

A strategy implementation perspective of market orientation

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Abstract

The authors conceptually and empirically explore the role of market orientation in the context of strategy implementation. Specifically, market orientation plays a key role for the successful implementation of a premium product differentiation (PPD) strategy. This result is based on the empirical findings from an international study that shows the performance effect of a PPD strategy is to a significant extent mediated through the construct of market orientation. Implications for future research and managerial practice are discussed.

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1. Introduction

Since the classic statement by Chandler (1962) that “structure follows strategy,” there has been interest in the relationship between strategy and organizational dimensions such as structure. The relationship between the strategy and organizational dimensions has typically been explained in a sequential model where firms decide on a strategy and then put in place appropriate organizational choices such as structure, systems, rewards, and processes that support this strategy (Galbraith and Nathanson, 1978; Govindarajan, 1988; Govindarajan and Gupta, 1985). This research stream is generally referred to as “strategy implementation” (Ginsberg and Venkatraman, 1985), which Varadarajan (1999) defines as “the actions initiated within the organization and in its relationships with external constituencies to realize the strategy.” Varadarajan (1999) points out that “much of the research in marketing strategy has focused on strategy content issues with a much more limited amount of research attention devoted to implementation and formulation process issues.”

The strategy implementation research done in the strategy and management fields has historically focused on the “harder” dimensions of structure and systems. However, with the growing interest in resource-based theories of the firm (Barney, 1991), there has been increased interest in the role of intangible factors such as skills, capabilities, leadership style, and culture in strategy implementation. At the core of the strategy implementation approach is the recognition that different types of capabilities, organizational processes, and systems need to be adjusted in order to implement the selected strategy.

Within marketing, there has been great interest in market orientation as an intangible factor that has an effect on organizational performance, with prior research addressing topics such as conceptualization of the construct (Kohli and Jaworski, 1990), measurement of the construct (Kohli et al., 1993; Narver and Slater, 1990), antecedents of market orientation (Day, 1994; Jaworski and Kohli, 1993), and consequences of market orientation (Jaworski and Kohli, 1993; Slater and Narver, 1994). One issue not addressed by prior research is the role of market orientation in the implementation of certain types of strategy.

The purpose of this paper is to examine the role of market orientation in the implementation of a premium product differentiation (PPD) strategy. Implementation means to adapt organizational variables to a strategy, which then leads to increased performance. These organizational variables take a facilitating role in the relationship between strategy and performance. Market orientation as such an organiza-

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tional variable facilitates strategy implementation if it intervenes between strategy and performance. If it does, it is a mediator in the link between strategy and performance where strategy leads to performance via market orientation. More specifically, we study the strategy → market orientation → performance causal chain, and examine both direct and indirect (through market orientation) effects of strategy on performance. If a significant part of the effect of strategy on performance is mediated via market orientation, then it plays an important role in strategy implementation.

2. Relationship between strategy and organizational variables

There are two perspectives on how strategic and organizational factors are related: a strategy formulation perspective, where organizational variables influence the formulation of strategy, and a strategy implementation perspective, where the strategy has an impact on organizational variables.

By taking a *strategy formulation perspective* of the relationship between organizational variables and strategy, it is assumed that organizational variables influence the formulation of strategy. A number of researchers have assumed such a link between intangible organizational variables such as market orientation and strategy, where the underlying beliefs and behaviors have an important impact on strategy. They argue that cognitive maps and related constructs such as world views, schemata, dominant logics, and knowledge structures provide the foundation for managerial action (e.g., Huff, 1982; Kiesler and Sproull, 1982; Prahalad and Bettis, 1986).

The *strategy implementation perspective* looks at the influence of strategy variables on organizational variables. Knowledge about strategy implementation is dispersed over several fields of organizational and management theory (Hrebiniak and Joyce, 1984). Common to that research is an instrumental view of strategy implementation. Traditionally, researchers have focused on organizational structure as well as planning, control, reward, and information systems (e.g., Chandler, 1962; Galbraith and Nathanson, 1978; Govindarajan, 1988; Govindarajan and Gupta, 1985; White, 1986). The notion that strategy is hierarchically related to structure is widespread and occurs in very disparate theories (e.g., Chandler, 1962; Mintzberg, 1990).

Since the 1980s, intangible variables that may play a role in strategy implementation have gained interest. The intangible variables are related to conduct and values and include leadership style and culture on the corporate and SBU levels, cross-functional interaction on the functional level within SBU's, and abilities, characteristics, and conduct on an individual level (Davis, 1983; Govindarajan, 1988; Gupta and Govindarajan, 1984; Pelham, 1999; Schwartz and Davis, 1981; Woodside et al., 1999). One of these intangible variables is market orientation, which is

defined as “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 and Jaworski, 1990, p. 6). Market orientation has not been investigated from a strategy implementation perspective.

The importance of a strategy implementation perspective of intangible organizational variables like market orientation is illustrated by Porter (1985, p. 24), who discusses the relationship between a generic strategy (which reflects the long-term strategic orientation of the firm) and culture as a specific intangible organizational variable:

Culture ... has come to be viewed as an important element of a successful firm. However, different cultures are implied by different generic strategies. ... Culture can powerfully reinforce the competitive advantage a generic strategy seeks to achieve, if the culture is an appropriate one. There is no such thing as a good or bad culture per se. Culture is a means of achieving competitive advantage, not an end in itself.

The question whether the strategy formulation or strategy implementation perspective is appropriate refers to the classic issue of direction of causality in the relationship between strategy and organizational variables. In a systematic empirical study of the relationship between strategy and structure, Amburgey and Dacin (1994, p. 1427) note that “The bulk of the work on the strategy–structure relationship has presumed a hierarchical link, with strategy determining structure.” However, several researchers have claimed that strategy and organizational variables are interrelated (e.g., Mintzberg, 1990, p. 183). In their longitudinal study, Amburgey and Dacin (1994) found that the strategy implementation and strategy formulation perspective may coexist; however, strategy has a stronger impact on structure than vice versa. We acknowledge that strategy and market orientation affect each other. However, given our research question and empirical evidence that the effect of strategy on organizational variables may be the stronger one, we focus on the strategy implementation perspective of market orientation.

3. Framework and hypotheses

3.1. The framework

Fig. 1 presents the framework used in our analysis. We focus on PPD strategy as a variable that leads to increased performance indirectly through market orientation. As research in strategic management has found significant positive impacts of competitive strategy on performance (Dess and Davis, 1984; Hambrick, 1983a; Miller and Friesen, 1986), we also analyze direct performance impacts of a PPD strategy (as indicated by the dotted line in Fig. 1).

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