

# APPENDIX – MARKET ORIENTATION

- 1. BUSINESS ENVIRONMENT..... 3
- 2. STARTING POINT: CLARIFYING THE WORDS..... 3
- 3. BASIC ORIENTATIONS ..... 4
- 4. DEFINITIONS OF MARKET-ORIENTATION..... 4
- 6. EVOLUTION OF MANAGEMENT SYSTEMS ..... 6
- 7. CHARACTERISTICS AND TRENDS IN STRATEGIC MARKET MANAGEMENT..... 7
- 8. ELEMENTS OF BUSINESS STRATEGY..... 7
- 9. FRAMEWORK BASIC STRATEGIES ..... 8
- 10. FIVE FORCES BY PORTER..... 9
- 11. GENERIC STRATEGIES..... 9
- 12. ORIGINS OF POSITIONING..... 10
- 13. BASES OF SUSTAINABLE COMPETITIVE ADVANTAGE ..... 11
- 13. SUSTAINABLE COMPETITIVE ADVANTAGES ..... 11
- 14. THE GENERIC VALUE CHAIN ..... 12
- 16. CUSTOMER VALUE..... 13
- 17. CUSTOMER VALUE AND CUSTOMER SATISFACTION ..... 13
- 18. SUPERIOR CUSTOMER VALUE CREATION..... 14
- 19. CAPABILITIES..... 15
- 20. ENVIRONMENT AND MARKET ORIENTATION..... 16
- 21. ECONOMIC THEORY: RESOURCE-ADVANTAGE THEORY ..... 17
- 22. COMPETITIVE POSITION MATRIX..... 17
- 23. FOUNDATIONAL PREMISES OF R-A THEORY ..... 18
- 24. MO AND ECONOMIC THEORY ..... 18
- 25. MO BEHAVIOURAL CONSTRUCT..... 19
- 26. GENERATING COMPETITIVE INTELLIGENCE..... 20
- 27. BEHAVIOURAL MO AS STRATEGIC INPUT AND CONTROL OF MARKETING PROGRAMS 21
- 28. MARKET ORIENTATION – CULTURAL APPROACH ..... 22
- 29. FROM MARKET-ORIENTATION TO SUPERIOR CUSTOMER VALUE ..... 23
- 30. ONE DIMENSIONAL CONSTRUCT ..... 23
- 31. RELIABILITY ANALYSIS – EFFECT ON PROFITABILITY..... 24
- 32. SYNTHESIS ..... 25
- 33. DIFFERENTIATION MARKET DRIVEN AND MARKET DRIVING ..... 26
- 34. DIMENSION OF MARKET-DRIVING..... 27
- 35. CHANGING THE STRUCTURE ..... 28
- 36. CHANGING THE BEHAVIOUR ..... 29
- 37. EXAMPLE BARNES&NOBLE ..... 30

<b>38. SHAPING INDUSTRIES IN THE NEW ECONOMY.....</b>	<b>30</b>
<b>38. B) EXPLANATION .....</b>	<b>31</b>
<b>39. MARKET OR CUSTOMER DRIVEN .....</b>	<b>31</b>
<b>40. OBSTACLES TO MARKET-DRIVING IN ESTABLISHED FIRMS.....</b>	<b>32</b>
<b>41. PRACTICES TO MARKET DRIVING .....</b>	<b>32</b>
<b>42. EXAMPLE – SONY.....</b>	<b>32</b>
<b>43. CASE STUDY IKEA .....</b>	<b>33</b>
<b>44. LEARNING ORIENTATION .....</b>	<b>36</b>
<b>45. MARKET INFORMATION PROCESSING AND INFORMATIONAL LEARNING .....</b>	<b>37</b>
<b>46. LEARNING PROCESS IN MARKET-DRIVEN FIRMS.....</b>	<b>37</b>
<b>47. OVERVIEW ORGANIZATIONAL LEARNING PROCESS.....</b>	<b>38</b>
<b>48. TYPES OF ORGANIZATIONAL LEARNING .....</b>	<b>38</b>
<b>49. FACILITATORS TO ORGANIZATIONAL LEARNING.....</b>	<b>38</b>
<b>50. CONCEPTS RELATED TO ORGANIZATIONAL LEARNING .....</b>	<b>39</b>
<b>52. SINGLE-LOOP LEARNING VERSUS DOUBLE-LOOP LEARNING .....</b>	<b>39</b>
<b>53. SYSTEM THAT LOOK AT THEMSELVES .....</b>	<b>40</b>
<b>54. EMPIRICAL STUDY ON MANAGERS USE OF MENTAL MODELS.....</b>	<b>41</b>
<b>55. INFLUENCE OF ORGANISATIONAL SUCCESS AND MEMORY ON MARKET INFORMATION PROCESSING.....</b>	<b>41</b>
<b>56. ORGANIZATIONAL LEARNING HIERARCHY .....</b>	<b>42</b>
<b>57. OVERCOMING THE BARRIERS TO RADICAL INNOVATION .....</b>	<b>43</b>
<b>58. FRAMEWORK MAJOR STUDIES 1990 – 2004.....</b>	<b>45</b>
<b>59. ANTECEDENTS OF A MARKET ORIENTATION.....</b>	<b>48</b>
<b>60. EARLY STUDIES – LITTLE SUPPORT FOR MODERATORS .....</b>	<b>49</b>
<b>61. FRAMEWORK – MAJOR EMPIRICAL RESULTS MO/PERFORMANCE/MODERATORS.....</b>	<b>50</b>
<b>62. A) RESEARCH CONSTRUCT AND PERFORMANCE MEASURE.....</b>	<b>51</b>
<b>62. B) ENVIRONMENTAL MODERATORS .....</b>	<b>52</b>
<b>63. C) MAIN EFFECTS OF ENVIRONMENTAL VARIABLES.....</b>	<b>53</b>
<b>64. D) LIMITATIONS OF THE STUDY.....</b>	<b>53</b>
<b>65. RELATIONSHIP MARKET-ORIENTATION - LEARNING-ORIENTATION – ORGANIZATIONAL PERFORMANCE.....</b>	<b>54</b>
<b>66. FRAMEWORK IMPLEMENTATION.....</b>	<b>55</b>

# Appendix

## 1. Business Environment

Declining growth rates  
Deregulation, less protectionism  
Mergers and Acquisitions  
Structural changes (e.g. channels, etc.)  
Global competition  
Shortening product-life cycles  
Less opportunities to benefit from cost and quality advantages in existing markets (excess capacities)  
Environmental concerns  
Changing customer expectations  
Technological discontinuities  
Emerging of trading blocks  
Demographical shifts<sup>2</sup>

- **Dynamic competition**
- **Ever changing market evolution<sup>3</sup>**

## Challenges Facing Marketing<sup>1</sup>

Measuring impact of marketing programmes  
Integrated customer information systems  
Marketing driving market strategy  
Low cost/higher quality competition  
Increasing power of mega-distributors

## 2. Starting Point: Clarifying the words<sup>4</sup>

### Market

- The action or business of buying and selling;
- Sale as controlled by supply and demand; hence, demand (for a commodity)
- Opportunity for buying or selling – ‘To lose one’s market’: to miss one’s chance of doing business. ‘To overstand one’s market’: to stand out about terms till the opportunity is lost.
- A place or seat of trade; a country, district, town, etc. in which there is a demand for articles of trade;

### Orientation

- The action of orienting, or the condition of being oriented or orientated.
- The action or process of ascertaining, or fact of knowing, the position of anything or of oneself in relation to the points of the compass or to objects in general; determination of (one’s) bearing or relative position.

<sup>1</sup> Kotler P. in: Crainer (2004:25)

<sup>2</sup> Jain (2004:32) Hamel (1986:8)

<sup>3</sup> Dickson (1996:106)

<sup>4</sup> The Australian concise Oxford Dictionary

### 3. Basic Orientations<sup>5</sup>

<b>Product Orientation</b>	Assumption: consumers favour the 'best' products Focus: R&D, engineering (technology, quality, etc.)
<b>Production Orientation</b>	Assumption: consumer favour highly available products Focus: production efficiencies, cost minimization, mass distribution (e.g. demand exceeds supply)
<b>Sales Orientation</b>	Assumption: to sell whatever it takes Focus: sales, marketing services sales, advertising and promotions (e.g. public utilities, monopolies)
<b>Customer Orientation</b>	Assumption: listen to the customer Focus: relationship activities, one-two-one marketing

### 4. Definitions of Market-Orientation

“Market orientation is the organizationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organizationwide responsiveness to it.” Kohli, Jaworski (1990:6)

“Market orientation is the organization culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value<sup>6</sup> for buyers and, thus, continuous superior value for buyers and, thus, continuous superior performance for the business.” Narver, Slater (1990:21)

“A business is market-oriented when its culture is systematically and entirely committed to the continuous creation of superior customer value. Specifically, this entails collecting and coordinating information on customers, competitors, and other significant market influencers (such as regulators and suppliers) to use in building that value. The three major components of market orientation - customer orientation, competitor focus, and cross-functional coordination - are long-term in vision and profit-driven.” Slater, Narver (1994:22)

“A market driven culture supports the value of thorough market intelligence and the necessity of functionally coordinated actions directed at gaining a competitive advantage.” Day (1994:43)

“Market orientation — the generation of appropriate market intelligence pertaining to current and future customer needs, and the relative abilities of competitive entities to satisfy these needs; the integration and dissemination of such intelligence across departments; and the co-ordinated design and execution of the organization’s strategic response to market opportunities.” Deng, Dart (1994:726)<sup>7</sup>

<sup>5</sup> Kumar (2000:132) Kotler (2001:15) Noble (2002:25) Piercy (2000:63-69)

<sup>6</sup> Difference between perceived benefits and total acquisition and use costs, also compare Kotler (App.)

<sup>7</sup> Gray (1999:233)

“... the culture that (1) places the highest priority on the profitable creation and maintenance of superior customer value while considering the interests of other key stakeholders; and (2) provides norms for behavior regarding the organizational development of and responsiveness to market information. Slater, Narver (1995:67)

“... a market orientation is (1) the systematic gathering of information on customers and competitors, both present and potential, (2) the systematic analysis of the information for the purpose of developing market knowledge, and (3) the systematic use of such knowledge to guide strategy recognition, understanding, creation, selection, implementation, modification.” Hunt, Morgan (1995:11)

“Market orientation describes a set of organized internal and boundary spanning processes that enable the firm to learn about, respond to, and lead changes in consumer, channel, and competitor behaviour.” Dickson (1996:104)

“We defined market orientation as the extent to which firms use information about their stakeholders to coordinate and implement strategic actions. Hence, our theoretical model of market orientation expands this construct’s traditional definitions by integrating the distributor orientation and the environmental orientation. We believe that traditional definitions devalue the interfunctional conflict generated by restricting market orientation to the marketing function.” Lado, Maydeu-Olivares, Rivera (1996:34)

“Market Orientation is not a “culture” (as Deshpande and Webster originally suggested in 1989) but rather a set of “activities” (i.e., a set of behaviors and processes related to continuous assessment and serving of customer needs). (...)Market Orientation focuses on (potential and current) customer related activities rather than non-customer related behaviors (e.g., collecting intelligence on competitors). (...) Hence, we can now define Market Orientation as “The set of cross functional processes and activities directed at creating and satisfying customers through continuous needs-assessment”. Deshpande, Farley (1998:226)

“The characteristics of market-driven strategies include (1) developing a shared vision about the market and how it is expected to change in the future; (2) selecting avenues for delivering superior value to customers; (3) positioning the organization and its brands in the marketplace using distinctive competencies; (4) recognizing the potential value of collaborative relationships with customers, suppliers, distribution channel members, internal functions, and even competitors; and (5) reinventing organizational designs to implement and manage future strategies.” Cravens, Greenley, Piercy, Slater (1998a:237)

“Organizational behaviours concerned with identifying customers’ needs and competitors’ actions, sharing market information throughout the organization, and responding to it in a co-ordinated, timely and profitable manner.” Gray, Greenley, Matheson (1999:234)

Market Orientation is the “extend to which a firm’s strategic planning process is dependent on the outcome of market information acquisition, dissemination, and interpretation activities about customers, competitors, channel members and strategic partners.” Baker, Sinkula (2002:7)

“Market orientation is the implementation of a corporate culture or philosophy which encourages behaviours aimed at gathering, disseminating and responding to information on customers, competitors and the wider Market-Orientation – Appendix, Benjamin Teeuwsen (2004)

environment in ways that add value for shareholders, customers and other stakeholders.” Gray, Hooley (2002:981)

## 5. Conceptions about Strategy

“Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.” Porter (1996:64)

“... strategy development needs to be driven by the market and its environment rather than being internally oriented. [...] the process should be proactive rather than reactive, and the task should rather be to try to influence the environment in addition to simply responding to it ...” Aaker (1992:12)

“Strategy in a firm is the pattern of major objectives, purposes, or goals and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.” Jain (2004:9)

“At the corporate level, strategy is mainly concerned with defining the set of businesses that should form the company’s overall profile. Corporate strategy seeks to unify all the business lines of a company and point them toward an overall goal. At the business level, strategy focused on defining the manner of competition in a given industry or product/market segment.” Jain (2004:9)

„To create an SCA, a strategy needs to be valued by the market and supported by assets and competences that are not easily copied or neutralized by competitors. The most common SCAs are quality reputation, customer support, and brand name.” Aaker (2001:152)

## 6. Evolution of Management Systems<sup>8</sup>

Time Frame	1900s	1950s	1970s	1900s
Focus	Budgeting	Long-Range Planning	Strategic Planning	Strategic Market Management
Management	Control deviations and manage complexity	Anticipate growth and manage complexity	Change strategic thrust and capability	Cope with strategies surprises and fast-developing threats/opportunities
Paradigm	The past repeats	Past trends will continue	New trends and discontinuities are predictable	Real time

<sup>8</sup> Aaker (2001:10)  
Market-Oriented – Appendix, Benjamin Teeuwssen (2004)

## 7. Characteristics and Trends in Strategic Market Management<sup>9</sup>

<b>External Market Orientation</b>	Developing strategies sensitive to customers, competitors, markets, environment
<b>Proactive Strategies</b>	Rather influencing than reacting to environmental forces
<b>Importance of the Information System</b>	How to process which information most efficient and effective
<b>Knowledge Management</b>	Key asset increasingly knowledge, challenge to store and share most effectively
<b>On-Line Analysis and Decision Making</b>	Continuous information gathering, analysis and response rather than long-term planning cycles
<b>Entrepreneurial Trust</b>	Seeking opportunities, creating climate for innovation
<b>Implementation</b>	Successful implementation requires fit between strategy and organization required
<b>Global Realities</b>	Direct and indirect opportunities and threats
<b>Longer Time Horizon</b>	Perspective rather than short-term objectives
<b>Empirical Research</b>	Increasing results about strategies and relationships available
<b>Interdisciplinary Developments</b>	Disciplines increasingly overlap (e.g. management, organizational behaviour and marketing), key role of interdisciplinary coordination

## 8. Elements of Business Strategy – Aaker (2001:6)

<b>Product-Market Investment Decision</b>	<b>Functional Area</b>	<b>Basis of SCAs</b>
<ul style="list-style-type: none"> <li>- Product-market scope</li> <li>- Investment intensity</li> <li>- Resource allocation over business units</li> <li>- Etc.</li> </ul>	<ul style="list-style-type: none"> <li>- Product</li> <li>- Price</li> <li>- Distribution</li> <li>- Communication</li> <li>- Segmentation</li> <li>- Etc.</li> </ul>	<ul style="list-style-type: none"> <li>- Assets/competencies</li> <li>- Synergies</li> <li>- Etc.</li> </ul>

<sup>9</sup> Aaker (2001:12)  
Market-Orientation – Appendix, Benjamin Teeuwesen (2004)

## 9. Framework Basic Strategies – Hunt (2002:268-272, 279-280)

Focus	Major contributors	Assumption
<b>Fit</b> 'internal + external'	Kenneth Andrews et al. 1971, 1990, 1987; Christianson et al. 1982; Learned et al. 1965	Match between internal strength and weaknesses (resources, skills) with external opportunities and threats (environment)
<b>Industry-based</b> 'external'	Porter 1980, 1985	Five forces determine profitability of industry  Strategy: 1) choose best industry / alter structure (barriers, bargaining power) 2) choose generic strategy (cost leadership, differentiation, focus) 3) manage internal activities (value chain)
<b>Resource-based</b> 'internal'	Edith Penrose 1959, Lippman and Rumelt 1982, Rumelt 1984, Wernerfelt 1984, Diericks and Cool 1989, Barney 1991, 1992, Conner 1991	Resources are a 'bundles of possible services that an entity can provide' <sup>10</sup>  Resources are significantly heterogeneous ('every firm has an assortment of resources that is at least in some way unique' <sup>11</sup> ) and imperfectly mobile (heterogeneity persists over time)  Strategy: 'seek resources that are valuable, rare, imperfectly mobile, inimitable, nonsubstitutable' <sup>12</sup>
<b>Competence-based</b> 'internal'	Selznick 1957, Andrews 1971, Chandler 1990, Hamel and Prahalad 1989, 1994, Reed and DeFillippi 1990, Lado, Boyd, Wright 1992, Teece and Pisano 1994, Aaker 1995, Bharadadwaj, Varadarajan, Fahy 1993, Day and Nedungadi 1994, Hamel and Heene 1994, Heene and Sanchez 1997, Sanchez, Heene, Thomas 1996, Sanchez and Heene 1997, 2000	Focus on 'distinctive competence' (socially/technologically complex and interconnected combinations of resources), leads to competitive advantage through more effectively employed resources, competitiveness requires foresight and key strategic goals to allocate resources; organizational competences can be tangible and intangible (may not owned by the firm), renewal resources (higher order learning, anticipation -> prompt proactive innovation)  Strategy: 'identify, seek, develop, reinforce, maintain, and leverage distinctive competences' <sup>13</sup>

<sup>10</sup> Hunt (2002:271)

<sup>11</sup> Hunt (2002:271)

<sup>12</sup> Hunt (2002:271)

<sup>13</sup> Hunt (2002:272)

<b>10. Five Forces by Porter</b>	
<b>New Entrants</b>	Entry barriers (economies of scale, proprietary product differences, brand identity, switching costs, capital requirements, access to distribution, absolute cost advantages)
<b>Suppliers</b>	Differentiation of inputs, switching costs, concentration, volume, threat of integration
<b>Buyers</b>	Bargaining leverage (concentration, volume, switching costs, buyer information, threat of backward integration, substitutes) Price sensitivity (price/total purchases, product differences, brand identity, impact on quality, buyer profits)
<b>Substitutes</b>	Relative price performance of substitutes, switching costs, buyer propensity to substitute
<b>Competitors</b>	Industry growth, fixed costs, value added, capacity, product differences, brand identity, switching costs, concentration, informational complexity, diversity, exit barriers

“The five forces determine industry profitability because they influence the prices, costs, and required investment of firms in an industry – the elements of return on investment.” Porter (1985:5)

“In any particular industry, not all of the forces will be equally important and the particular structural factors that are important will differ.” Porter (1985:7)

### 11. Generic Strategies – Porter (1985:12)

		<b>Competitive Advantage</b>	
		<b>Differentiation</b>	<b>Lower Cost</b>
<b>Competitive Scope</b>	<b>Broad Target</b>	<b>Differentiation</b>	<b>Cost Leadership</b>
	<b>Narrow Target</b>	<b>Focus</b>	
		Niche Market	Efficiency

“The notion underlying the concept of generic strategies is that competitive advantage is at the heart of any strategy, (...) if a firm is to attain a competitive advantage, it must make a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it. Being “all things to all people” is a recipe for strategic mediocrity and below-average performance, because it often means that a firm has no competitive advantage at all.” Porter (1985:12)

“The firm has a broad scope and serves many industry segments, and may even operate in related industries – the firm’s breadth is often important to its cost advantage”. Porter (1985:12)

“In a differentiation strategy, a firms seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyer in an industry perceive as important, and uniquely positions itself to meet those needs.” Porter (1985:14)

“Cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments. Such differences imply that the segments are poorly served by broadly-targeted competitors who serve them at the time as they serve others. The focuser can thus achieve competitive advantage by dedicating itself to the segments exclusively.” Porter (1985:15)

**NOTE:**

“The generic strategies remain useful to characterize strategic positions at the simplest and broadest level (...) The bases for positioning – varieties, needs, and access – carry the understanding of those generic strategies to a greater level of specificity.” Porter (1996:67)

**12. Origins of Positioning – Porter (1996:66-68)**

<b>Variety-based positioning</b>	<b>Access-based positioning</b>	<b>Needs-based positioning</b>
Offering a subset of products or services, based on the choice of product or service varieties rather than customer segments.  e.g. Neutrogena: “Kind to the skin” residue-free soap formulated for pH balance	Focus on customer segments, who are accessible in different ways.  e.g. Carmike Cineams: Movie theatres exclusively in cities and towns with populations under 200,000	Tailored activities to serve a specific group of customers (different needs) best.  e.g. Southwest Airlines: Low-cost and low-service

**13. Bases of Sustainable Competitive Advantage - Aaker (2001:134)**

Way of Competition	Basis of Competition	Place of Competition	Competition itself
Product Strategy	Assets and competencies	Product-market selection	Competition selection
Positioning Strategy			
Manufacturing Strategy			
Distribution strategy			

**13. Sustainable Competitive Advantages – Study of 248 Businesses – Aaker (2001:137)**

		High-Tec	Service	Other	Total
1.	Reputation for quality	26	50	29	105
2.	Customer service/product support	23	40	15	78
3.	Name recognition/high profile	8	42	21	71
4.	Retain good management and engineering staff	17	43	5	65
5.	Low-cost production	17	15	21	53
6.	Financial resources	11	26	14	51
7.	Customer orientation/feedback/market research	13	26	9	48
8.	Product-line breadth	11	23	13	47
9.	Technical superiority	30	7	9	46
10.	Installed base of satisfied customers	19	22	4	45
11.	Segmentation/focus	7	22	16	45
12.	Product characteristics/differentiation	12	15	10	37
13.	Continuing product innovation	12	17	6	35
14.	Market share	12	14	9	35
15.	Size/location of distribution	10	11	13	34
16.	Low price/high-value offering	6	20	6	32
17.	Knowledge of business	2	25	4	31
18.	Pioneer/early entrant in industry	11	11	6	28
19.	Efficient, flexible production/operations adaptable to customers	4	17	4	25
20.	Effective sales force	10	9	4	23
21.	Overall marketing skills	7	9	7	23
22.	Shared vision/culture	5	13	4	22

23.	Strategic goals	6	7	9	22
24.	Powerful well-known parent	7	7	6	20
25.	Location	0	10	10	20
26.	Effective advertising/image	5	6	6	17
27.	Enterprising/entrepreneurial	3	3	5	11
28.	Good coordination	3	2	5	10
29.	Engineering research and development	8	2	0	10
30.	Short-term planning	2	1	5	8
31.	Good distribution relations	2	4	1	7
32.	Other	6	20	5	31
Total		315	539	281	1,135
Businesses		68	113	67	248
Average SCAs		4.63	4.77	4.19	4.58

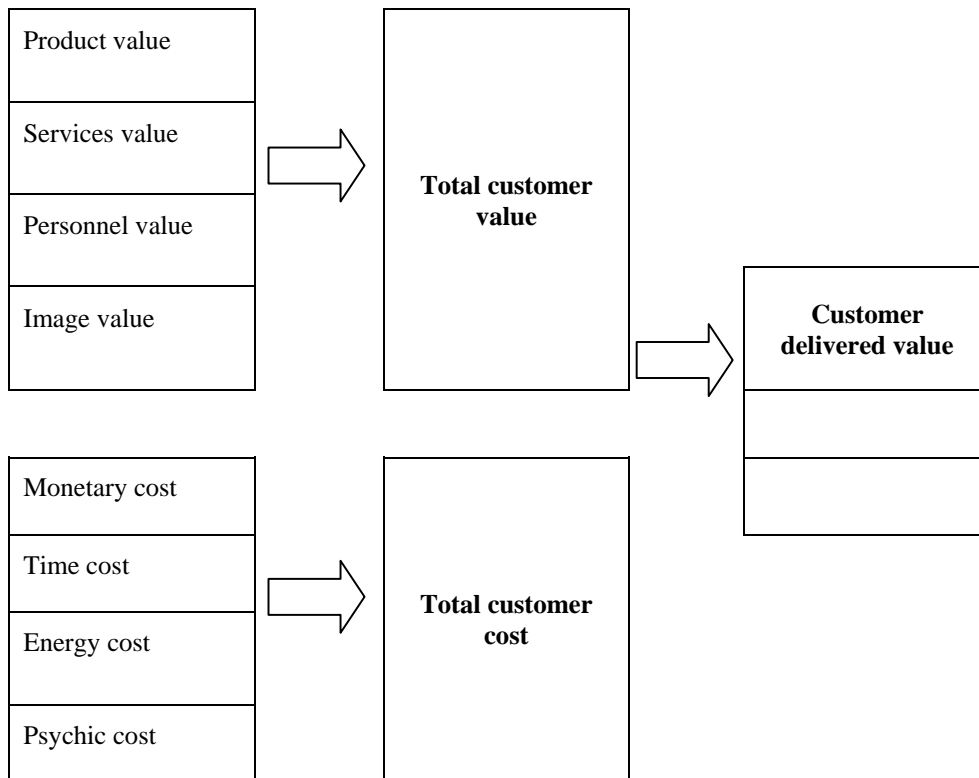
#### 14. The Generic Value Chain – Porter (1985:37)

<i>Firm infrastructure</i>				
Human Resource Management				
Technology Management				
Procurement				
Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service

“Value activities can be divided into two broad types, primary activities and support activities. Primary activities, listed along the bottom [...], are activities involved in the physical creation of the product and its sale and transfer to the buyer as well as aftersale assistance. [...] Support activities support the primary activities and each other by providing purchased inputs, technology, human resources, and various firmwide functions. [...] Firm infrastructure is not associated with particular primary activities but supports the entire chain.” Porter (1985:38)

**16. Customer Value – Kotler (2001:657-659)**

<b>Customer delivered value</b>	<b>Total customer value</b>	<b>Total customer cost</b>
The customer’s assessment of the product’s overall capacity to satisfy his or her needs. The difference between total customer value and total customer cost of a marketing offer – ‘profit’ to the customer.	The total of all of the product, services, personnel and image values that a buyer receives from a marketing offer.	The total of all the monetary, time, energy and psychic costs associated with a marketing offer.



**17. Customer Value and Customer Satisfaction - Kotler (2001:680)**

“Customer satisfaction is the outcome felt by buyers who have experienced a company performance that has fulfilled expectations. “

“Customers are satisfied when their expectations are met, and delighted when their expectations are exceeded.”

“Satisfied customers remain loyal longer, buy more, are less price sensitive and talk favourably about the marketing organization.”

**18. Superior Customer Value Creation – Piercy (2000:65)**

<b>Superior Customer Value</b>	<b>Capabilities, skills and resources</b> (“what we are good at doing, that matters to the customer”)
	<b>Customer benefit focus</b> (“how we concentrate on doing things that matter to the customer”)
	<b>Organizational change in processes</b> (“to do things the way customers want”)
	<b>Commitment and service</b> (“what the customer finds when dealing with us”)
	<b>Innovation and change</b> (“to get better at doing the things that matter and to find new ways of ‘delighting’ customers”)
	<b>Listening to customers and learning what increases value</b>

**19. Capabilities** – George Day 1994/1999

“Capabilities are complex bundle skills and accumulated knowledge, exercised through organizational processes, that enable firms to coordinate activities and make use of their assets.”

- Component of resource-based view of the firm (assets and capabilities), which bases a firm's competitiveness on ‘integrated combination of assets and capabilities’
- Capabilities ‘cannot be given a value’ and ‘cannot be traded’  
‘... it is the capability that enables the activities in a business process to be carried out’<sup>14</sup>
- ‘Skills and accumulated knowledge’ ‘Enable the activities in a business to be carried out’<sup>15</sup>

**Distinctive Capabilities**

- A tightly integrated bundle of complementary skills, technology and knowledge that enables team or group to execute one or more critical processes much better than the competition.<sup>16</sup>  
(e.g. MC Donald’s ‘unparalleled consistency of service delivery’)

**Out-side in processes**

- ‘connect the processes that define the other organizational capabilities to the external environment’
- market sensing
- customer linking
- channel bonding
- technology monitoring
- e.g.

**Spanning processes**

- ‘integrated inside-out and outside-in capabilities’
- order fulfilment, service
- pricing
- purchasing
- NPD
- strategy development
- Roles:**<sup>17</sup>
- emphasis on external objectives
- coordinated activities
- shared information

**Inside-out processes**

- ‘externally activated’
- financial management
- cost control
- R&D
- Integrated logistics
- manufacturing
- HR management
- e.g.<sup>18</sup>

**Capabilities of Market-Driven Companies**

**Market Sensing Capabilities**<sup>19</sup>

Process:

- Information acquisition (‘open-minded enquiry’)
- Information Distribution
- Interpretation
- Information Utilization
- Evaluation of Outcomes
- Interplay with org. memory and mental models

**Market Relating Capabilities**<sup>20</sup>

‘creating and managing close customer relationships’

Elements:

- Customer relationship orientation
- Integration and alignment of processes
- Knowledge and skills
- Monitoring (e.g. TQM)

<sup>14</sup> Day (1994:38)

<sup>15</sup> Day (1994:40)

<sup>16</sup> Day (1999:63) Capabilities ‘that spawn and support multiple lines of business’ are referred to as core competencies. Day (1994:39)

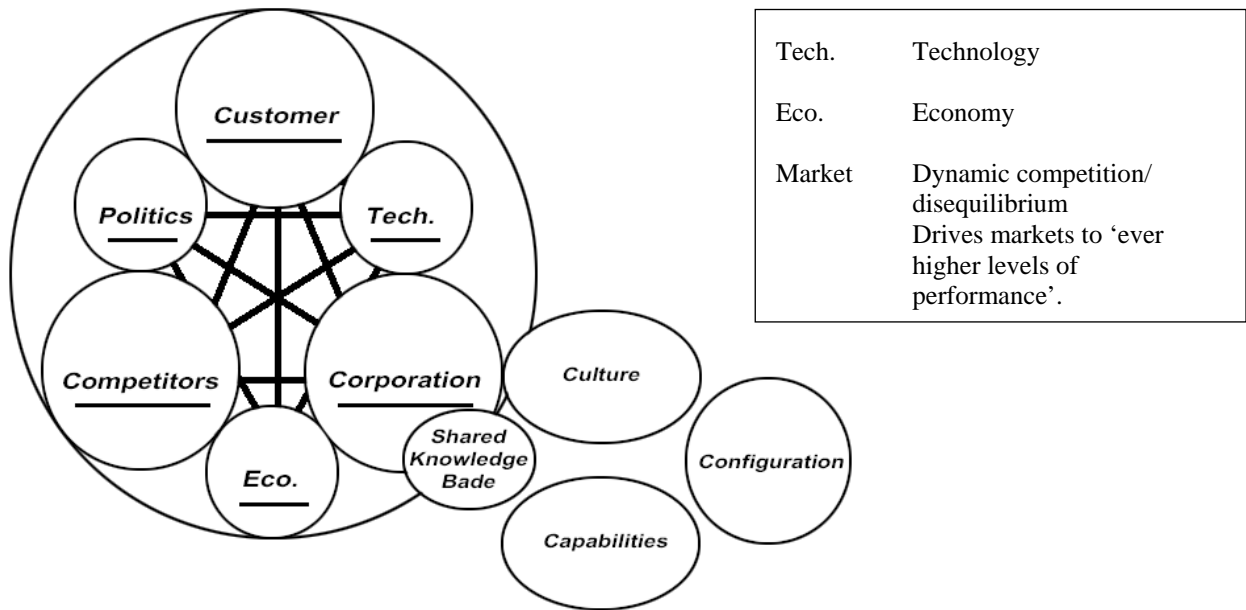
<sup>17</sup> Day (1994:42)

<sup>18</sup> Day (1994:40-41)

<sup>19</sup> Day (1994:43-44)

<sup>20</sup> Day (1994:44) Day (1999:128)

**20. Environment and Market Orientation** – Day (1999:15) Jain (2004:27) Dickson (1996:106)



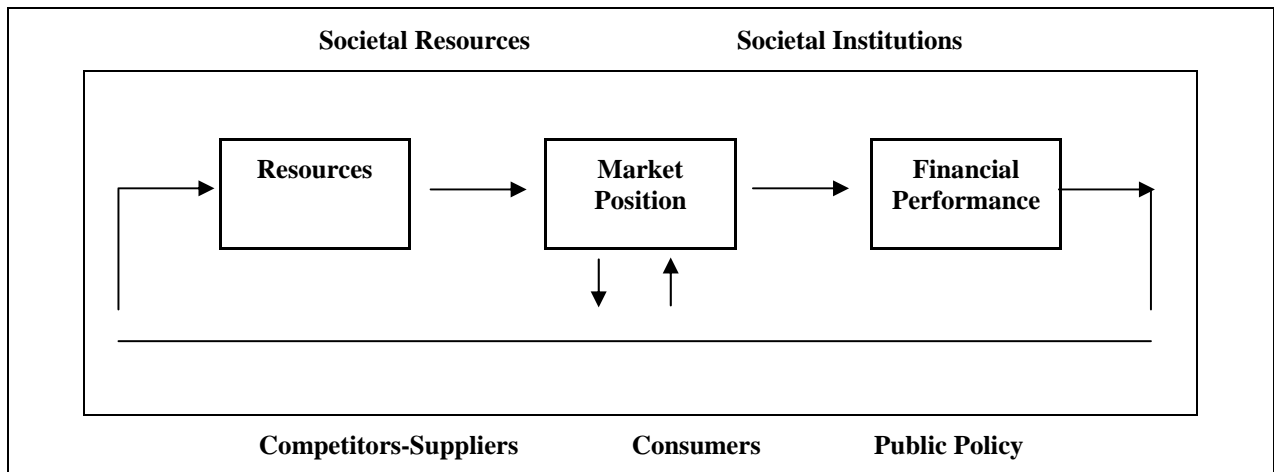
<b>Culture</b>	Externally oriented
<b>Capabilities</b>	- Market sensing - Market relating - Strategic thinking
<b>Configuration</b>	- Focus on superior customer value - Coherence of structure and systems - Adaptability
<p>→ 'Superior ability to understand markets'</p> <p>→ 'Superior ability to attract and keep customers',<sup>21</sup></p>	

“Organizational elements that work together supportively in a market-driven organization:

Externally oriented culture, capabilities for market sensing and market relating, configuration that aligns vertical functions and horizontal processes.” (Day, 1999:x)

<sup>21</sup> Day (1999:15)  
Market-Orientation – Appendix, Benjamin Teeuwsen (2004)

## 21. Economic Theory: Resource-Advantage Theory - Hunt (1997:78)



*“Competition is the disequilibrating, ongoing process that consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage, and, thereby, superior financial performance. Firm learn through competition as a result of feedback from relative financial performance ‘signaling’ relative market position, which, in turn signals relative resources.” Hunt (1997:78)*

## 22. Competitive Position Matrix - Hunt (1995:7)

		Relative Resource-Produced Value			
		Lower	Parity	Superior	
Relative Response Costs	Lower	Indeterminate position	Competitive advantage	Competitive advantage	“The marketplace position of competitive advantage as cell 3 [superior value/lower cost] results from the firm, relative to its competitors, having a resource assortment that enables it to produce an offering for some market segment(s) that (a) is perceived to be of superior value and (b) is produced at lower cost.” Hunt (1995:7)
	Parity	Competitive disadvantage	Parity position	Competitive advantage	
	Higher	Competitive disadvantage	Competitive disadvantage	Indeterminate position	

<b>23. Foundational Premises of R-A Theory – Hunt (1995:3)</b>
Demand is heterogeneous across industries, heterogeneous within industries, and dynamic.
Consumer information is imperfectly and costly.
Human motivation is constrained self-interest seeking.
The firm's objective is superior financial performance.
The firm's information is imperfect and costly.
The firm's resources are financial, physical, legal, human, organizational, informational, and relational
Resource characteristics are heterogeneous and imperfectly mobile.
The role of management is to recognize, understand, create, select, implement, and modify strategies.
Competitive dynamics are disequilibrium-provoking, with innovation endogenous.

	<b>24. MO and Economic Theory – Hunt (2002:281-282)</b>
<b>Premise</b>	<ol style="list-style-type: none"> <li>1) Systematically information acquisition (present and potential customers, competitors)</li> <li>2) Coordinated use of information (strategy formulation, implementation, modification)</li> </ol>
<b>R-A Theory</b> - Firm's information is imperfect and costly - Information can be resource	<p><u>Advantage depends on relative value/relative cost ratio</u></p> <p>Superior knowledge and its correct use for strategy formulation and action can improve the market position. However if the information acquisition is too costly, the firm will face disadvantage.</p>
<b>Competence-based Strategy</b> - MO as resource	<p><u>Advantage depends on utilization, innovation depends on renewal resources</u></p> <p>MO as tangible (it-systems, etc.) and intangible (policies encouraging MO, skills to utilize information effectively) organizational resources</p> <p>MO as renewal competence (learning, foresight, ...) can 'prompt proactive innovation by enabling firms to anticipate potential market segments, envision market offerings ...'<sup>22</sup></p>

→ The R-A Theory aims to contribute to the strategy dialog started by Day

→ It is based on basic contemporary theories (resource-based theory, competitive advantage, differential advantage) and explains key macro and micro phenomena better than the neoclassical theory. Hunt (1995:1)

<sup>22</sup> Hunt (2002:282)  
Market-Oriented – Appendix, Benjamin Teeuwen (2004)

**Criticism:**

→ Model is not dynamic enough (Dickson 1996:102)

→ Heterogeneity in rates of change (variance in individual and market learning of both demand and supply) of demand and supply rather than heterogeneity in demand and supply;

→ “What the theory of competitive rationality recognizes is that heterogeneity in rates of change of demand and supply across buyers and suppliers creates an ever changing diversity that moves market toward ever higher levels of performance.” (Dickson 1996:106)

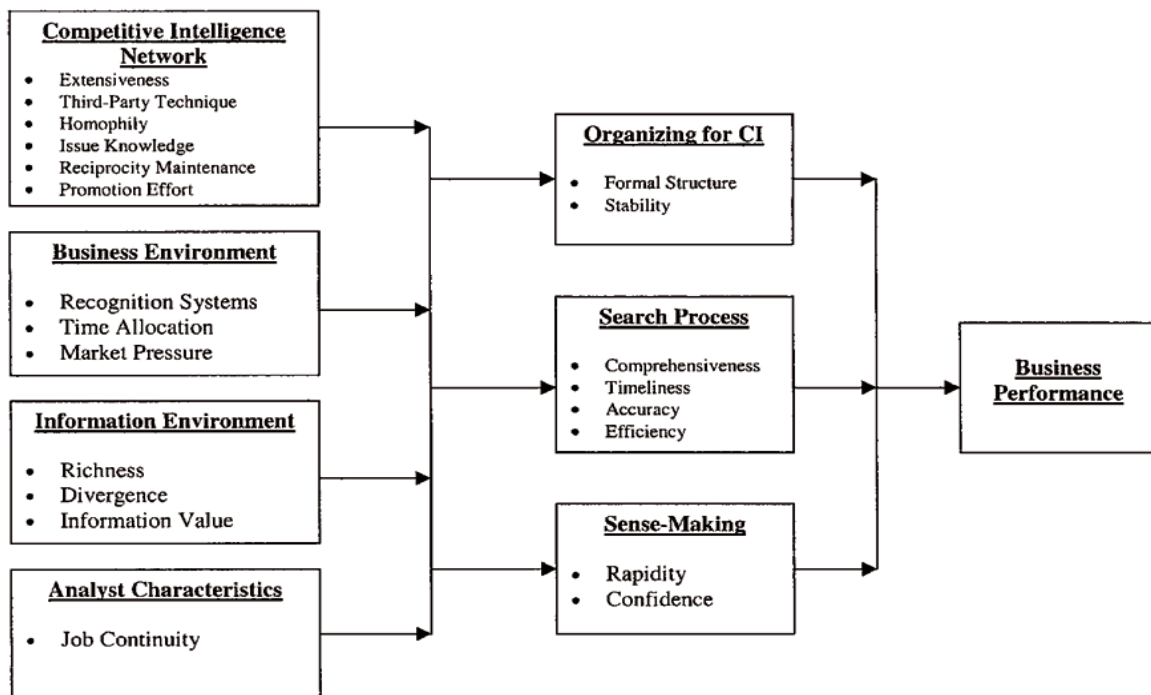
**25. MO Behavioural Construct** - Kohli and Jaworski (1990)

<b>Intelligence generation</b> (collection & assessment)	<b>Intelligence dissemination</b> (process & extend of exchange)	<b>Responsiveness</b> (action)
<ul style="list-style-type: none"><li>- customer needs, preferences (including future predictions)</li><li>- exogenous market forces (competition, regulations, technology, environmental forces)</li><li>- multi departmental engagement</li></ul>	<ul style="list-style-type: none"><li>- horizontal + vertical (formal and informal)</li><li>- “shared basis for concerted actions”<sup>23</sup> (communication increases the ability to adapt to the market)</li></ul>	<ul style="list-style-type: none"><li>- organization-wide</li><li>- planning (e.g. segmentation, selecting target markets and anticipating needs)</li><li>- execution (e.g. marketing management, 4 P’s)</li><li>- Matter of speed and coordination</li></ul>

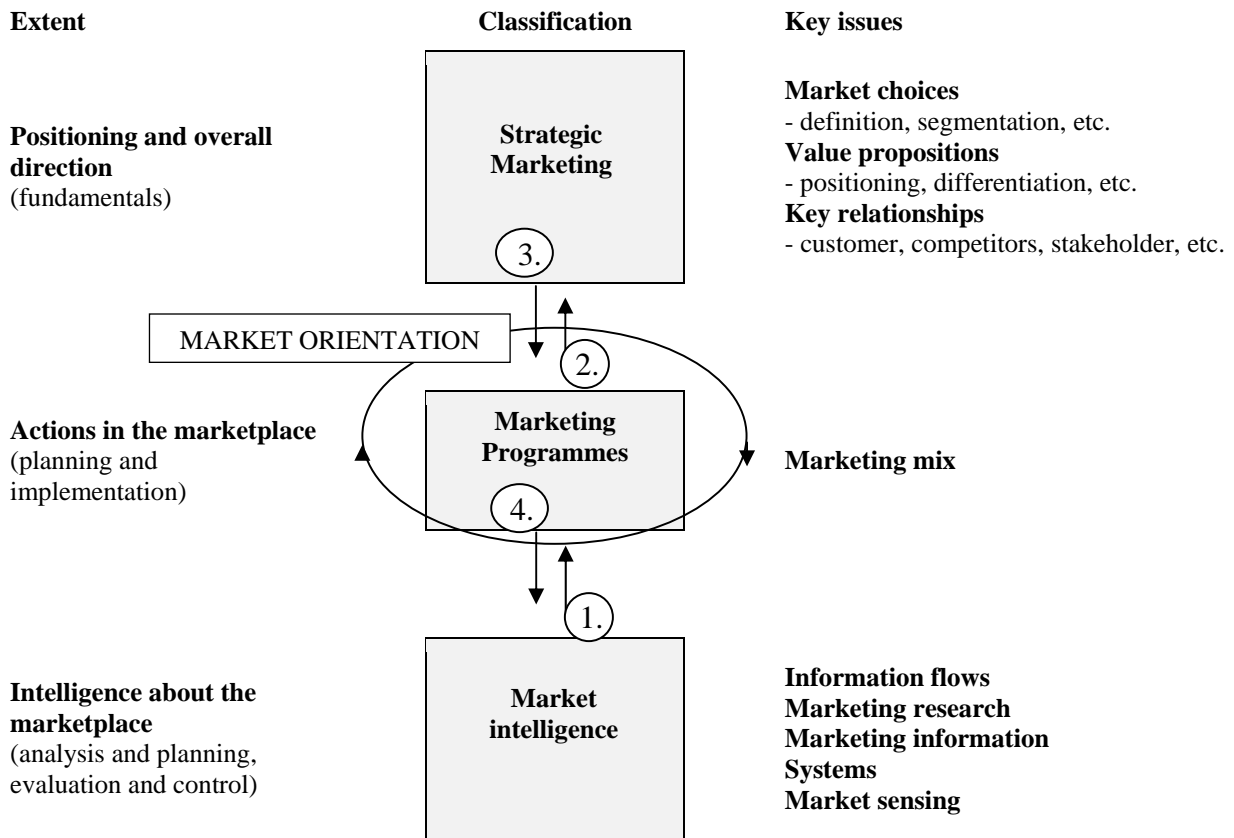
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<sup>23</sup> Jaworski (1990:5)  
Market-Orientation – Appendix, Benjamin Teeuwesen (2004)

## 26. Generating Competitive Intelligence - Jaworski (2000:283)



## 27. Behavioural MO as Strategic Input and Control of Marketing Programs



Framework 'Strategic Marketing, Marketing Programmes and Marketing Intelligence' in: Piercy (2000:139)

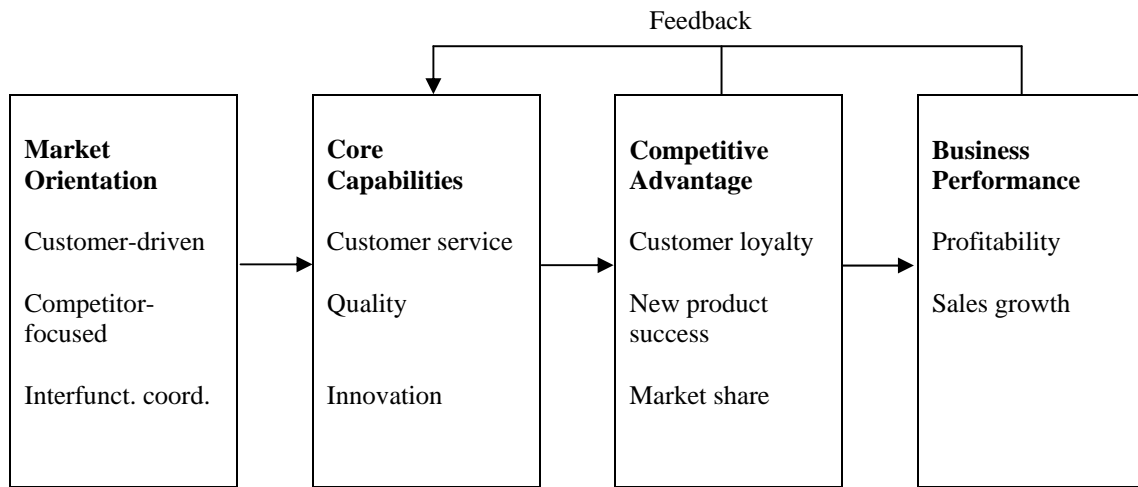
- 1.) Information acquisition
- 2.) Information dissemination and interpretation
- 3.) Strategy formulation and planning
- 4.) Action Control (Information acquisition)

**28. Market Orientation – Cultural Approach** - Narver, Slater 1990 (20-22); Slater, Narver 1994 (22-24)

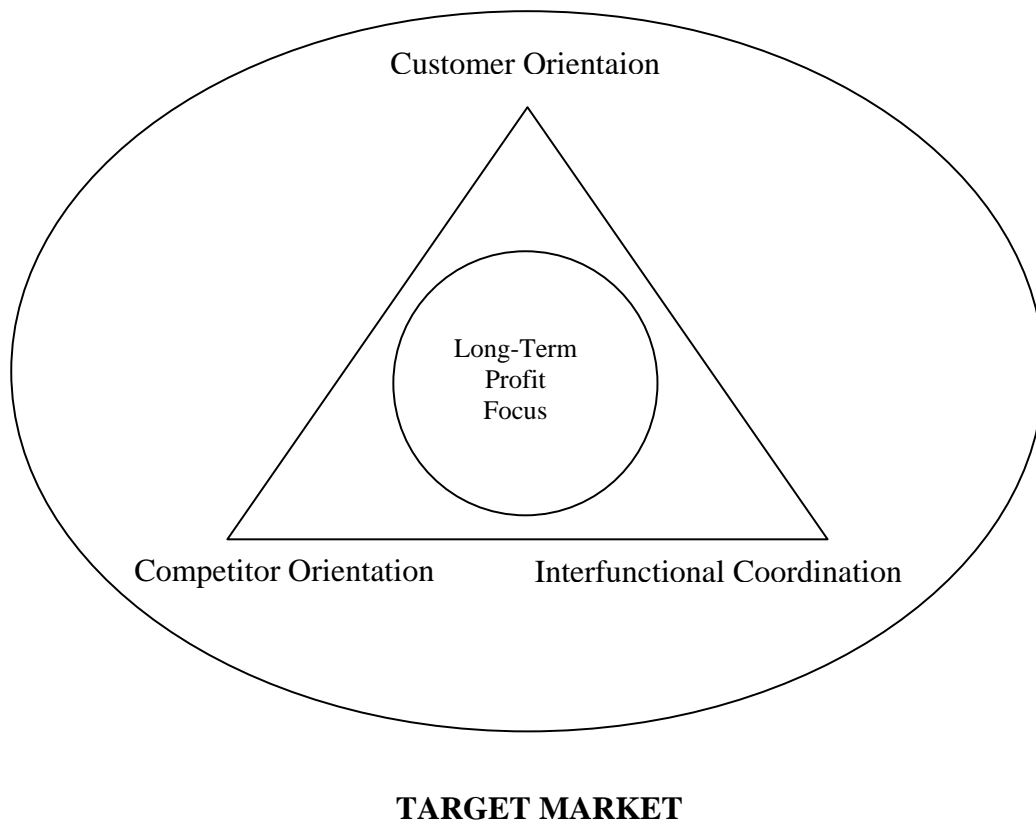
<b>Behavioural</b>		
Customer orientation	Competitor orientation	Interfunctional coordination
Mainly value creation, which requires constant search for and implementation of value by also anticipation changes caused by market dynamics	Short term strength and weaknesses, long-term capabilities	Value creation at any point in the value chain - compare porter 1985;  Responsibility of the entire organization
Slater 1994		
<ul style="list-style-type: none"> <li>- Heart of a MO</li> <li>- Understanding of customer's value chain (including future prediction), cost and revenue dynamics of linked markets</li> <li>- Employee – Customer interaction</li> <li>- Customer relationships</li> </ul>	<ul style="list-style-type: none"> <li>- Who competes?</li> <li>- Technologies</li> <li>- Customer perception of competitors' value offerings</li> <li>- Competitive intelligence</li> <li>- interfunctional responsibility</li> </ul>	<ul style="list-style-type: none"> <li>- Interfunctional acquisition and assessment</li> <li>- Shared diagnosis and coordinated action (Porter 85)</li> <li>- horizontal structures</li> <li>- interfunctional teams (opportunity identification, market research, product design)</li> </ul>

<b>Decision-Criteria</b>	
Long-term focus	Profitability
Logical consequence of competitive markets	In contrast to Jaworski and Kohli, the authors hold profitability not as an objective of a business, therefore consisting to a MO, but being viewed separately as a non behavioural element

**29. From Market-Orientation to Superior Customer Value (Slater1994:26)**



**30. One dimensional Construct – Narver (1990:23)**



The equally important behavioural components sustain value creation and finally lead to long-term performance.

<b>31. Reliability Analysis – Effect on Profitability</b> Narver (1990:24)	<b>Cronbach Alpha</b>
<b>Customer Orientation</b>	<b>.8675</b>
<ul style="list-style-type: none"> <li>- Customer commitment</li> <li>- Create customer value</li> <li>- Understand customer need</li> <li>- Customer satisfaction objectives</li> <li>- Measure customer satisfaction</li> <li>- After-sales service</li> </ul>	
<b>Competitor Orientation</b>	<b>.7271</b>
<ul style="list-style-type: none"> <li>- Salespeople share competitor information</li> <li>- Respond rapidly to competitors' strategies</li> <li>- Top managers discuss competitors strategies</li> <li>- Target opportunities for competitive advantage</li> </ul>	
<b>Interfunctional Coordination</b>	<b>.7348</b>
<ul style="list-style-type: none"> <li>- Interfunctional customer calls</li> <li>- Information share among function</li> <li>- Functional integration in strategy</li> <li>- All functions contribute to customer value</li> <li>- Share resources with other business units</li> </ul>	
<b>Long-term Horizon</b>	<b>.4080</b>
<ul style="list-style-type: none"> <li>- Quarterly profits are primary objective</li> <li>- Require rapid payback</li> <li>- Positive margin in long term</li> </ul>	
<b>Profit Emphasis</b>	<b>.0038</b>
<ul style="list-style-type: none"> <li>- Profit performance measured market by market</li> <li>- Top managers emphasize market performance</li> <li>- All products must be profitable</li> </ul>	

## 32. Synthesis

### Kohli, Jaworski 1990

#### → Behaviours necessary to respond appropriately.

*“Market orientation is the organizationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organizationwide responsiveness to it.”<sup>24</sup>*

#### Behavioural aspect:

- 1) Systematic market intelligence on Customer (current and potential) Competitor Environment
- 2) Organization-wide Information distribution
- 3) Action (response)<sup>27</sup>

#### Implications:

- 1) External orientation, adaptation to and anticipation of market requirements<sup>28</sup>
- 2) Shared interpretation, prerequisite for ‘mutually informed mental models’<sup>29</sup>
- 3) Implementation of the marketing concept<sup>30</sup>

### Narver, Slater 1990

#### → Culture that evokes necessary behaviour to create superior value.

*“Market orientation it the organization culture that most effectively and efficient creates the necessary behaviours for the creation of superior value<sup>25</sup> for buyers and, thus, continuous superior value for buyers and, thus, continuous superior performance for the business.”<sup>26</sup>*

#### Behavioural aspect:

- 1) Customer Orientation (current and potential) Competitor Orientation
- 2) Interfunctional Coordination
- 3) Culture, that is sensitive for customer value<sup>31</sup>

#### Implications:

- 1) External Orientation
- 2) Fit of activities<sup>32</sup> (reinforcement) antecedent for MO/performance rel.
- 3) Culture guides behaviour, strategic implication<sup>33</sup>

**“A market-driven culture supports the value of thorough marketing intelligence and the necessity of functionally coordinated action directed at gaining a competitive advantage. An absence of these shared beliefs and values would surely compromise the activity patterns advocated by the behavioural perspective.”<sup>34</sup>**

<sup>24</sup> Kohli (1990:6)

<sup>25</sup> Difference between perceived benefits and total acquisition and use costs, also compare Kotler (App.)

<sup>26</sup> Narver (1990:21)

<sup>27</sup> Kohli (1990:4)

<sup>28</sup> Day (1994:41,43)

<sup>29</sup> Sinkula (1994:36) Day (1994a:17) Day (1994:44)

<sup>30</sup> Kohli (1990:16)

<sup>31</sup> Narver (1990:21)

<sup>32</sup> Porter (1996:73)

<sup>33</sup> Deshpande (1989:4) Noble (2002:26)

<sup>34</sup> Day (1004:43)

### **33. Differentiation Market Driven and Market Driving**

„ ... marketing ist he art and science of creating change (disequilibrium) in markets in such a way that the change benefits the firm (or an alliance of firms), and consequently comparatively ,disadvantages' rivals.“ Dickson (1996:102)

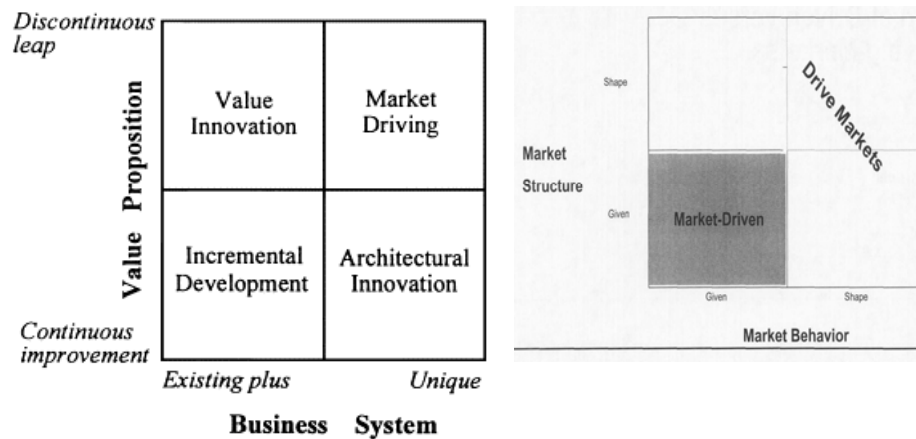
“Market driven refers to a business orientation that is based on understanding and reacting to the preferences and behaviours of players within a given market structure. Driving markets, (...), implies influencing the structure of the market and/or the behaviour(s) of market players in a direction that enhances the competitive position of the business.” Jaworski (2000:45)

“The term market driven refers to learning, understanding, and responding to stakeholder perceptions and behaviours within a given market structure. In contrast, the term driving markets refers to changing the composition and/or roles of players in a market and/or the behaviours(s) of players in the market.” Jaworski (2000:47)

“While market driven processes are excellent in generation incremental innovation, they rarely produce the type of radical innovation which underlies market driving companies. Market driven companies, who are generally new entrants into an industry, gain a more sustainable competitive advantage by delivering a leap in customer value through a unique business system. (...). ...when market driving strategies are successfully devised and implemented they rewrite industry rules and offer the potential to leap vast rewards.” Kumar (2000:129)

“There are three kind of companies. Companies that try to lead customers where they don't want to go (these are companies that find the idea of being customer-led an insight); companies that listen to customers and then respond to their articulated needs (needs that are probably already being satisfied by more foresightful competitors); and companies that lead customers where they want to go, but don't know it yet. Companies that create the future do more than satisfy customers, they constantly amaze them.” Hamel (1996:109)

### 34. Dimension of Market-Driving



To the left:

“Value proposition refers to the combinations of benefits, acquisition efforts/costs, and price offered to customers. (...). The leap in customer value provided by market driving firms may involve either breakthrough technology or breakthrough marketing. The success of Body Shop, FedEx, Starbucks, and even CNN and Wal-Mart is less about new technology than about aggressively exploiting existing technology to see the marketplace differently and to serve the customer in an unconventional manner.” Kumar (2002:130)

“Business systems refers to the configuration of the various activities required to create, produce, and deliver the value proposition to the customer.” Kumar (2002:130)

To the right:

“The frame work is composed of two dimensions: market structure and market behaviour. Market (or industry) structure refers to a set of players and the roles played by them in what Porter (1985) calls “value chain”.” Jaworski (2000:46)

“Market behaviours refers to the behaviour of all players in the industry value chain. ... this definition is not limited to customers but rather focuses on the behaviour of any player in the industry value chain, including competitors, suppliers, distributors, and complementors.” Jaworski (2000:47)

**35. Changing the Structure** – Jaworski (2000:48-50)

<b>Deconstruction approach</b>	<b>Construction approach</b>	<b>Functional modification</b>
<p>Reengineering of the value chain</p> <p><i>“Success (...) depends on the focal business being able to better deliver value to existing segments (or the uncovering of new segments) or more effective supply-side operations.”</i></p>	<p>Developing a new set of players</p> <p><i>“... the overall value of the web to the customer increases.”</i></p>	<p>Changing the functions performed by players</p>
<p>Channels, suppliers, competitors, substitute products, complementary products, etc.</p> <p>e.g. channel</p> <p>B2C E-Commerce (Dell, Amazon, etc.) eliminating indirectly retail channel by changing consumer behaviour</p> <p>e.g. competitors</p> <p>joint ventures, hostile takeovers, partnerships, mergers, acquisitions, and other strategic moves</p>	<p>Build a new web of players</p> <p>e.g. Record-Labels On-Line + Web-based Retailers + Net Radio + Music Websites in addition to traditional players as Record Company, Artists, Retailers, FM Stations,</p> <p>Add complementary layers to the value web</p> <p>Third party software vendors, complementary service etc.</p> <p>e.g. FedEx (own ‘hub and spokes’ air freight system decreased delivery time)</p>	<p>Mostly forward or backward integration</p> <p>e.g. Virgin-Mega Stores (unique retail environment by providing music, kiosk, contemporary design)</p>

**36. Changing the Behaviour - Jaworski (2000:51-53)**

<p><b>Shape market behaviour directly</b></p> <p>no regard for the players' cognitive structure</p>	<p><b>Shape market behaviour indirectly</b></p> <p>cognitive change</p>
<p><b>Build customer constraints</b></p> <p>e.g. IKEA</p>	<p><b>Create new customer benefits</b></p> <p><b>1) Existing products</b> (e.g. Disneyland)</p> <p><b>2) New-to-the-world products</b> (Introducing new features, benefits)</p> <p>e.g. Good Grips line of kitchen utensils (new benefit: quality of the grip)</p> <p><u>e.g. Swatch</u></p>
<p><b>Removing constraints in the buying process</b></p> <p><i>"... shaping the choice sets, criteria, benefit-packages, that customers buy."</i></p> <p>e.g. Web-based services (Ebay, Travelocity, Expedia, Priceline)</p>	<p><b>Reverse existing customer preferences</b></p> <p>Often in the fashion and accessory industry</p> <p>e.g. Body Shop</p> <p>Traditional focus: high price, advanced cosmetics science, image advertising</p> <p>Body Shop focus: natural ingredients, healthy living</p>
<p><b>Build competitor constraints</b></p> <p>Requires appropriate market power (monopoly)</p>	<p><b>Create new competitor preferences</b></p> <p>Public statements about the commitment to specific markets or technology standards, etc.</p>
<p><b>Remove competitor constraints</b></p> <p>Mostly through changing regulations</p> <p><u>e.g. Liberalization of the energy market in the EU</u></p>	<p><b>Reverse existing competitor preferences</b></p> <p>e.g. aggressive pricing strategies (Wal-Mart)</p>

Originally not mentioned by Jaworski, Kohli, Sahay

“Shaping market behaviour (...) includes proactively changing how players in the marketplace act. For example, without the focal firms intervention, competitors would have developed different strategies and customers would have behaved differently. ... .. markets can be shaped when needs are either manifest [e.g. full-bodied beer] or latent [in contrast light beer was not an obvious need that time; customers were unable to articulate that need].” Jaworski (2000:51)

### 37. Example Barnes&Noble<sup>35</sup>

Market Driven Strategy Traditional Book Distribution	Web-based Market Driving Strategy	
	Changing Behaviors	Changing Market Structure
Writers Book publishers, Manufacturing Distribution Retail outlets	Shift in consumer behaviour in direction to online book purchases	Long-term elimination of book retail stores

### 38. Shaping Industries in the New Economy by Rayport J., Jaworski B. 2001<sup>36</sup>

Trapped Value	Hybrid Value	New-to-the-world Value
1) More Efficient Markets	<b>→ Disrupt Pricing</b> <b>→ Ease of Access</b> <b>→ Radically Ext. Reach<sup>37</sup></b>	5) Customize Offerings
2) More Efficient Value Systems		6) Radically Extended Reach and Access
3) Ease of Access		7) Build Community
4) Disrupt Pricing Power		8) Collaboration Among Multiple People Across Locations and Time
		9) New To The World Functions

<sup>35</sup> Jaworski (2000:47)

<sup>36</sup> Rayport (2001a:32-33)

<sup>37</sup> „Hybrid value, (...), is most powerful when the synergistic effects of both trapped and new-to-the-world value can be combined. There are three distinct mechanisms by which a company can create hybrid value ...” Mohammed (2004:39)

<b>38. b) Explanation<sup>38</sup></b>	
1)	<i>'lowering search and transaction costs'</i>
2)	<i>'compressing or eliminating steps in the current value system'</i>
3)	<i>'enhancing access points and the degree of communication between the relevant exchange partners'</i>
4)	<i>changing 'current pricing-power relationships'</i>
5)	<i>allowing 'customers to customize specific products or service'</i>
6)	<i>extending 'the boundaries of an existing market or create a new market'</i>
7)	<i>enabling 'efficient community buildings'</i>
8)	<i>'working together more efficiently and more effectively'</i>
9)	<i>'horizontal or functional'</i>

### **39. Market or Customer Driven**

Differentiated marketing / product – market fit  
(market research, segmentation, customer involved in NPD, marketing mix)

- Traditional market research, learning from existing customers (market/customer sensing – what do our customers want?)
- Incremental innovations
- Sales promotions, Advertising, Broadcast for brand equity (image)
- Perceived value, pricing in relation to competition

e.g. Nestle, Procter&Gamble, Unilever, L'Oreal

### **Market Driving**

Revolutionary marketing / market reconfiguration  
(new markets or fundamentally redefined category/segments)

- Unconventional, visionary  
(forward sensing – how can the marketplace evolve?)  
(this also affects employee motivation<sup>39</sup>)
- Radical innovation
- Customer education, word-of-mouth, 'buzz network'<sup>40</sup>
- New price points

e.g. Amazon, Body Shop, CNN, IKEA, Starbuck, Swatch, Charles Schwab, Dell, FedEx, Hennes and Mauritz, SAP, Sony, Tetra Pak

<sup>38</sup> Rayport (2001a:32-33)

<sup>39</sup> "Such employees are motivated strongly by their belief that they are on a mission, not simply by money, allowing them to tap into deeper motivational energies." Kumar (2000:130)

<sup>40</sup> "The commitment and enthusiasm of early adopters and opinion leaders generates excitement and an intangible brand cachet that the market driving firm strives to maintain." Kumar (2000:134)

(Kumar 2000; Jaworski 2000)

**40. Obstacles to Market-Driving in Established Firms** - Kumar (2000:135,136)

Results of an survey among 25 pioneering firms

Market driving ideas are maverick in nature

Market driving ideas involve high risk

The new business development process in most firms tend to be biased against [...] the more innovative breakthrough ideas ...”

Threat of cannibalization

**41. Practices to Market Driving** - Kumar (2000:135,136)

Results of an survey among 25 pioneering firms

Allow space for serendipity

Select and match employees for creativity

Empower latent entrepreneurs and offer multiple channels for new idea approval

Establish competitive teams and ‘skunk words’

Cannibalize your own

Encourage experimentation and tolerate mistakes

**42. Example – Sony**

A period of several failures could have easily led Sony to demand of one of its managers Mr. Kutaragi to take responsibility and end his career at Sony. However it is part of Sony’s culture to leave room for experimentation, display tolerance regarding mistakes, encourage competitive teams and offer various channels for approval of new ideas. In fact, the knowledge and experience, which Mr. Kutaragi gathered along with one of his unsuccessful projects in relationship with Nitendo gave him finally the inspiration to approach Sony’s management to develop the successful PayStation video games.<sup>41</sup>

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<sup>41</sup> Kumar (2000:139,140)

### 43. Case Study IKEA

The example of IKEA helps to better understand the interplay of both frameworks, Jaworski, Kohli and Sahay’s structural/behavioural model and Kumar, Scheer and Kotler’s value proposition/business system model. Finally a business strategic view by Porter will complete the discussion.

#### **IKEA – Building constraints into customer experience**

Traditionally, furniture stores display various samples in their showrooms in high street location, but only a fraction of the entirely available offering. Decorators or sales assistants consult customers with books and catalogues showing fabric swatches or wood samples, all in all offering a huge variety of styles and samples to choose from. After making a selection the order goes to a third-party manufacturer. The delivery time takes up to eight weeks. The build-to-order furniture will than be delivered to the customer.<sup>42</sup>

IKEA displays every product in room-like settings in their huge stores outside from the towns, with large car parks, easy to access. Next to the showrooms, all items are stored in warehouses to get picked up and delivered by customers. The low-cost modular and ready-to-assemble furniture are designed by IKEA. In contrast to services offered by the traditional stores, IKEA offers unique services as in-store child care, Swedish buffet restaurant and extended hours. Services like that and the pleasant shopping atmosphere make customers spend an essential amount of time. Also, inside the stores, customers are guided by pathways (coloured lines on the floor) in a particular route to not get lost – or to pass the entire range of products.<sup>43</sup>

The discussed examples show, that IKEA did not take the conventional customer behaviour as a given. *“Rather is shapes customers’ expectations, encourages bundling behaviours that may not have been considered a prior, and provides sufficient in-store time to encourage purchasing.”<sup>44</sup>*

Design	Manufacturing	Assembly	Logistics	Marketing	Service	Distribution
Independent designers Complex designs	High work-in progress Handicraft Custom manufacturing	Labor intensive Build to order	Transport costly, bulky finished product	Fragmented	Full service including delivery	Expensive high street display
In-house Simple design to cost	Modular, interchangeable parts Mass production	By customers	Computerized Transport modular parts	Leverage Scandinavian image	Self service Customer transport	Cheap out-of-town display

<sup>42</sup> Porter (1996:65)

<sup>43</sup> Porter (1996:65) Jaworski (2000:52)

<sup>44</sup> Jaworski (2000:52)

	Cheap raw materials					
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### **IKEA – value proposition and unique business system**

The value proposition of IKEA is obviously significantly different to the typical furniture vendors full-service offerings: A clean Scandinavian design and image, a large variety of products, which are all displayed in the stores, no time delay (build-to-order, delivery) through self-pick-up, a pleasant shopping atmosphere, additional services as child-care and extended opening hours and low prices. However, customers are forced to self-service, self-assembly and self-transportation.

IKEA’s configuration of the various activities required to fulfil this proposition is also significantly different from the typical business systems: Cost-conscious in-house design, interchangeable parts, high volume component manufacturing, parts inventory, extensive computerization of logistics, relatively inexpensive peripheral locations, simple display facilities, no transportation and assembly services.

The resulting radical innovation took a visionary – set new price points, fundamentally redefined the market (structure and segmentation) and also involved customer education as the following example illustrates.<sup>45</sup>

*“IKEA had to teach consumers the benefits of transporting furniture components home for self-assembly instead of buying it pre-assembled and delivered. When IKEA entered Switzerland, they ran advertisements which jokes about the Swiss unwillingness to transport and assemble furniture, even for lower prices. The advertisements pokes fun at the self-delivery and self-assembly aspects saying “That is a stupid thing” and “You can’t do that to the Swiss.”<sup>46</sup>*

The illustration of IKEA unique business system also shows how difficult it would have been for the existing competition consisting of traditional furniture vendors to adapt their business systems to meet IKEA’s best practices.

### **IKEA – needs-based strategic positioning and fit drives both, competitive advantage and sustainability**

Porter argues “competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value”<sup>47</sup> and continues “strategic positions can be based on

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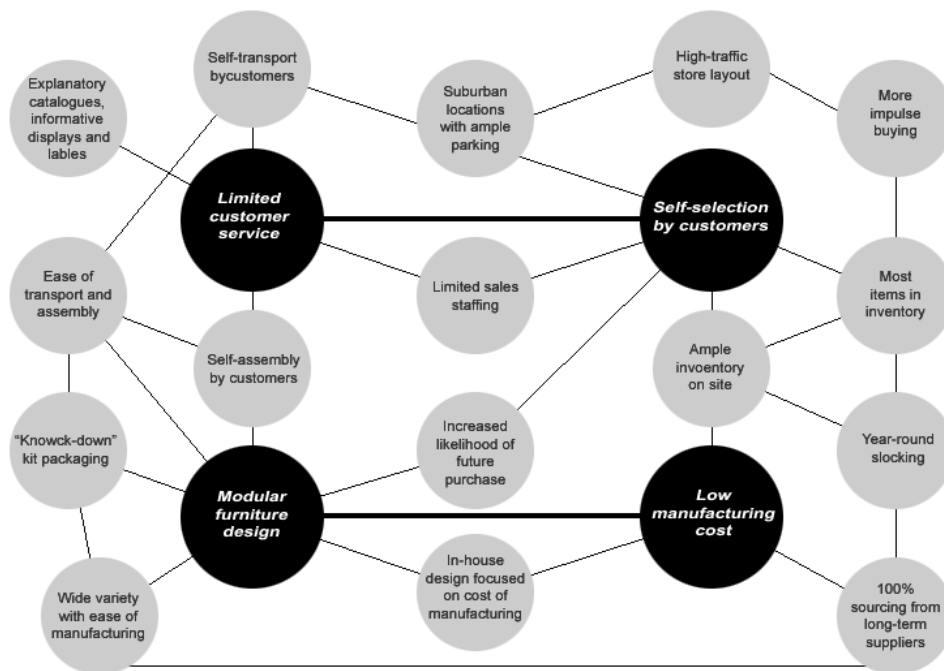
<sup>45</sup> Kumar (2000:131)

<sup>46</sup> Kumar (2000:131)

<sup>47</sup> Porter (1996:64)

customers' needs, customers accessibility, or the variety of a company's products or services"<sup>48</sup>. Needs-based positioning "... arises when there are groups of customers with differing needs, and when a tailored set of activities can serve those needs best. Some groups of customers are more price sensitive than others, demand different product features, and need varying amounts of information, support, and services."<sup>49</sup> Ikea targets a customer segment that had been ignored and served poorly: Young furniture buyers, demanding style at low cost. "What turns this marketing concept into a strategic positioning is the tailored set of activities that make it work."<sup>50</sup>

Sustainable strategic positions require also trade-offs.<sup>51</sup> IKEA clearly trades-off customer service, delivery and high street locations. however, IKEA's customers "are happy to trade off service for cost."<sup>52</sup> Porter finally argues "fit drives both competitive advantage and sustainability"<sup>53</sup> and refers to the question how the chosen activities relate to each other. At IKEA all activities "are uniquely aligned with the needs of its customer, who are young, not wealthy, likely to have children, (but no nanny) and, because they work for a living, have a need to shop at odd hours."<sup>54</sup> The following map shows how IKEA's strategic positions is contained in a set of tailored activities.



Porter (1996:71)

48 Porter (1996:67)  
 49 Porter (1996:66)  
 50 Porter (1996:65)  
 51 Porter (1996:68)  
 52 Porter (1996:65)  
 53 Porter (1996:69)  
 54 Porter (1996:65)

## 44. Learning Orientation

“A learning culture encourages firms to question not only the information they process but also whether their particular approach to innovation is applicable. More specifically, firms with a strong learning orientation question whether the core beliefs about customers, competitors and suppliers that provided the basis for past actions continue to be applicable. These firms scan the external environment for new technological paradigms that may offer a better means to deliver core product category benefits.” Baker (1999a:297)

“Learning Orientation is conceptualized as the degree to which the organization values knowledge, is open-minded, and has a shared vision” (Sinkula, Baker, and Noordwewier,1998)<sup>55</sup>

" . . . a process in which members of an organization detect error or anomaly and correct it by restructuring organizational theory of action, embedding the results of their inquiry in organizational maps and images."

Argyris and Schon (1978:24)

“At its most basic level, organizational learning is the development of new knowledge or insights that have the potential to influence behaviour. “ Slater (1995:63)

“...’learning organizations,’ – organizations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together.” Senge (1990:3)

“Learning in organizations means the continuous testing of experience, and the transformation of that experience into knowledge – accessible to the whole organization, and relevant to its core purpose.” Senge (1994:49)

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<sup>55</sup> Baker (1999a:299)

## 45. Market Information Processing and Informational Learning – Sinkula 1994

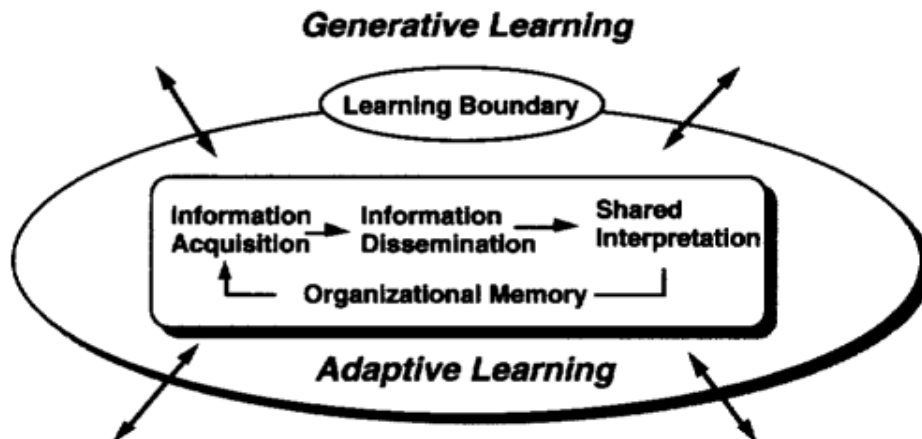
<b>Cyclical Process of Organisational Learning</b> - Lee (1992:23)	<b>Market Information Processing</b> - Sinkula (1994:36) Baker (2002:412)
<b>1.) Action</b>  <i>“... individuals’ action lead to organizational interactions with the environment, ...”</i>	
<b>2.) Response</b>  <i>“... the environment responds, ...”</i>	<b>1.) Acquisition and Distribution</b>  Market information is obtained and shared
<b>3.) Interpretation</b>  <i>“... and the environmental responses are interpreted by individuals...”</i>	<b>2.) Interpretation</b>  Information is given meaning (knowledge)
<b>4.) Individual Learning</b>  <i>“...who learn by updating their beliefs about cause-effect (action-response) relationships.”</i>	
<b>5.) Organisational Learning</b>  <i>“Individuals share information about these action-response relationships, resulting in organizational learning, which forms an organizational knowledge base that guides individual actions and ultimately organizational actions This knowledge constitutes a "world view" which may be represented as a cognitive map, conceptual map or structural model.”</i>	<b>3.) Memory</b>  Storage of market information / knowledge for further use

## 46. Learning Process in Market-Driven Firms – by Day G. 1994<sup>56</sup>

<b>Open-minded inquiry</b>	Decisions are based on the market
<b>Wide-spread information distribution</b>	Availability of relevant information
<b>Mutually informed mental models</b>	Shared interpretation
<b>Accessible memory</b>	Experience, knowledge base

<sup>56</sup> Day (1994:10)

**47. Overview Organizational Learning Process** - by Slater 1995<sup>57</sup>



**48. Types of Organizational Learning** (Slater, Narver 1995:64)

Adaptive Learning	Generative Learning
<p>- Most basic form of learning</p> <p>- Occurs within a learning boundary (organization's assumptions about its mission, customers, capabilities, environment and itself)</p> <p>“The resulting learning boundary constrains organizational learning to the adaptive variety, which usually is sequential, incremental, and focused on issues or opportunities that are within the traditional scope of the organization's activities.”<sup>58</sup></p>	<p>- Occurs when organizations are willing to question long-held assumptions (mission, customers, capabilities, or strategy)</p> <p>“... a new way of looking at the world based on an understanding of the systems and relationships that link key issues and events.”<sup>59</sup></p>

**49. Facilitators to Organizational Learning**<sup>60</sup>

Culture	Climate
<p>Market orientation</p> <p>Entrepreneurship</p>	<p>Organic and open structure</p> <p>Facilitative leadership</p> <p>Decentralized approach to planning</p>

<sup>57</sup> Slater (1995:66)

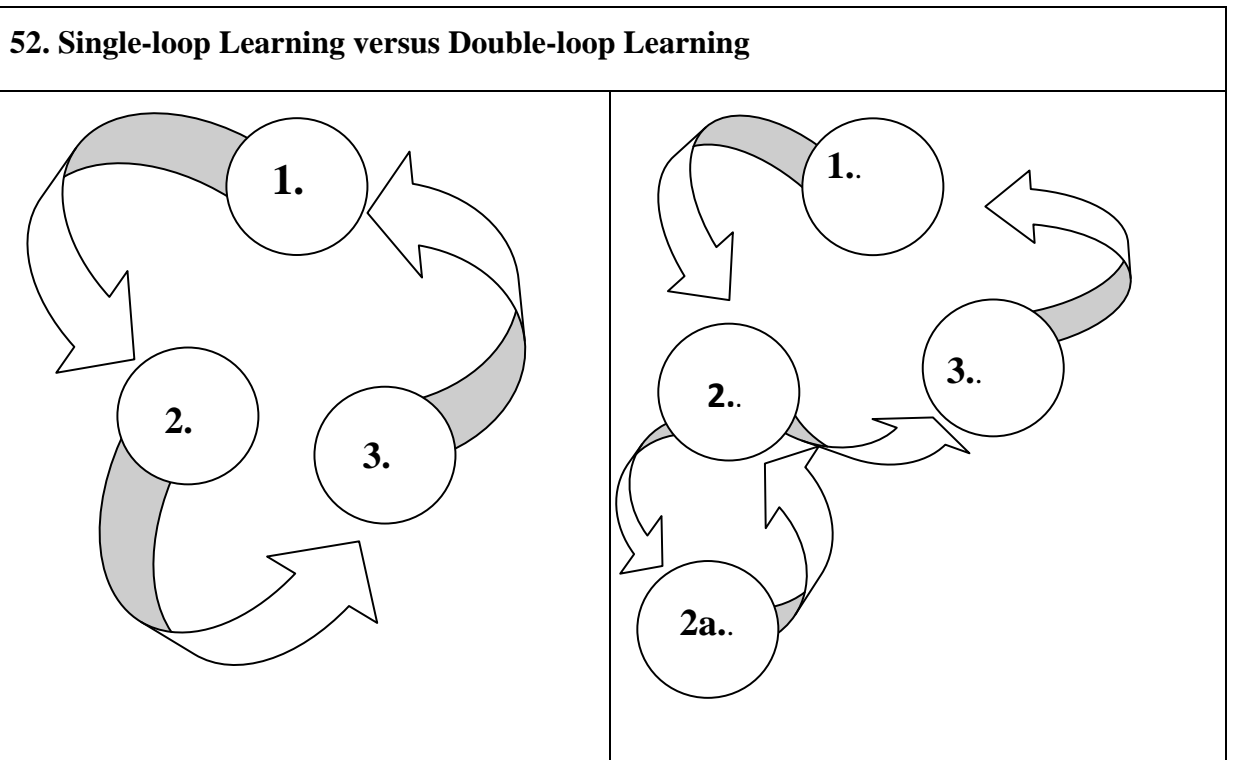
<sup>58</sup> Slater (1994:64)

<sup>59</sup> Slater (1995:64)

<sup>60</sup> Slater (1995:67)

“Culture is a set of shared assumptions and understandings about organizational functioning. (...) Climate relates to members’ perceptions about the extent to which the organization is currently fulfilling their expectations.” Deshpande (1989)

50. Concepts Related to Organizational Learning		
Theory-in-Use	Mental Models	Unlearning
<p>“...knowing how things are done, not (...) why things are done the way they are done.”</p> <p>e.g. organizational routines</p> <p>Argyris and Schön 1978<sup>61</sup></p>	<p>“In order to simplify and make sense of their world, individuals develop beliefs about how it works.” Argyris and Schön (1978)<sup>62</sup></p> <p>“Mental Models are deeply ingrained assumptions, generalizations, or even pictures or images that influence how we understand the world and how we take action. Very often, we are not consciously aware of our mental models or the effects they have on our behaviour.” Senge (1992:8)</p>	<p>Discarding obsolete mental models, attempt to reorient organizational values, norms and/or behaviors</p> <p>Nystrom and Starbuck 1984<sup>63</sup></p>



<sup>61</sup> Baker (2002:9)  
<sup>62</sup> in Baker (2002:9)  
<sup>63</sup> in Baker (2002:10)

“Single-loop learning rest in an ability to detect and correct error in relation to a given set of operationg norms.

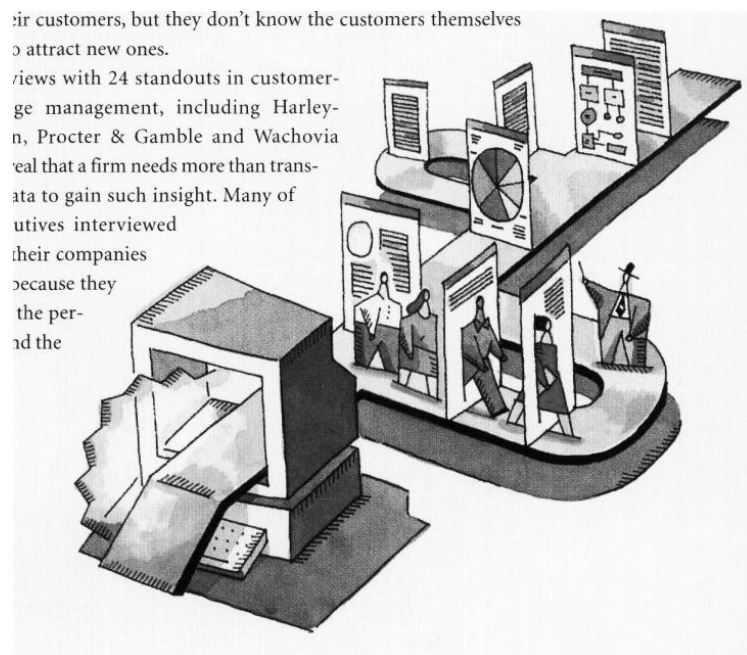
(left)

Double-loop learning depends on being able to take a ‘double look’ at the situation by questioning the relevance of operating norms. (right)

- 1 ) the process of sensing, scanning, and monitoring the environment
- 2 ) the comparison of this information agains operating norm
- 2a) the process of questioning whether operating norms are appropriate
- 3 ) the process of initiating appropriate action”<sup>64</sup>

### 53. System That Look at Themselves

Performance measuring, environmental analysis, reporting, statistics, etc. can be viewed as organizational projections of themselves. <sup>65</sup>



*Thomas H Davenport T. H., Harris J. G., Kohli A. K. (2001) 'How Do They Know Their Customers So Well?'*

*MIT Sloan Management Review, Vol.42, No. 2, pp. 63-11*

<sup>64</sup> Morgan (1996:87)

<sup>65</sup> Morgan (1996:256-258)

#### **54. Empirical Study on Managers Use of Mental Models - Day (1994b)**

“Without a simplified mental representation, the sheer volume of incomplete and flawed data on market trends and conditions would overwhelm the limited capacity of managers to extract meaning and make decisions.” Day (1994b:31)

“... managers pay selective attention to their environment and define reality in relatively narrow terms. Paradoxically, existing managerial representations will guide future actions and chiefly result in a reinforcement of current beliefs and practices. The resultant dilemma is that managers may not see and therefore will not be able to react to important changes in context. Thus, the simplifications and narrowing of vision inherent in managerial representations may come at the cost of myopia and dulled sensitivity to challenges outside the prevailing framework.” Day (1994b:41)

#### **55. Influence of Organisational Success and Memory on Market Information Processing<sup>66</sup>**

MIP is a function of organizational memory. As organizational memory develops, organizations will distribute, interpret, and store less of their newly acquired market information.

As organizational memory develops, market information becomes less equivocal. As equivocality is reduced, organizations will distribute, interpret, and store less of their newly acquired market information.

High-performing firms are less willing to change and will distribute, interpret, and store less of their newly acquired market information than will low-performing firms. This is because the experience lesson in high-performing firms lead them to favour exploitation over exploration objectives.

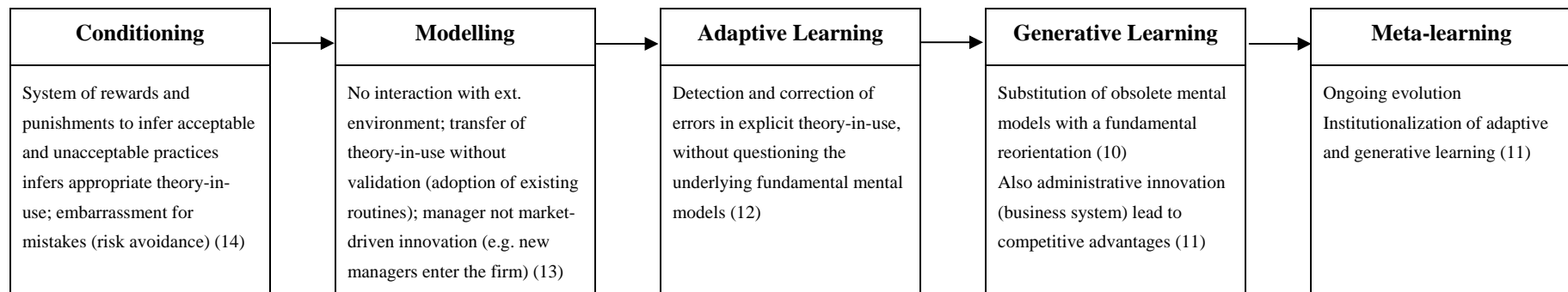
High-performing firms that are actively engaged in unlearning activities will distribute, interpret, and store greater amounts of their newly acquired market information.

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<sup>66</sup> Sinkula (1994:43)

## 56. Organizational Learning Hierarchy (Baker, Sinkula 2002)

Phase 1 - Neither strong MO nor LO	Phase 2 - Strong MO, but weak LO	Phase 3 - Strong MO and LO
<i>Firms learn primarily through <u>modelling</u> and are typically limited to <u>manager-driven incremental innovation</u> (5)</i>	<i>Firms learn primarily through <u>adaptive learning</u> and are typically limited to <u>market-driven incremental innovation</u> (5)</i>	<i>Firms engage in <u>generative learning</u> and pursue ongoing <u>radical innovation</u> (5) As proficient as Phase 2 firms in terms of instituting market-driven incremental innovation, but not limited to it. (13)</i>
<i>Incremental innovation refers to adaptation within a particular technical paradigm Baker 2002:7 (McKee 1992)</i>	<i>Frequent and intensive interactions with environment as a basis for effective adaptation. (12)</i>	<i>Radical innovation refers to changes in technology that facilitate significant nonlinear improvements in the delivery of non or more core product category benefits Baker 2002:7 (McKee 1992)</i>
<i>Competitive as long the technology used to deliver core product category benefits remains unchanged.(no radical innovation of competition) (7)</i>	<i>“Research is likely to be designed and implemented in a manner that perpetuates the existing view of the world. “ (13)</i>	<i>Given the speed with which incremental innovations can be copied by competitors, it is reasonable to presume that radical innovation, either technical or administrative may be necessary to improve one’s long-term relative market standing and competitive advantage (7)</i>
<i>Little or no deliberate consideration of the environment</i>	<i>Reactive adjustment to changes in the ext. environment</i>	<i>Proactive attempt to alter the ext. environment. We propose that only Phase 3 firms are capable of maintaining competitive advantage in (particularly) dynamic market environments (6)</i>



## 57. Overcoming the Barriers to Radical Innovation – Baker and Sinkula 2002

<p><b>1.) Belief System Barriers – Mental Models that don't Mirror the Reality</b></p>	<p><i>“Flawed mental models narrow the scope of environmental scanning (...) This can prevent organizations from identifying potential problems and opportunities or lead to a misdiagnosis ...” Baker (2002:15)</i></p>
<p><b>1.1 Institutionalize Belief Impermanence</b></p>	<p><i>“Employees within all levels of the organization must be encouraged to challenge the beliefs and assumptions that guide their decision-making responsibilities.” e.g. job-rotating, dialectic inquiry, devils’s advocacy, scenario analysis ... Baker (2002:16)</i></p>
<p><b>1.2 Institutionalize Belief Surfacing</b></p>	<p><i>“Once organizations accept the concept of belief impermanence, the next step is to surface the tacit mental models that are influencing organizational practices. (...) The process of surfacing is complicated by the fact that mental models are likely to vary both horizontally and vertically throughout the organization.” Baker (2002:16)</i></p>
<p><b>1.3 Reconcile Conflicting Mental Models</b></p>	<p><i>“The universal adoption of the most accurate mental models is not likely unless firms are willing to discard reconciliation processes ...” e.g. dialogue rather than confrontational debate or consensus building (no guarantee to facilitate optimal solutions) Baker (2002:16)</i></p>
<p><b>2. Information Barriers: MIP Systems that don't Discern Cause and Effect</b></p>	<p><i>The quality of a firm’s MIP can be evaluated by its breadth (the extend to which all relevant environments are scanned to identify novel or discrepant events) and depth (ability to follow-up the identification of novel or discrepant events by accurately diagnosing cause and effect).</i></p> <p><i>Unless follow-up MIP determines the cause of the symptoms identified by tracking studies, findings are likely to be interpreted in light of current beliefs. Baker (2002:18)</i></p>
<p><b>2.1 Institutionalize Theory-in-Use Scanning</b></p>	<p><i>“The ability to transform the tacit into the explicit can be a powerful means to facilitate radical innovation because it expands the firm’s knowledge of effective innovation at the individual level.” (18)</i></p> <p><i>”When different approaches to the same task are surfaced, then the organization can identify the most effective approach and diffuse it throughout the organization.” Senge (1990:18)</i></p>

<b>2.2 Institutionalize Hypothesis Generation and Testing</b>	<i>Capturing conflicting mental models from previous steps and identifying the relative validity of each alternative, which might be best accomplished through experimentation. Baker (2002:18)</i>
<b>3. Behavioral Barriers: Lack of Motivation, Ability, or Opportunity to Implement Change</b>	
<b>3.1 Institutionalize the Motivation to Implement Change</b>	<i>Before new espoused theories can replace extant theories-in-use, leaders must engineer an appropriate psychological environment. Reward systems must extinguish old theory-in-use and leverage new theory-in-use. Baker (2002:19)</i>
<b>3.2 Institutionalize the Opportunity to Implement Change</b>	<i>Organizations must deliberately counter the forces of inertia by formally providing the money, time and channels of communication that allow employees to engage in change related activities. Baker (2002:19)</i>
<b>3.3 Institutionalize the Ability to Implement Change</b>	<i>New personnel are required to hypothesize and ultimately initiate different view of the world. As a matter of policy, organizations should commit to hiring people at all levels in the organization that will help breach belief and information barriers. Over time, training programs and other standard human resource practices “encode” certain management perspectives into the organization. Administrative structures and procedures lock in these perspectives (Hamel 1994:19)</i>

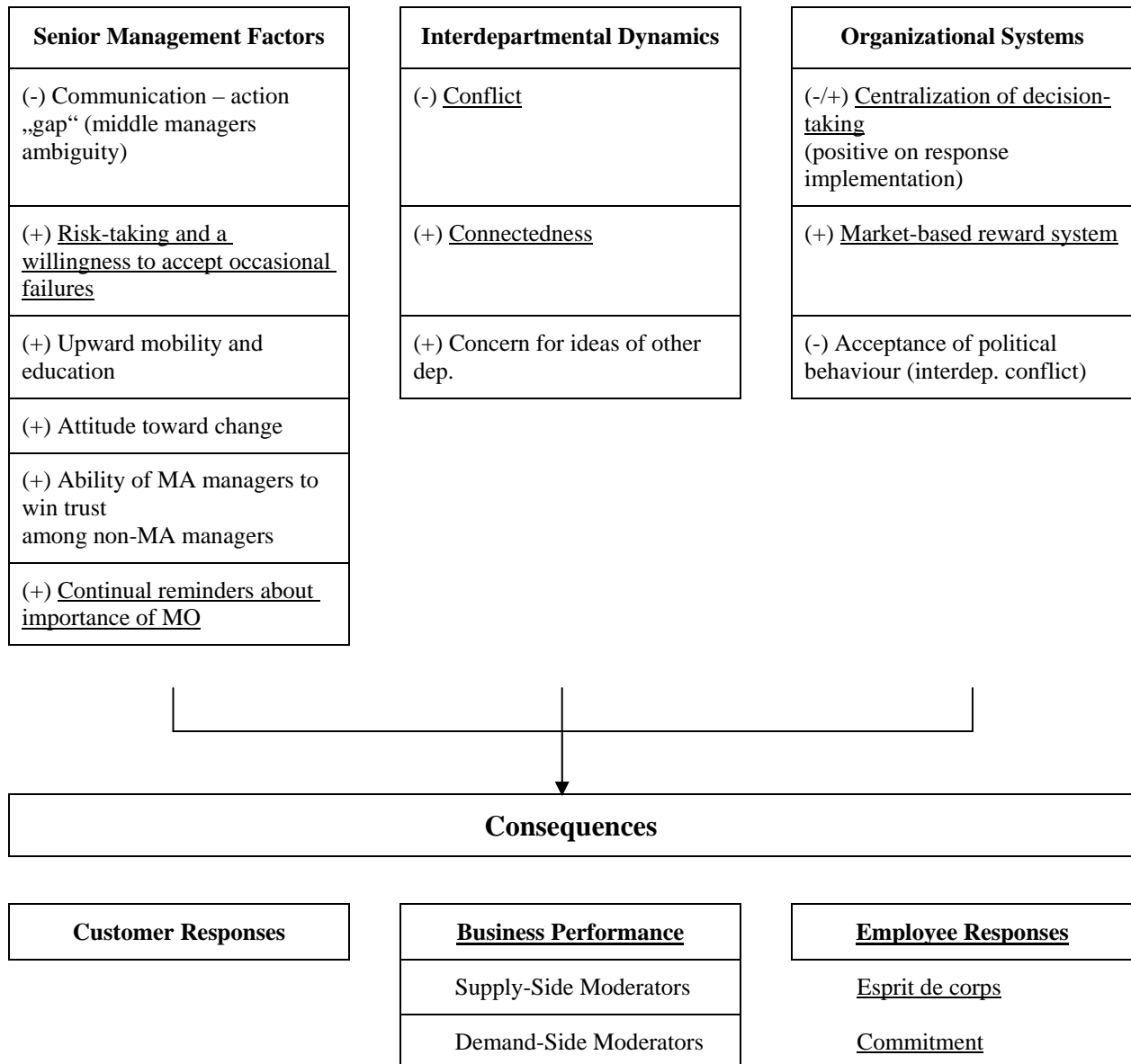
## 58. Framework Major Studies 1990 – 2004

Authors / Year	Kohli/Jaworski 1990	Narver/Slater 1990	Ruekert 1992	Kohli/Jaworski/Kumar 1993	Jaworski/Kohli 1993a
Title of Scale	1.	2.	3.	4.1	4.2
<b>Focus</b>	Definition of MO including construct and research agenda	Development of a valid measure for MO; examination relationship on profitability	Strategic perspective on MO	Development of a valid measure for MO; assessment of the psychometric properties	Analysing effects of antecedents and environmental factors on MO, relationship between MO and performance
<b>Dimensions</b>	aquisition, distribution and responsiveness to market intelligence	customer orientation, competitor orientation, interfunctional coordination, long-term focus, profit objective	Collection and use of market intelligence, development of market oriented strategies, implementation of market oriented strategies	intelligence generation, intelligence dissemination, responsiveness	Senior management, organizational structure, interdepartmental conflict, market turbulence, competitive intensity, technological turbulence of the environment, market share, performance, employee responds
<b>Scale</b>	none	15-item scale, MO one of nine business-specific and industry-specific factors related to ROI	23-item scale with strategic focus	20-item scale, MARKOR	3-wave questionnaire designed appropriate the dimensions
<b>Method</b>	62 in-depth field interviews among marketing and non-marketing managers across three industries in the U.S.	Study among 140 SBUs of single corporations in commodity and non-commodity businesses in the U.S.	400 surveys across 5 SBUs of large U.S. based, international operating technology corporation (5 Bill. sales worldwide, 35,000 employees)	Non-linear factor analysis of matched samples of senior marketing and non-marketing executives from 222 SBUs in the U.S.	393 marketing and non-marketing managers covering 229 SBUs in 102 major U.S. companies (additional 230 random chosen responses to cross-validate the findings)
<b>Major Results</b>	Definition of MO including construct (aquisition, distribution and responsiveness to market intelligence) and research agenda	Relation MO/profitability for both commodity and non-commodity businesses, MO continuum, MO is relevant in every market environment	MO activities need to be approached on SBU level while organization-wide MO required (supporting processes), overall relation MO to performance and employee commitment and job satisfaction, most relevant for performance is the strategy implementation, superior customer responsiveness is result of fit of activities	Major result is scale itself, research agenda	Relation between MO and performance, regardless of the market turbulence, competitive intensity, technological turbulence of the environment; No relation between MO and market share; Antecedents: senior management, interdepartmental coordination, organizational system

Authors / Year	Deshpande/Farley/Webster 1993	Lado, Maydei-Olivares, Rivera 1996	Deshpande/Farely 1998	Gray, et. al. 1998	Baker/Sinkula 1999
<b>Title of Scale</b>	5.	6.	7.	8.	9.1
<b>Focus</b>	Investigation of relation of corporate culture (market, adhocracy, clan, hierarchy), customer orientation and innovativeness to performance	Theory-based proposal for MO definition; development of measurement; examination of validity and reliability in two defined populations	Analysing Scales 2/4.1/5 and testing generalization across industries and countries (how do scales compare under similar conditions; inter- and intra-scale characteristics) Synthesizing one scale with customer focus	Test and extension of MARKOR and Narver/Slaters scales	Research on the relationship between two related but distinct organizational characteristics - LO and MO on performance
<b>Dimensions</b>		analyses distributor, analyses competitors, analyses environment, interfunctional co-ordination, strategic actions in customers, strategic actions distributors, Strategic actions competitors, strategic actions macro-environment		customer orientation, competitive orientation, interfunctional co-ordination, responsiveness, profit emphasis	Performance: new product success, relative market share, overall performance
<b>Scale</b>	9 item-scale	36-items scale, MOS	Synthesized 10-item scale, MORTN	Synthesized 20-item scale	MARKOR, LO Sinkula 1997
<b>Method</b>	138 executives, Japan (later repeated in U.S., Germany, France, England, India, Vietnam, Thailand, Hong Kong, China)	102 non-marketing and marketing manager in 34 Belgian and 32 Spanish large insurance companies	82 marketing executives from 27 companies across nine industries	490 senior executives, cross-sectional, New Zealand	411 companies, cross-sectional, half above/half below 500 Mill. Sales, marketers and non-marketers (minimum vice-presidential rank)
<b>Major Results</b>	Relation corporate culture/performance for domestic and international firms; "we confirm the conclusion that performance is a complex, multicausal matter that depends on internal factors of the organization as well as strategy. (...) The best performers would have a market culture [competitiveness, goal achievement] AND be both highly customer oriented and innovative."	The MOS questionnaire has been shown to have high reliability and validity in these populations. As a matter of fact, we have been able to show that market orientation as it is defined here is a valid predictor of business performance in these populations.	The scales "show remarkable similarity in terms of reliability and internal and external validity", three scales are interchangeable, and that "substantive conclusions reached with each apply generally to the others"; MORTN summary scale - customer orientation; No relation between industry and performance or MO	Successful implementation of the MO improves customer and organisational benefits (profitability, brand awareness, customer satisfaction, customer loyalty) Narver/Slater scale behaves most robust	Independent influence of MO and LO on performance, best results if both orientations are strong, low influence of MO without LO

Authors /Year	Baker/Sinkula 1999a	Caruana 1999	Gray 1999	Mavondo and Farrell 2000	Hooley et al. 2003	Verhees and Meulenber 2004
<b>Title of Scale</b>	9.2	10	11.	12.	13.	14.
<b>Focus</b>	Direct and indirect relation MO and learning orientation on performance	Assessment of the dimensions and the stability of items in the MARKOR scale	Research on MO/performance relationship and environmental moderator effects	Comparison of MARKOR and Narver/Slaters scale (scale equivalence, generalisability across different population, frame of reference for MO among qualitatively different businesses)	Assessment of reliability and validity of the MO construct in service firms in the turbulent economies of central Europe	Examination of relation between MO and innovativeness on product innovation and company performance for small firms
<b>Dimensions</b>			customer orientation, competitive orientation, interfunctional coordination, profit emphasis, responsiveness, competitive intensity, competitive hostility, performance, customer satisfaction, customer loyalty, market turbulence, technological turbulence, market growth, entry barriers, buyer power, relative price, customer awareness			customer market, supplier intelligence, innovativeness, domain-specific, product price relative
<b>Scale</b>	LO Baker Noordewier and MARKOR	Original 32 MARKOR scale		MARKOR and MKTOR scale	15-item scale, Narver/Slater 1990	Sythezised 15-itmes scale (Narver/Slater 1990, Jaworski/Kohli 1993, Ruekert 1992, Levitt and Walton 1975)
<b>Method</b>	250 companies across 8 industries (manufacturing/non-manufacturing), equally from above and below \$500 million sales, 411 marketing and non-marketing executives (minimum vice-president)	130 largest service firms UK, 193 cross-section Malta	490 senior managers from medium-sized companies, across 9 industries, New Zealand (high levels of turbulence since widespread deregulation in 1984)	262 public and 226 private companies, consumer and business, Australia	205 business to business services companies and 141 consumer services companies, Hungary, Poland and Slovenia	152 rose growers, Netherlands
<b>Major Results</b>	indirect effects of MO and LO on NP, no direct effect of MO on organizational performance, LO more important	MARKOR lacks generalisability across industries, economies and cultures, conceptualisation of the market orientation construct inadequate (limited to three dimension)	Gray 20-item scale, empirically tested 1998	Narver/Slater scales best suitable for cross-cultural, cross-country, cross-group or cross-industry comparisons (generalization across samples in all respects)	The Narver and Slater (1990) MO scale is both valid and reliable as a measure of MO in service firms operating in the transition economies of central Europe; High level of MO related to 1) turbulent, rapidly changing markets; 2) long term goal versus short term objectives 3) differentiated positioning through superior offering 4) performance and market based criteria. Different business approaches may co-exist with a MO, "creating a richer and more complex set of organizational drivers" (e.g. multiple stakeholder orientations)	Relation of market orientation to performance; small firms stimulated by customer market intelligence show more considered decision-making; risk: decreased product innovation when firm is already highly innovative in the product domain; less innovative small firms may speed up product innovation

## 59. Antecedents of a Market Orientation<sup>67</sup>



(+ positive, - negative; empirical results from 1993)

There is no empirical relation between a strong MO and market turbulence, competitive intensity, technological turbulence of the environment or market share. Latter might go back to limitations in the research design.<sup>68</sup>

Apparently, the formalization or departmentalization is less important, than the content of formal rules or the way in which departments interact with each other.<sup>69</sup>

<sup>67</sup> Kohli 1990/ Jaworski 1993

<sup>68</sup> Jaworski (1993:65)

<sup>69</sup> Jaworski (1993:66)

**60. Early studies – Little Support for Moderators - Slater (1994a:47)**

<b>Strengthen Moderators</b>	<b>Emphasis Moderators</b>
<ul style="list-style-type: none"><li>○ Market turbulence</li><li>○ Technological turbulence</li><li>○ Competitive hostility</li><li>○ Market growth</li></ul>	<ul style="list-style-type: none"><li>○ Market growth</li><li>○ Buyer power</li><li>○ Competitor concentration</li><li>○ Competitor hostility</li></ul>

There is little support for the assumption, “that environment moderates either the nature of the market-orientation-performance relationship or the effectiveness of different relative emphases within a market orientation.” Slater (1994a:54)

## 61. Framework – Major Empirical Results MO/Performance/Moderators<sup>70</sup>

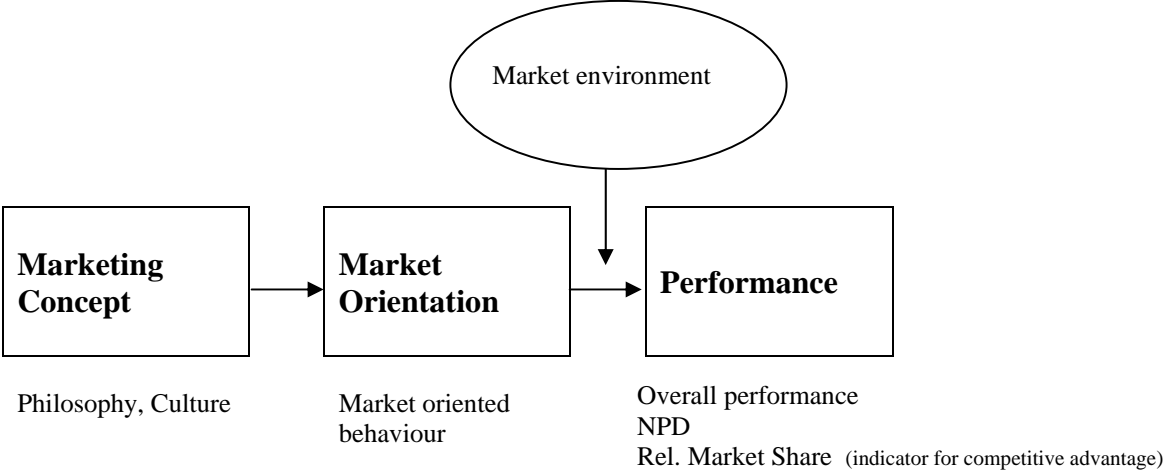
Empirical studies	MO/performance	Moderators	Predictors
Kohli and Jaworski (1990)	Positive	Market growth Competitive intensity Technological turbulence Market turbulence	Not investigated
Narver and Slater (1990)	Positive	None identified	Relative cost Technological change, Market growth
Ruekert (1992)	Positive	Not investigated	Not investigated
Jaworski and Kohli (1993)	Positive	None identified	Competitive intensity Supplier power Product quality
Hart and Diamantopoulos (1993)	Weak association	Competitor hostility	Not investigated
Slater and Narver (1994)	Positive	Market turbulence with ROI, Technological change with new product success, Market growth with sales growth	Relative size, Relative cost, Ease of market entry, Competitive hostility
Greenley (1995)	No direct association	Market turbulence with ROI, Technological change with new product success, Customer power with sales growth	Relative size, Relative cost, Technological change, Market growth
Doyle and Wong (1996)	Positive	Fierce competition, Technology change, Differing customer needs	Not investigated
Gounaris and Avlonitis (1996)	Positive	Power and influence of distributors (consumer versus industrial markets)	Not investigated
Pelham and Wilson (1996)	Positive	Not investigated	Competitive intensity with new product success, Product differentiation (negatively) with growth/share
Slater and Narver (1996)	Positive	Not investigated	Relative size, market growth
Cadogan (1997)	Positive	Customer/technology environment, Competitor/regulation environment	Degree of employee involvement, separate export department
Appiah-Adu (1998)	No direct association	Market dynamism with ROI, Competitive intensity with sales growth	Market growth, relative size, relative cost
Kumar et al. (1998)	Positive	Competitive hostility, market turbulence and supplier power with ROI, Market turbulence and supplier power with new service success rate	Profit orientation

<sup>70</sup>

based on Gray (1999:238)

**62. a) Research Construct and Performance Measure**

Study among 490 companies in New Zealand – Gray 1999



## **62. b) Environmental Moderators<sup>71</sup>**

Study among 490 companies in New Zealand

### **The greater the extent of competitive intensity, the greater the positive impact of MO on performance.**

“Competitive intensity appears to positively influence the market-orientation relationship when performance is measured in terms of pretax profits, except for the very highest levels of intensity (i.e. above 4.8 on a 5-point scale). As the relationship is virtually monotonic, this suggests that as competition rises, and customers are faced with increasing choices, companies have to be more sensitive and responsive to customers’ needs (Kohli and Jaworski 1990).”

### **The greater the extent of market growth, the lesser the positive impact of market orientation on performance.**

“...as a *main* effect, increasing market growth has a negative influence on awareness, suggesting that firms have to work harder to avoid brand recognition being swamped by the promotion activities of a host of new competitors.”

### **The greater the extent of entry barriers, the greater the positive impact of market orientation on performance.**

“Entry barriers appear to positively influence the market orientation-performance relationship when performance is measured in terms of sales growth except for the most severe barriers to entry. ... this suggests that increasing entry barriers may be related to increasingly oligopolistic markets, where the level of competition is still sufficient to encourage more market-oriented behavior.”

### **The greater the extent of buyer power, the greater the positive impact of market orientation on performance.**

“... increasing buyer power does encourage companies to become more sensitive to customer demands and needs, leading to a more profitable relationship. However, when customers can exert extreme influence on product or service suppliers (and presumably buyers are more concentrated, as in the case of supermarkets), then the direction of influence is reversed. Companies may restrict their market-oriented behavior in these situations because they have no choice and/or to offer more customized products or services would be more costly and less profitable.”

### **No evidence was found for the moderating effects of market and technological turbulence**

“... the lack of evidence for market turbulence as a moderator may be due to the nature of the New Zealand market, and the sweeping economic liberalization which has occurred since 1984. Because managers have grown used to dealing with changing customer profiles and demands, increasing turbulence may not necessarily encourage companies to become more market-oriented.”

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<sup>71</sup> Gray (1999:249)

### 63. c) Main Effects of Environmental Variables<sup>72</sup>

Study among 490 companies in New Zealand

- Competitive intensity is positively associated with pretax profits
- Competitive hostility is positively associated with ROI and relative profitability, but negatively associated with market share
- Growth is positively associated with sales growth, it is negatively associated with customer awareness
- Entry barriers were positively associated with pretax profits and sales growth
- Market turbulence was negatively associated with ROI
- **Technological turbulence had no significant effect**

→ "... market-oriented companies may actually thrive on turbulence, so long as the level of uncertainty and competition is not *too* extreme.

→ Although environmental conditions may have a direct and negative influence on some performance indicators, the moderating effects can still *improve* the market orientation performance relationship.

→ More market-oriented firms can accelerate performance gains over less market-oriented competitors in turbulent markets."<sup>73</sup>

### 64. d) Limitations of the Study – (Gray 1999:253)

- Manufactures overrepresented
- Conditions in New Zealand might not be generalizable
- Effects of NPD not included

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<sup>72</sup> (Gray 1999:250)

<sup>73</sup> Gray (1999:253)

<b>65. Relationship Market-Orientation - Learning-Orientation – Organizational Performance - Baker (1999:415-416)</b>	
<b>Direct Effect of Market Orientation</b>	
<b>H1</b>	There is a positive relationship between an organization's market orientation and its overall performance.
<b>H2</b>	There is a positive relationship between an organization's market orientation and its change in relative market share. <sup>74</sup>
<b>H3</b>	There is a positive relationship between an organization's market orientation and its new product success.
<b>Direct Effects of Learning Orientation</b>	
<b>H4</b>	There is a positive relationship between an organization's learning orientation and its overall performance.
<b>H5</b>	There is a positive relationship between an organization's learning orientation and its change in relative market share.
<b>H6</b>	There is a positive relationship between an organization's learning orientation and its new product success.
<b>Synergistic Effects of Market Orientation and Learning Orientation</b>	
<b>H7</b>	The greater an organization's learning orientation, the stronger the positive relationship between its market orientation and its change in relative market share.
<b>H8</b>	The greater an organization's learning orientation, the stronger the positive relationship between its market orientation and its overall performance. <b>(NOT SUPPORTED)</b>
<b>H9</b>	The greater an organization's learning orientation, the weaker the positive effect of market orientation on new product success.

→ “Firms engaging in market-oriented behaviors without appropriate learning environments and processes are likely to be able to adapt current products and programs to the market. But they are less likely to foster a competitive advantage unless their internal environment encourages generative learning, thereby allowing them to lead customers and competitors.”(423)

<sup>74</sup> Note: “The significant effect of MO on AMS in this study was limited to firms with high learning orientations.” Baker (1999:454)

## 66. Framework Implementation

Author	Slater, Narver 1995	Senge 1990	Kumar, Scheer, Kotler 2000	Baker 2002	Day 1994	Cravens 1997
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Title	"Culture and Climate"	"The fifth discipline" (Learning Organization)	"Market Driving"	"Overcoming the Barriers"	"Developing the capabilities of market-driven organizations"	"Putting the customer at the starting point of strategy design"
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Dimensions	MO	Personal Mastery	Allow space for serendipity	Belief System Barriers – Mental Models that don't Mirror the Reality	Lessons from TQM (customer satisfaction)	Becoming a Market Driven and Learning Organization guided by a Shared Vision
	Entrepreneurship	Systems Thinking	Select and match employees for creativity	Information Barriers: MIP Systems that don't Discern Cause and Effect	Anticipating future needs for capabilities	Determining the Value Proposition
	Organic and open structure	Mental Models	Empower latent entrepreneurs and offer multiple channels for new idea approval	Behavioral Barriers: Lack of Motivation, Ability, or Opportunity to Implement Change	Designing the change program	Strategy for Competing on Capabilities
	Decentralized approach to planning	Shared Vision	Establish competitive teams and 'skunk words'			Relationship Strategies
		Team Learning	Cannibalize your own			Implementing Change: – Re-inventing the Organization
			Encourage experimentation and tolerate mistakes			