

The value of this research is twofold: it provides retailer marketing organizations with an insight into consideration set formation, a component in the consumers' decision processes that allows the organizations to further expand their brand development; and it gives a better understanding of the increasing penetration of generic or preferred brand products. An understanding of the brand relationship from the consumer's perspective will enable the formation of stronger on-going consumer relationships, as well as improved organizational welfare (Lindberg-Repo and Brooks, 2004) due to increase in sales growth and profit. This research also emphasizes the importance of building trust and of the retailer delivering on its promises.

This research submits that trustworthiness for retailer and manufacturer is critical to their further brand-building efforts. The retailers' surrogacy on behalf of the home-improvement consumer resolves the effects of consumers' expertise. This chapter suggests that surrogates can improve perceived trustworthiness among their potential customers in three ways:

by ensuring they are perceived to have more expertise than their consumers; by accepting liability for their recommendations, and by customizing their offerings to suit individual or small group needs (Aggarwal and Mazambar, 2008). Retailers are well positioned to make use of the developments in information and communication technology in order to enhance customer information and to personalize services and develop service enhancements and quality.

For the big box retailers, building on the customer trust relationship is critical, ensuring the components of service, such as price consistency/transparency, availability, advice and choice, meet their customers' expectations.

The intensity and complexity of range are not necessarily as important as having access to increased information on product ideas at the point of choice, and to trades people's practical advice.

This research adds to the growing body of literature that describes how retailers are growing more sophisticated, demanding from manufacturers and suppliers proprietary designs, brands and low pricing, while building brand around their own icons. It also demonstrates that consideration set formation incorporating retailer preference is driven by the home-improvement consumer's desire to reduce adverse outcomes. This finding indicates that manufacturer marketers need to develop strategies for their brands and to encourage customers to enter into a trust relationship with their brand rather than with the retailers, or at least in conjunction with the retailers. This branding technique needs to create a personal relationship between brand and consumer, so that the customer will choose their products in the store.

Further, for manufacturers there is a critical need to bypass the retailer, who is now a gate-keeper, and reach their customers with assurances that the reliability of their product is greater than that offered by their competitors. It is equally critical for the manufacturers to ensure their product is sold and supported by these big box retailers.

Research into consideration sets to date suggests that the choice of retailers, the nature of the need, culture, internet search engines, and the time and knowledge available to the consumer all have an influence on their formation (Narayana and Markin, 1975; Park, 1978; Abougomaah et al., 1987; Hauser and Wernerfelt, 1990; Roberts and Lattin, 1991; Kardes et al., 1993; Lehmann and Pan, 1994; Siddarth et al., 1995; Bronnenberg and Vanhonacker, 1996; Brand and Cronin, 1997; Laroche et al., 2003; Ballantyne et al., 2006; Sinn et al., 2007; Solomon, 2007; Sayan et al., 2011; Wooyang Kima et al., 2012). These previous studies have probed the impact of the retailer's actions on the consumer product consideration set, and on the effect of the retailers on consideration set size and brand decisions.

The research outlined here demonstrates that a retailer preference exists within the product group of home-improvement products where previous positive experience with a retailer resulted in the retailer being chosen before a product decision was made. With the formation of the retailer preference in the home-improvement segment of the market preceding that of the product preference choice, it is likely that the products offered by those retailers will populate the product consideration set (Deleersnyder et al., 2004) and could contribute to the ability of retailers to further increase their private label offering and/or their preferred brand development. This provides an opportunity for further research to investigate this possibility in other market segments. The order in which brands enter the consideration set may further enhance marketers' understanding of the influence of various brands in consumer decisions.

Although this research has reached its aims, there were some unavoidable limitations. First, because of resource restraints this research was conducted on only a small proportion of the population of home-improvement consumers; to allow an extension of the results to the total population would involve more informants, underpinned by sample randomization. Second, the focus group members were chosen from one regional town, which may alter the conclusions as a consequence of regional influences, such as distance or choice options. Finally, the evaluation of the focus group data was conducted by the author: it is perhaps unavoidable, therefore, that a degree of subjectivity might be found.

Another area for further research is the role that a retailer's brand image plays as a proxy when consumers attribute their beliefs about a retailer to the products and services offered by that retailer. Retailers must consider the implications of not offering the range of brands in the consumer's considered set. Further, for suppliers, the proxy role played by retailer brands may lead to the disappearance of some brands. Consideration of the number of brands within the consumer's consideration set must be available through the retailer in order to prevent the consumer from seeking more information elsewhere. Finally, the roles of new brands, preferred brands and retailer house brands in relation to the consideration set need further study.

Conclusions

Retailer preference introduces the concept of knowledge management as a heuristic that delegates to the retailer part of the purchase decision-making process. Previous research (Lynch et al., 1988; Nedungadi, 1990; Kardes et al., 1993; Lehmann and Pan, 1994; Hsee et al., 1999) proposed that decision-makers do not give consideration to a large set of options. This is the case with these home-improvement consumers, delegating the retailer to make part of their decision, relying on previous knowledge, and engaging the proxy of the retailer brand to reduce the decision burden.

Consideration set formation, in addition to being a choice reduction strategy, is also a risk-reducing strategy. Bauer's (1960, p. 24) proposition was that consumer behaviour involves risk. The two primary structural dimensions were uncertainty and consequences. For the home-improvement consumer, this risk is to their home. Home-improvement customers choose to improve that risk by allowing the retailer to make part of the choice. In this way consumers try to reduce the perceived risks and increase certainty in the pre-purchase stage. Consumers develop risk-handling strategies to reduce the perceived risk until it is below their level of acceptable risk, with the result that they have the intention of purchasing the product and the service (Sheth and Venkatesan, 1968; Dash et al., 1976; Matzler et al., 2008). This study suggests that knowledge management processes and learning organizations can reduce uncertainty, and by extension risk, for innovative consumer choice.

The research supports the notion that choices made by home-improvement consumers are for courses of action with outcomes that are heavily influenced by past learning (Elster and Loewenstein, 1992; Payne et al., 1993). As such they apply the halo concept to that learning, shifting the perceived attributes from the retailer to the products offered by the retailer. Garling et al.'s (1997) review of previous research supports this finding that outcomes of prior decisions influence choices (Thaler and Johnson, 1990), as was the case with these home-improvement consumers. These influences have been described as the effects or integration of prior outcomes, sunk cost effects, multi-stage betting and escalation (Sherman et al., 1978; Carlston, 1980; Higgins and Lurie, 1983; Srull and Wyer, 1989). Given the importance of the consideration set in consumer decision-making, it is anticipated that the current research will contribute to the development of a rich field for further academic research.

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