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Strategic orientations, marketing capabilities and firm performance: An empirical investigation in the context of frontline managers in service organizations

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ABSTRACT

This study develops and empirically tests a model that links alternative strategic orientations with firm performance, through the mediating effect of marketing capabilities. The influence of environmental forces and organizational characteristics on the decision to pursue lucrative strategic orientations is also examined. Using data collected from 316 bank branch managers, the authors find that market turbulence, intensity of competition, and decentralization in decision making play a pivotal role in determining managerial strategic priorities. Moreover, competitor orientation and innovation orientation contribute significantly to the development of marketing capabilities. In turn, marketing capabilities have a positive impact on firm performance. The authors discuss the managerial implications of study findings and offer directions for future research.

1. Introduction

During the past two decades market orientation has been a focal construct in the marketing literature (Smirnova, Naudé, Henneberg, Mouzas, & Kouchtch, 2011). The work of Kohli and Jaworski (1990) and Narver and Slater (1990) spurred a substantial stream of research focusing on this construct's definition, measurement, antecedents and consequences. The vast majority of these studies investigate market orientation from either a behavioral or a cultural perspective. The behavioral perspective emphasizes specific activities relating to the generation and dissemination of and responsiveness to market intelligence (Kohli & Jaworski, 1990). The cultural perspective focuses on the organizational norms and values that encourage behaviors that are consistent with market orientation and consists of three components: customer orientation, competitor orientation, and interfunctional coordination (Narver & Slater, 1990). Homburg and Pflesser (2000) expanded the cultural perspective by developing a multilayer conceptualization of market-oriented organizational culture, comprising of basic values, norms, artifacts, and behaviors. In a further study adopting a cultural perspective, Gebhardt, Carpenter, and Sherry (2006) identified a four-stage process through which organizations change to adopt a higher level of market orientation. More recently, Zhou, Li, Zhou, and Su (2008) conceptualize market orientation as consisting of both cultural and behavioral elements, indicating that organizational-level market orientation culture affects unit-level market orientation behavior.

The assumed positive relationship between market orientation and business performance has been empirically confirmed in many studies (Cano, Carrillat, & Jaramillo, 2004; Kirca, Jayachandran, & Bearden, 2005). Moreover, this relationship is found to be robust across different environmental conditions (Slater & Narver, 1994), industrial sectors (Cano et al., 2004), and cultural settings (e.g., Selnes, Jaworski, & Kohli, 1996). Despite this evidence, an increasing number of researchers are questioning whether the mere possession of market orientation can provide firms with a sustainable competitive advantage and superior performance. Researchers are particularly concerned that market orientation may lead a firm to focus only on the expressed needs of customers, instead of pursuing a deeper understanding of the latent needs of existing and new customers. They also caution that an overemphasis on customers may hamper innovation and research and development activities and damage a firm's ability to introduce innovative products in the market (Zhou, Yim, & Tse, 2005). Moreover, to the extent that the firm's competitors are also market oriented, not only market orientation fails to provide a competitive advantage, but it becomes a cost of doing business or a failure preventer (Kumar, Jones, Venkatesan, & Leone, 2011).

These observations encouraged a new line of research that emphasizes the need to complement market orientation with other strategic orientations like innovation, organizational learning, quality, productivity, and entrepreneurship (Hurley & Hult, 1998; Marinova, Ye, & Singh, 2008; Menguc & Auh, 2006; Zhou et al., 2005). Zhou et al. (2005) also indicate that strategic orientations do not automatically

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lead to better performance, but bring about certain behaviors that in turn affect performance. There is, therefore, a need to investigate the role of such intervening variables that mediate the relationship between strategic orientations and performance outcomes.

The pertinent literature has primarily adopted a between-firm analysis, emphasizing organizational-level determinants of market orientation (Lam, Kraus, & Ahearne, 2010). However, to enhance positively competitive advantage and performance, top management must effectively diffuse a market orientation culture to each organizational member and across organizational levels. In service organizations in particular, managers are forced to rely on their frontline employees to implement a market oriented strategy and ensure customer satisfaction (Hartline, Maxham, & McKee, 2000). The direct contact of frontline employees with customers makes their performance a key factor in a service unit's effectiveness (Marinova et al., 2008). Frontline employees are often responsible for introducing customers to new service innovation and are actively involved in the implementation of other strategic initiatives (Cadwallader, Jarvis, Bitner, & Ostrom, 2010). Middle managers are also extremely important in strategy implementation as they serve as the link between the top managers to whom they report and the frontline employees who they directly supervise (Lam et al., 2010). Employees' perceptions of the market orientation culture of the organization influences directly the extent to which they integrate market orientation behavior into the process of creating and delivering superior value to customers (Kelley, 1992; Lam et al., 2010). Some authors even suggest that a particular strategic orientation of an organization is what its employees perceive it to be (Lytle, Hom, & Mokwa, 1998; Marinova et al., 2008). Limited empirical evidence indicates a significant relationship between managerial perceptions related to strategic orientations and the development of firm capabilities (Celuch, Kasouf, & Peruvemba, 2002). There is, therefore, a need for further research at the level of customer-contact managers and employees to enhance the current knowledge regarding the transformation of organizational culture elements to specific business processes and behaviors that deliver value to customers.

This study contributes to the extant literature in four ways. First, in response to recent calls for expanding the market orientation framework, it examines four strategic orientations that guide a firm's behavior in the marketplace and have the potential to create superior performance: customer orientation, competitor orientation, internal/cost orientation, and innovation orientation. Second, it proposes that marketing capabilities act as an action mechanism that facilitates the actual implementation of strategic orientations at the customer level, and empirically assesses the mediating effect of marketing capabilities on the relationship between strategic orientations and performance. Third, it investigates the strategic orientations–performance relationship at the level of branch managers in banking institutions. These personnel are responsible for implementing organizational strategies at the branch level, are actively involved in providing valued-added services to important customers, and at the same time they supervise the behavior and activities of frontline employees. Fourth, it examines the role of environmental turbulence and organizational structure in the adoption of specific strategic orientations.

The remainder of this article is organized as follows. The next section outlines the theoretical background of the study. Then, the conceptual model is introduced and research hypotheses are developed. Next, the research methodology is described and the results of statistical analysis are presented. The article concludes by discussing the key findings and implications, addressing study limitations and identifying future research avenues.

2. Research background

Organizations attempt to achieve superior performance by developing and implementing effective business strategies that exploit emerging opportunities in the marketplace while capitalizing on available resources and capabilities (Bharadwaj, Varadarajan, & Fahy, 1993). The multiplicity of strategic and financial objectives they aim to achieve, the idiosyncratic environmental conditions they face, and the unique bundle of organizational resources and skills they possess, direct firms to simultaneously engage in multiple sets of strategic behaviors (Olson, Slater, & Hult, 2005a). For nearly two decades the marketing literature has emphasized the significant benefits associated with market orientation. However, being market oriented may not be comprehensive enough to be used as a strategic beacon for achieving competitive advantage (Han, Kim, & Srivastava, 1998). Firms need to pursue complementary strategic orientations (Zhou et al., 2005). Drawing on this emerging stream of research, and particularly on the work of Olson et al. (2005a), we develop a broad conceptual framework comprising of four strategic orientations. Moreover, the shortcomings of market orientation to solely generate superior competitive advantage (Menguc & Auh, 2006), turned researchers attention on exploring relevant firm capabilities that should be combined with market orientation (and other strategic orientations) to strengthen performance (Smirnova et al., 2011). Morgan, Vorhies, and Mason (2009) have demonstrated that market orientation and marketing capabilities complement one another in ways that contribute to superior firm performance. Therefore, our conceptual framework examines the influence of strategic orientations on building marketing capabilities that in turn drive firm performance.

2.1. Strategic orientations

Strategic orientations are the guiding principles that influence a firm's marketing and strategy-making activities (Noble, Sinha, & Kumar, 2002). They reflect the strategic directions implemented by a firm to create the proper behaviors that lead to superior performance (Gatignon & Xuereb, 1997; Slater, Olson, & Hult, 2006), and are founded on a firm's philosophy of how to conduct business through a deeply rooted set of values and beliefs (Zhou et al., 2005). Research in marketing has mainly focused on maintaining a market orientation, based on the adoption and implementation of the marketing concept (Noble et al., 2002). However, a growing stream of research endorses the adoption of alternative strategic orientations including innovation orientation, technology orientation, entrepreneurial orientation, quality orientation and productivity orientation (Gatignon & Xuereb, 1997; Hurley & Hult, 1998; Marinova et al., 2008; Voss & Voss, 2000; Zhou et al., 2005). These authors contend that firms can maximize their performance by complementing market orientation with other important strategic orientations that fit their environmental context and organizational characteristics.

Following a thorough review of the relevant literature, our study focuses on four strategic orientations that attracted most research attention, and whose relationship with business performance has been empirically established: customer orientation, competitor orientation, innovation orientation and internal/cost orientation. Customer orientation is a firm's sufficient understanding of its target buyers in order to be able to create superior value for them (Narver & Slater, 1990). Customer orientation advocates a continuous, proactive disposition toward meeting customers' exigencies (Han et al., 1998). Competitor orientation reflects a seller's ability to understand the short-term strengths and weaknesses and long-term capabilities and strategies of both the key current and the key potential competitors (Narver & Slater, 1990). Innovation orientation is a strategic behavior that reflects openness to new ideas as well as the active seeking of such ideas (Olson et al., 2005a). Finally, internal/cost orientation reflects a firm's emphasis on efficiency in all parts of the value chain (Olson et al., 2005a) and relates to Porter's (1980) cost leadership strategy.