

# Transformational leadership and market orientation: Implications for the implementation of competitive strategies and business unit performance

Bulent Menguc<sup>a,\*</sup>, Seigyoung Auh<sup>b,1</sup>, Eric Shih<sup>a,2</sup>

<sup>a</sup> Brock University, Faculty of Business, Department of Marketing, Int'l Business, and Strategy, St. Catharines, Ontario, Canada L2S3A1

<sup>b</sup> Yonsei School of Business, 134 Shinchon-dong, Seodaemun-gu, Seoul, 120-749, South Korea

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## Abstract

Drawing on the resource-based view of the firm, particularly the competency-based view of strategy making, the authors develop and test an integrated model of the source–positional advantage–firm performance chain. The model postulates transformational leadership and market orientation as managerial-based and transformational-based competencies, respectively. Such competencies should lead to marketplace positional advantages through competitive strategies such as innovation differentiation, marketing differentiation, and low cost. In turn, these positional advantages contribute to different firm performance metrics, specifically, effectiveness and efficiency. The authors discuss some implications for competitive strategy theory using a resource- (competency-) based perspective, along with managerial implications.

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## 1. Introduction

Leading firms possess several different types of competencies that enable them to achieve superior firm performance. Academics and practitioners have long believed that firms need to develop and maintain unique competencies that distinguish them from competitors (e.g., Day, 1994). Specifically, the resource-based view (RBV) of the firm underscores the significance of intangible, tacit, complex, and socially embedded resources as major sources of superior and sustainable firm performance (Barney, 1991; Day and Wensley, 1998; Hunt and Morgan, 1995; Srivastava et al., 2001; Wernerfelt, 1984). Several studies examine the interrelationships among different competencies that firms possess and acknowledge that these intricate relationships lead to competitive strategies, but researchers have not explored the implications of these studies

sufficiently. Moreover, the links between different competitive strategies and different metrics of firm performance, such as efficiency and effectiveness, remain uncertain. Specifically, little research examines *how* resources and competencies affect firm performance (Han et al., 1998).

This article posits that different competitive strategies bridge the gap between competencies and firm performance. Drawing on the conceptual frameworks of Day and Wensley (1998) and Hunt and Morgan (1995), this study develops and tests the source–positional advantage–firm performance (SPP) chain, a conceptual framework that stands in stark contrast with the structure–conduct (strategy)–performance paradigm supported by industrial organizational literature (Bain, 1968). According to the SPP framework, firms develop their strategies internally using resources and competencies rather than on the basis of industry structure. Competitive strategies should enable firms to occupy certain positional advantages, whether through differentiation or cost leadership (Porter, 1980). Therefore, competitive strategies function by showing customers (external constituents) what the firm has to offer in terms of its competencies (internal strengths).

This unique study contributes to marketing strategy literature in several ways. First, by drawing on Lado et al. (1992), it

\* Corresponding author. Tel.: +1 905 688 5550x5704; fax: +1 905 984 4188.

E-mail addresses: [bmenguc@brocku.ca](mailto:bmenguc@brocku.ca) (B. Menguc), [sauh@yonsei.ac.kr](mailto:sauh@yonsei.ac.kr) (S. Auh), [eshih@brocku.ca](mailto:eshih@brocku.ca) (E. Shih).

<sup>1</sup> Tel.: +82 2 2123 5452.

<sup>2</sup> Tel.: +1 905 688 5550; fax: +1 905 984 4188.

conceptualizes transformational leadership as a managerial-based competency and market orientation as a transformational-based competency, then examines the relationship between these two competencies. The term “competency” encompasses both resources and capabilities of organizations, consistent with the definition that appears in marketing and management literature (Fiol, 1991; Lambe et al., 2002). Second, despite the widespread diffusion of market orientation literature, existing studies overlook whether the market orientation construct influences different types of competitive strategies, such as innovation differentiation, marketing differentiation, and low-cost strategies. This study therefore examines how the two competencies can develop different competitive strategies. Third, rather than using a global metric of firm performance, as is typical in the literature, this research divides firm performance into two facets to reflect the nature of different competitive strategies: effectiveness (pertaining to growth) and efficiency (pertaining to maintaining and lowering costs). This dual-metric approach offers a better understanding of how varying competitive strategies may affect firm performance in different ways (Vorhies and Morgan, 2003; Walker and Ruekert, 1987).

## 2. Theoretical background and hypotheses development

The conceptual model appears in Fig. 1. Lado et al. (1992) propose four different types of competencies—managerial-based, resource-based, transformational-based, and output-based—and for the proposed conceptual model, the most appropriate are managerial-based (transformational leadership) and transformational-based (market orientation) competencies. Transformational leadership and market orientation should lead to marketplace positional advantage, which emerges as low-cost and differentiation strategies enhance superior firm performance.

### 2.1. Relationship between competencies

Managerial-based competency refers to the ability of firm leaders to articulate and communicate the firm’s vision, values, and beliefs to its subordinates (Lado et al., 1992; Slater and Narver, 1995). That is, managerial-based competency reflects the purpose, commitment, and direction of its leaders. Because

of its central role for the fate of an organization, managerial-based competency often influences other types of competencies. Transformational leadership represents one such managerial-based competency, because it instills in subordinates a sense of belonging, commitment, inspiration, and stimulation to achieve goals and values that coincide between employees and the organization (MacKenzie et al., 2001). Transformational leadership strives to align the values and goals of employees with those of the organization by influencing or altering their values, beliefs, and attitudes through internalization or identification (Kelman, 1958) and consists of four subdimensions: inspirational motivation, intellectual stimulation, individualized consideration, and charisma (Bass and Avolio, 1994).

In contrast, transformational-based competency represents a competency that converts inputs to outputs (Lado et al., 1992), such as organizational culture, innovativeness, entrepreneurship, and organizational learning, to name just a few (Day and Wensley, 1998; Hurley et al., 1998). Market orientation serves as the focal transformational-based competency in this study, because it comprises the cultural aspects of an organization (Desphande et al., 1993; Hurley et al., 1998). Furthermore, the cultural view of market orientation defines it as an organizational culture in which values and norms exist and enhance customer value and satisfaction (Homburg and Pflesser, 2000; Narver et al., 1998).

According to managerial interpretation (sense-making) theory (Dutton and Jackson, 1987; Jackson and Dutton, 1988), characteristics that epitomize transformational leaders influence how they scan, interpret, and take actions within their social context and thereby ultimately shape and form the surrounding culture. Using cognitive appraisal theory, White et al. (2003) explain how a marketing manager’s cognitive style, perceptions of the organizational culture, and use of information affect his or her interpretation of the market situation, including perceived control and appraisals of opportunities and threats. Culture—or the shared values and norms that guide the attitudes, beliefs, and behavior of an organization—thus reflects the attributes of the top manager (Walsh, 1995).

The influence of top management on strategy formation, strategy implementation, and culture cultivation therefore cannot be overemphasized. Marketing literature underscores the significance of the role of senior management (Webster, 1988); for example, Day (1994, p. 48) asserts that “Senior management leadership is needed to reshape the culture, through such actions as proposing a challenging vision of the future or setting a major performance target like cutting time to market in half”. Narver et al. (1998, p. 44) buttress this position by claiming that “[t]op management plays a critical leadership role in changing a culture in general, and in creating a market orientation in particular”. On a similar note, Harris and Ogbonna (2001) find that participative and supportive leadership facilitate market orientation, and Lado et al. (1992) suggest that managerial-based competency influences organizational culture by developing transformational-based competencies. Furthermore, Narver et al. (1998), studying market orientation, find that transformational leadership can (1) form a powerful guiding coalition to determine market orientation, (2) create a

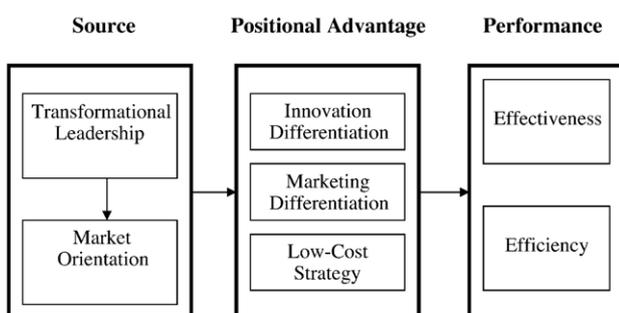


Fig. 1. Conceptual model.

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