Market Orientation And Performance: Does Organizational Strategy Matter?

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Abstract

Data from a survey of 159 hospitals was used to test the relationship between market orientation and firm performance for low cost and differentiation strategies. Hospitals pursuing a differentiation strategy had stronger market orientation than those pursuing a cost leadership strategy. Market orientation had a more positive impact on the performance of organizations pursuing a differentiation strategy than on those pursuing a cost leadership strategy. In the cost leader group, the inter-functional coordination component of market orientation significantly affected firm performance, while in the differentiator group the customer orientation and competitor orientation components of market orientation had significant impact on performance. The implications of these findings for managers also are discussed.

Introduction

Research in the area of market orientation, "the organization wide generation of market intelligence, dissemination of intelligence across departments and organization wide responsiveness to it" (Kohli & Jaworski, 1990: 3), has exploded in the decade of the 1990s. This growth is due in large part to the seminal work of Narver and Slater (1990) who developed scales to measure the components of market orientation. Based on an extensive review of the literature on sustainable competitive advantage and strategic marketing, Narver and Slater (1990) concluded that market orientation consists of three behavioral components--customer orientation, competitor orientation, and interfunctional coordination--and two decision criteria--long term focus and profit emphasis. They conceptualized an organization's degree of market orientation as the sum total of its emphasis on these five components.

The growing body of research that has followed has provided unequivocal support for the relationship between market orientation and performance (e.g. Greenley, 1995; Kumar, Subramanian & Yauger, 1998). Given this empirical evidence, the focus of the research, in recent years, has moved from whether to adopt a market orientation, to the means and barriers associated with developing a market orientation (Ruekert,1992). Although this research stream has provided some valuable insights to the development of a market orientation, much of this research does not distinguish among organizations with different strategic orientations, implying that the strategic orientation of an organization has little impact on the relationship between market orientation and performance. However, research in the area of strategic management does not support this implication.

The organizational processes required for successful performance vary from one strategy to another (Snow & Hrebiniak, 1980). As such, it appears appropriate to think that differences in terms of the relative emphasis placed on different components of market orientation in order to create a strong alignment between the strategy and the organization's internal processes (Miller & Friesen, 1986) will have a strong influence on the market orientation-performance relationship. To the extent that different components of market orientation will become more or less significant in influencing the performance associated with a given strategy, organizations attempting to achieve a competitive advantage need to be aware of their relative importance.

Readers with comments or questions are encouraged to contact the authors via email.

The main objective of this study is to examine the impact that a firm's strategic orientation has on the market orientation- performance relationship. In order to achieve this objective, first the relationship between market orientation and an organization's strategic orientation is examined. This is followed by an examination of the relationship between different components of market orientation and a firm's strategy. Next the strength of the market orientation-performance relationship for organizations pursuing different strategies is examined. Finally, the relationship between the components of market orientation and firm performance for organizations pursuing different strategies is examined. An understanding of these relationships should facilitate an organization in its efforts to align its strategic orientation with the appropriate components of market orientation, which in turn should increase an organization's ability to achieve a sustainable competitive advantage.

Theoretical Framework and Development of Research Hypotheses

Table 1 summarizes the extant literature on market orientation, identifying the methodology used and the findings of the studies. The following section describes in greater detail those studies that form the theoretical underpinning for the current study and lead to the development of hypotheses that this study will examine.

Initial research evidence appears to indicate that the effectiveness of the approach an organization takes in the adoption of market orientation may depend on the organization's strategic orientation. Using Porter's (1980) generic strategies of cost leadership and differentiation and a sample of small manufacturing firms, Pelham (1999) found that the choice of generic strategy has a relatively low influence on the relationship between market orientation and performance. Pelham (1999) noted that the results might be sample specific due to the constraints in the ability of small firms to implement the generic strategies. Another problem with this research is that it does not recognize that the components of market orientation may influence performance differently based on strategic orientation. In another study, using the Miles and Snow (1978) strategic orientation typology, Lukas (1999) examined the relationship between the components of market orientation and firm performance for prospectors, analyzers, defenders, and reactors. He found that the relationship between strategic type and degree of market orientation does not vary across different levels of performance. These results may be due to the fact that the theoretical support for these hypotheses was limited to marketing concepts. Although the marketing function is important to being market oriented, market orientation involves the integration of all functions with marketing being only one of those functions. If market orientated concepts as opposed to marketing concepts had been used in the formulations of the hypotheses, the hypothesized relationships between strategic orientation and the components of market orientation may have been different. Thus, while some efforts have been made to examine the role of organizational strategy in the market orientation-performance relationship, noticeably lacking in the market orientation and performance research is the examination of the relationship between the components of market orientation and firm performance for various strategic orientations.

Extensive research (e.g. Miller & Dess, 1993) has established Porter's (1980) generic strategies of cost leadership, differentiation, and focus as the dominant paradigm in the literature[1]. The basic premise behind Porter's approach is that an industry's structure plays a compelling role in determining the competitive rules of the game, as well as the strategies potentially available to organizations in the industry.

The main focus of differentiators is external (Pelham, 1999) due to such organizations' exploration and exploitation of new market opportunities resulting in these organizations continually redefining their domain. The more a differentiator exploits new market opportunities and changes its domain, its environment increases in uncertainty which in turn increases the external focus of the differentiator. Biggadike (1979) found that SBUs whose primary focus is on differentiating themselves by focusing on new product activities will face higher uncertainty since it is betting on products that have not yet crystallized. Due to this higher uncertainty it becomes increasingly important to be externally focused in order to gather information to reduce the uncertainty.

Table 1
Selected Literature on Market Orientation

Author(s)	Methodology	Key Findings
Matsuno and Mentzer (2000)	Questionnaire survey of 364 marketing executives from U.S. manufacturing companies.	Business strategy moderates the strength of the relationship between market orientation and business performance.
Lukas and Ferrell (2000)	Questionnaire survey of key informants from 194 SBUs of U.S. manufacturing companies.	While both market orientation and learning orientation are required to maximize the effectiveness of innovation processes, a strong learning orientation may be more important than a strong market orientation.
Baker and Sinkula (1999)	Questionnaire survey of key informants from 411 U.S. companies.	While both market orientation and learning orientation are required to maximize the effectiveness of innovation processes, a strong learning orientation may be more important than a strong market orientation.
Lukas (1999)	Questionnaire survey of key informants from 194 SBUs of U.S. manufacturing companies (same data base as in Lukas and Ferrell (2000) above.	Miles and Snow's strategic types are systematically associated with characteristic degrees of and emphasis in market orientation.
Kumar, Subramanian, and Yauger (1998)	Questionnaire survey of chief administrators in 156 acute care hospitals.	A strong positive relationship exists between market orientation and business performance. Market turbulence, competitive hostility, and supplier power moderated the relationship between the two variables.
Van Egeren and O'Connor (1998)	Questionnaire survey of 289 top management team members from 67 organizations.	A significant positive relationship exists between market orientation and performance in service businesses.
Pelham (1997)	Questionnaire surveys of presidents and sales managers of 160 firms.	The market orientation-performance relationship is strongest in differentiated markets.
Atuahene-Gima (1996)	Questionnaire survey of CEOs from 158 manufacturing and 117 service firms in Australia.	Market orientation has significant relationships with certain (but not all) aspects of innovation.
Greenley (1995)	Questionnaire survey of CEOs/Managing Directors of 240 U.K. companies.	Unlike the U.S. evidence, this study's results suggest that the influence of market orientation on performance is moderated by environmental variables.
Jaworski and Kohli (1993)	Questionnaire survey of executives from 220 companies, cross-validated by a second sample of 230 American Marketing Association members.	Market orientation is related to top management emphasis on the orientation, risk aversion of top managers, interdepartmental conflict and connectedness, centralization, and reward system orientation.
Ruekert (1992)	Questionnaire survey of 400 managers of one Fortune 500 high technology firm in the U.S.	A positive relationship exists between market orientation and performance, although market orientation varies across business units of a single organization.
Narver and Slater (1990)	Questionnaire survey of top management team members from 140 SBUs of a major western corporation.	Market orientation has a substantial positive effect on the profitability of both commodity products and non-commodity businesses.

However, the focus of cost leaders is largely internal. It is on creating internal efficiencies and protecting existing domains (Pelham, 1999). Thus, cost leaders focus on price and price-conscious customers, which increases predictability. Due to the predictability of the environment, the need to gather external information is reduced. The internal focus of the cost leaders is further supported by Hrebriniak and Joyce (1985) who argue that search activities for cost leader are not as broad as that of differentiators. The search process is likely to be "'solution driven' directed toward the solution of specific problems, e.g., lowering cost curves and increasing efficiency…." Thus, market orientation is more likely to be a strong complementarity to an organization pursuing a differentiation strategy (because of the strategy's external focus) than it is to an organization pursuing the internally focused strategy of cost leadership. It is therefore hypothesized that:

H1: Organizations pursuing a differentiation strategy will be more market oriented than organizations pursuing a cost leadership strategy.

This is not to argue that cost leaders are not market oriented but instead they are less market oriented than a differentiatior due to the differing emphasis that differentiators and cost leaders place on the various dimensions associated with market orientation (Kumar, Subramanian & Yauger, 1998). For example, a differentiator would focus more attention than cost leaders on activities associated with customer orientation, competitor orientation, and long-term focus. This is true whether differentiation is based on innovation or marketing. More specifically customer orientation is necessary for a differentiator due to the need for managers to have a thorough understanding of complex customer preferences, motivations, and buying patterns in order to create a unique product or image for the customer (Miller, 1988).

However, customers of cost leaders care more about price than image or novelty (Miller, 1988). Their behavior is more predictable and as such, easier to forecast when only price matters. Thus, the need for scanning and analysis of markets is reduced. This need for reduced scanning is supported by the strategy itself, which focuses on simplicity and economy and discourages costly information processing (Miller, 1989). As a result, cost leaders are less customer focused than differentiators.

Differentiation, whether based on marketing or innovation, is likely to invite competitor responses (Miller, 1988). These responses will differ depending on the capabilities of the competitors and the uniqueness of the differentiator's product. Due to the difficulty of predicting the myriad of competitor responses and any problems resulting from these responses, environmental unpredictability is increased. In addition, in order to create a unique product it is necessary to have knowledge of the products and future products presented by competitors. Thus, a competitor orientation is necessary to reduce the unpredictability associated with competitor reaction to anticipated changes, as well as to ensure the uniqueness of the product introduced by the differentiator (Miller, 1989).

Although some competitor orientation is necessary for organizations that pursue a cost leadership strategy in order to obtain new ideas to increase efficiency, competitor orientation incurs costs so it is done sparingly (Miller, 1989). When only price matters, as opposed to the myriad of possibilities introduced by differentiators, there is a limited range of possible competitor responses increasing the predictability of the environment. As a consequence, the necessity of incurring the costly environmental scanning in order to be competitor orientated is reduced.

Differentiators also place more emphasis on long-term horizons than cost leaders. For differentiation based on innovation, this is due to the lead times needed to plan and coordinate the design and implementation of new innovations; systematically analyze the multiplicity of factors that influence a new product's viability, and direct and integrate the conceptualization, commercialization and implementation phases of innovation (Miller, 1989). Similarly for differentiation based on marketing, lead times are needed to conceptualize, design, and implement a successful marketing campaign. The lead times are not as necessary for cost leaders due to fewer new product introductions as well as the reduced need for unique marketing campaigns necessary for developing a unique image.

However, cost leaders focus on interfunctional coordination more than differentiators. This is due to the fact that interfunctional coordination is at the heart of the cost leader's strategy. These organizations focus a great deal of attention on cost control measures and creation of internal efficiencies which enables them to make above average returns while creating value for the customers in the form of low cost. The market orientation of a cost leader is, therefore, likely to be skewed toward interfunctional coordination (a prerequisite for creating and sustaining internally efficient operations).

However, both differentiators and cost leaders would find profit emphasis important. Whether a firm chooses differentiation or cost leadership as a strategy, the focus of the strategy is to create a sustainable competitive advantage in order to achieve above normal market performance. Therefore, emphasizing profit is consistent with a firm achieving a competitive advantage.

Based on the above, it is hypothesized that:

H2: There will be significant differences in the relative emphasis placed on different components of market orientation between organizations pursuing a differentiation strategy and organizations pursuing a cost leadership strategy.

As argued previously, the activities involved in creating and sustaining a high degree of market orientation appear to strongly support the strategic orientation of organizations pursuing the differentiation strategy, which emphasizes growth, innovation, and external expansion to achieve profitability. However many of these same activities are not necessary to achieve a competitive advantage based on cost leadership. In fact, implementation of these activities will increase costs with little added value and as such hurt the profitability of a cost leader. This is not to say that organizations pursuing the cost leadership strategy will not benefit from increased market orientation. The heart of market orientation is customer focus. Coordination of personnel and other resources from through out the organization to create value for the customer, therefore, is an essential component of market orientation. However, because of its external focus, the performance of an organization pursuing a differentiation strategy is more likely to be impacted by a high magnitude of market orientation. Accordingly, it is hypothesized that:

H3: Market orientation will have a more positive impact on the performance of organizations pursuing a differentiation strategy than on organizations pursuing a cost leadership strategy.

It has been noted that "market orientation can never be negative," since being market oriented is the "basis for creating superior value for customer, the meaning of competitive advantage" (Slater & Narver, 1994: 54). However, while a high degree of market orientation may lead to superior performance, different forms of market orientation may be necessary for successful achievement of different strategic goals (Kumar, Subramanian & Yauger, 1998). The literature on sustainable competitive advantage also supports this notion (e.g.,Day & Wensley, 1988). Based on the arguments made with respect to the differences in the relative emphasis placed on different components of market orientation between organizations pursuing different strategic orientation, it is expected that organizations pursuing a cost leadership strategy will benefit most by having a strong emphasis on interfunctional coordination. This will enable them to create sustainable competitive advantage based on internal efficiencies that creates value to the customer in form of low cost. In contrast, organizations pursuing a differentiation strategy are more likely to achieve superior performance by emphasizing the competitor, customer, and long term focus components of market orientation, each of which will help them explore and exploit new market opportunities. It is, therefore, hypothesized that:

H4: The contributions of different components of market orientation to performance will be different for organizations pursuing a cost leadership strategy and organizations pursuing a differentiation strategy.

Method

Sample

This study examined the market orientation-competitive strategy-performance relationships of acute care hospitals. Using the *American Hospital Association Guide to the Health Care Field*, 600 acute care hospitals were selected to be participants in this study. There was a usable response of 159 fully completed questionnaires out of 171 surveys (28.5%) received. The 159 hospitals in the sample were varied in terms of profit orientation, size, location, and age.

Measures Used In This Study

Table 2 presents the details of the items used for measuring various constructs of interest in this study. Market orientation was measured using the scale originally constructed and validated by Narver and Slater (1990), and modified to suit the health care industry by Kumar, Subramanian, and Yauger (1998). Porter's generic strategies were measured using scales developed by Narver and Slater (1990), modified to suit the hospital environment.

Table 2
Scale Items

Respondents are asked to respond on a 7 point scale where 1=does not describe my organization at all and 7=describes my organization perfectly.

Customer Orientation

1. Showing commitment to patients
2. Creating services that offer value for patients
3. Understanding patients needs
4. Having patient satisfaction as a major objective
5. Measuring patient satisfaction
6. Providing follow up services

Competitor Orientation

1. People in charge of various services discuss competitor information
2. People in charge of various service units respond rapidly to competitors' actions
3. Top managers discuss competitors' strategies
4. Top managers target opportunities for competitive advantage

Interfunctional Coordination

1. Various service units work close together to meet patients' needs
2. Various service units share business information with each other
3. Business strategies are integrated between different service units
4. All service units work together in offering value to the patient
5. Different service units share resources with each other

Long-Term Focus

1. Adopting long term focus in matters of profits
2. Satisfying all key constituencies in the long run
3. Aiming for positive profit margin in the long run
4. Discovering and implementing new value for patients
6. Trying to overcome any deficiency in services

Survival and Growth/Profit Emphasis

1. Profit performance is measured for each service unit
2. Requiring rapid payback of new services/facilities
3. Top managers emphasize improved performance relative to competitors
4. All service units are required to be profitable
5. Emphasis on earning revenues sufficient to cover expenses

Differentiation Strategy

1. Introducing new services/procedures
2. Differentiating services from competitors
3. Offering broader range of services than competitors
4. Utilizing market research to identify new services

Low-Cost Strategy

1. Achieving lower cost of services than competitors
2. Making services/procedures more cost efficient
3. Improving the cost required for coordination of various services
4. Improving the utilization of available services/facilities
5. Performing analysis of costs associated with various services
6. Improving availability of equipment and auxiliary services to control costs

For measuring organizational performance a traditional measure of organizational performance, return on capital, as well as two other performance criteria, success in retaining patients and success in controlling expenses, were used in this study. Using past empirical studies, the last two performance measures were selected because they best matched the purpose and objectives of the generic strategies (e.g. Kumar, Subramanian & Yauger, 1997). Success in retaining patients was chosen as performance measure for the differentiation strategy due to these studies which found that hospitals pursuing a differentiation strategy targeted customer loyalty as their primary goal. Similarly, success in controlling expenses was chosen as the performance measure for the cost leadership strategy due to these studies which found that hospitals pursuing a cost leadership strategy primarily focus on cost control measures for successful execution of this strategy.

Using a modified version of an instrument developed by Gupta and Govindrajan (1984), business performance was measured first by asking respondents to indicate on a 7 point Likert-type scale, where 1=of little importance and 7=of extreme importance, the importance their organization attaches to various performance criteria. Next, on another 7 point Likert-type scale where 1=highly dissatisfied and 7=highly satisfied, respondents were asked the extent to which their organization was currently satisfied with their performance on each of the same performance criteria. For each performance measure, a weighted average was computed by multiplying the *satisfaction* score with the *importance* score.

Results

Data analysis involved two statistical procedures. Analysis of variance was used to examine the differences in overall market orientation and the relative emphasis on different components of the two strategy groups. Multiple regression was used to examine the impact of market orientation and its components on the performance of the two strategy groups. Table 3 presents the mean, standard deviation, reliability coefficients and correlation of all scales employed in this study.

Table 3
Mean, Standard Deviation, Scale Relaibility And Correlations
(N=159)

Variables	Mean	S.D.	1	2	3	4	5	6	7	8
1. Customer orientation	6.13	0.87	**.92**							
2. Competitor orientation	6.38	1.34	.55	**.88**						
3. Inter-functional 5.27	1.08	.65	.45	**.91**						
4. Long-term focus5.54	0.95	.55	.65	.52	**.83**					
5. Survival/growth/profit	4.85	1.26	.55	.62	.63	.67	**.85**			
6. Market orientation	5.63	0.88	.75	.84	.74	.84	.80	**.94**		
7. Low-cost strategy	5.69	1.15	.27	.29	.33	.32	.36	.33	**.86**	
8. Differentiation strategy	5.59	1.31	.48	.51	.42	.50	.48	.56	.42	**.85**

Correlation of .20 and above are significant at p<.01 level. reliability coefficients are presented in the diagonal.

Differences in Magnitude of Market Orientation and Relative Emphasis

To test the first two hypotheses, two groups were created: cost leaders and differentiators. Organizations were classified as cost leaders if their cost leadership scores were above the sample mean and differentiation scores were below the sample mean. Similarly, organizations were classified as differentiators if their differentiation scores were above the sample mean and cost leadership scores were below the sample mean.

Analysis of variance was employed to examine the difference in the overall magnitude of market orientation and relative emphasis placed on different components of market orientation among the two groups. The results, presented in Table 4, indicate support for both Hypotheses 1 and 2. Organizations pursuing a differentiation strategy had stronger market orientation (mean 5.84 vs 5.51, F=6.60, p<.05) than organizations pursuing a cost leadership strategy.

Table 4
Results Of Analysis Of Variance
(Competitive Strategy On Market Orientation And Its Components)
(N=138)

Competitive Strategy

Market Orientation/ Its Components	**Cost Leadership**	**Differentiation**	**F-value**
Customer Orientation	6.20 (0.69)	6.38 (0.76)	.74
Competitor Orientation	5.16 (1.21)	6.90 (1.13)	13.66**
Interfunctional Coordination	5.72 (0.72)	5.27 (0.79)	3.87*
Long-term Focus	5.00 (1.14)	5.39 (1.05)	3.83*
Survival and Profit Emphasis	5.48 (1.11)	5.29 (0.89)	1.16
Overall Market Orientation	5.51 (0.74)	5.84 (0.73)	6.60*

Standard deviations are in parentheses ** $p<.01$ * $p<.05$

Results also show differences in the relative emphasis placed by the organizations in the two groups in terms of three of the five components. Organizations pursuing a differentiation strategy placed significantly more emphasis than organizations pursuing a cost leadership strategy on competitor orientation (mean 6.90 vs 5.16, F=13.66, p<.001) and long term focus (mean 5.39 vs 5.00, F=3.83, p<.05), but significantly less emphasis on interfunctional coordination (mean 5.27 vs 5.72, F=3.87, p<.05). There was not a statistically significant difference between cost leaders and differentiators with respect to survival and profit emphasis.

Impact of Market Orientation on Performance

The impact of the magnitude of market orientation on the performance of cost leaders and differentiators was examined using four separate multiple regressions. Based on a review of the health care strategy literature (e.g. Blair & Boal, 1991), hospital size, profit orientation, location, and age were identified as control variables that may have an impact on performance. Two regression equations examined the effect of market orientation on return on capital in the cost leadership and differentiator groups. The other two regression equations examined the effects of market orientation on cost control in the cost leadership group and on success in retaining patients in the differentiator group. Results presented in Table 5 show that after controlling for size, profit orientation, location and age, market orientation is a significant predictor of return on capital in both the cost leader group (beta .39, p<.05) as well as the differentiator group (beta .50, p<.001). Market orientation also was a significant predictor of the performance measures specifically associated with the two strategies, i.e. cost control in the cost leader group (beta .42, p<.001) and success in retaining patients in the differentiator group (beta .48, p<.001).

The relative impact of market orientation on return on capital of the two groups was tested using the formula provided by Cohen & Cohen (1975: 53). The test of significance for the differences in the r associated with the cost leader group (r=.39) and differentiator group (r=.54) showed a significant difference at the p<.05 level. This provided support for the third hypothesis for this study that had predicted that market orientation will have a more positive impact on organizations pursuing a differentiation strategy than on organizations pursuing a cost leadership strategy.

Table 5
Results Of Multiple Regression Analyses

(*Effect of Market Orientation on the Performance of Organizations Pursuing Cost Leadership and Differentiation Strategies)*

	Performance of Cost Leaders[1]		**Performance of Differentiators[1]**	
Independent Variables	**ROC[2]**	**CntrlExp**	**ROC[2]**	**Retainpa**

Profit Orientation	-.11	.17**	-.17	-.26**
Size	-.04	.21	.01	.09
Location	.01	-.14	-.01	-.04
Age	.24	-.06	.12	.16
Market Orientation	.36**	.42***	.50***	.48***
F-Value	2.29	3.73**	10.38***	12.69***
Multiple R	.39	.48	.54	.58
Adjusted R^2	.15	.23	.30	.34

[1] standardized beta weights.
[2] The multiple Rs of the two groups are different at p<.05 level (Cohen & Cohen, 1976:.53).
**** p<.001*
*** p<.01*
** p<.05*

Impact of the Components of Market Orientation on Performance (Hypothesis 4)

The impact of the five components of market orientation on the performance of organizations pursuing cost leadership and differentiation strategies was examined using four separate multiple regression analyses. Once again, size, profit orientation, location and age were controlled for. Results presented in Table 6 show that the overall regression models are significant in each of the four cases. In the cost leader group, as predicted, only interfunctional coordination significantly affects performance in terms of both performance measures, return on capital (beta .27, p<.05) and controlling expenses (beta .31, p<.05). In the differentiator group, two components, customer orientation (beta .30, p<.05) and competitor orientation (beta .40, p<.05) have significant impact on performance in terms of return on capital, and only the component of customer orientation (beta .37, p<.05) has significant impact on success in retaining patients. These results provide support for hypothesis 4. However, it also was hypothesized that differentiators would be able to achieve superior performance also by emphasizing a long-term focus. The results do not support this assertion.

Table 6
Results Of Multiple Regression Analyses
(Effects of Various Components of Market Orientation on the Performance of Organizations Pursuing Cost Leadership and Differentiation Strategies)

	Performance of Cost Leaders[1]		**Performance of Differentiators[1]**	
Independent Variables	**ROC**	**CntrlExp**	**ROC**	**Retainpa**
Customer Orientation	.19	.16	.30*	.37*
Competitor Orientation	.01	.09	.40*	.01
Interfunctional Coordination	.27*	.31*	.12	.19
Long Term Focus	.08	.02	.04	.01
Survival and Growth/Profit Emphasis	.10	.06	.06	.01
F-Value	6.01***	2.28*	2.25*	2.51*
Multiple R	.36	.38	.51	.53
Adjusted R^2	.13	.14	.26	.28

[1] standardized beta weights
**** p<.001*
*** p<.01*
** p<.05*

Discussion and Limitations

Findings of this study, in general, provide support for the assertion made by scholars (e.g. Narver & Slarer, 1990; Kohli & Jaworski, 1990) that market orientation has a positive impact on performance regardless of the organizational conditions. The strategic choice perspective (Child, 1972) that has both theoretical (e.g. Hambrick & Mason, 1984) and empirical support (e.g., Lamont, Marlin & Hoffman, 1993) argues that managers select the strategy(ies) that they think best aligns their organization with the environment. Market orientation is vital to an organization in that it helps assess the constraints and opportunities created by the environment. However, market orientation is more than just collecting and disseminating information about the external environment. It also encompasses those activities that allow the organization to act on such information by providing a coordinated response to environmental opportunities and threats. Market orientation is thus more than a boundary-spanning activity. Boundary-spanning theory suggests that certain individuals in organizations acquire information from external sources and subsequently disseminate this information to others in the organization, thus playing a "gatekeeper's" role (Culnan, 1983). Market orientation, on the other hand, goes beyond the information collection and dissemination activities of boundary-spanners to include acting on the information to provide value to the customer and thus obtain a sustainable competitive advantage. Market orientation, thus, is a critical complementarity (Miller, 1988) to successfully pursue the strategic choice perspective, regardless of the type of strategy (cost leadership or differentiation) used.

The positive impact of market orientation was noted both for organizations pursuing a cost leadership strategy as well as a differentiation strategy. However the study also found that the impact of market orientation on performance (as measured by return on capital) was greater (r=.54) in case of organizations pursuing a differentiation strategy than organizations pursuing a cost leadership strategy (r=.39). A possible explanation for the positive impact of market orientation on a strategy of differentiation may lie in the fact that a differentiator considers itself an "open system," in that it emphasizes interaction with the environment as essential for its functioning (Scott, 1992). This is in contrast to an organization pursuing a strategy of cost leadership that is oriented to internally driven optimization and thus, seeks to defend itself against the environment. Thus, given the domain of its competitive strategy, an organization with a high degree of market orientation will continuously examine alternative sources of sustainable competitive advantage to determine how it can be most effective in creating superior value for its present and future target customers. A more explicit link between customer value and sustainable competitive advantage is posited in the marketing literature (e.g. Zeithaml, 1988). Since a seller, any seller, has myriad alternative opportunities for creating buyer value through increasing a buyer's benefits and/or decreasing a buyer's total acquisition and use costs, a business has to create and maintain the culture that will produce the necessary behaviors to create superior value for customers. The activities associated with becoming market oriented require behaviors necessary for the creation of superior value for buyers and, thus, continuous superior performance for the business.

As regards the difference in relative importance of different components of market orientation for organizations with different strategic orientations, organizations may differ in their degree of market orientation depending on their extent of orientation toward different dimensions (activities associated with) of market orientation. Such differences will allow them to increase the magnitude of market orientation in strategy-relevant ways. Several scholars (e.g., Kohli & Jaworski, 1990; Narver & Slater, 1990) have described market orientation as the creation of an organization culture that puts customers in the center of the organization's thinking about strategy and operations. Findings of this study confirm this assertion. Through relative emphasis on different components of market orientation, organizations pursuing different strategies can create a setting conducive for effective and efficient organizational activities that would lead to superior performance.

It should be noted that it was hypothesized that differentiators would be more customer oriented than cost leaders. However, the results do not support this assertion. It also was hypothesized that customer orientation would have a more positive impact on performance for differentiators than cost leaders. The results do support this assertion. This may show that while cost leaders view customer orientation as important, it does not have a big impact on performance. It is agreed that some customer orientation is necessary for a cost leader in order to hinder the cost leader from becoming so myopic in the pursuit of reducing costs such that it produces products that its customers do not value. However, when only price matters the environmental scanning associated with being customer oriented does not need to be as extensive for a cost leader as it does for a differentiation where the issues associated with customer preferences are more varied. Thus, the benefits from customer orientation will not be as great for cost leaders as they are for differentiators. Finally, although differentiators view a long-term orientation as important, it has little impact on performance. This may be due to the fact that it is the results of a long-term orientation that matter, i.e. becoming more customer and competitor focused, not the long-term orientation in and of itself.

The results of this study, however, must be interpreted with caution because of two limitations. First, the study is limited to a single industry. As such, the generalizability of the study's findings to other industry contexts is limited. However, restricting the study to organizations in a single industry conferred the obvious advantage of being able to control for industry effects. Next the cross-sectional nature of the study imposed a limitation on the use of the results. Use of cross-sectional data as opposed to longitudinal data meant that conclusions must be restricted to those of association as opposed to having conclusions that would throw light on causal relationships between the variables of interest.

Managerial and Academic Implications

In the past, when entry regulation and cost reimbursement "virtually insulated the hospital industry from traditional market pressures," (Cleverley & Harvey, 1992: 54) being market oriented was of little consequence. Given these conditions it is possible that some health care managers may have concluded that the extra resources required for making a hospital market oriented could not be justified in terms of the resultant benefits. However, the competitive landscape of the health care industry has been dramatically altered in recent years. A number of factors have contributed to this change, important among which are: active encouragement of competition by the Federal government; the shifting balance of power from physicians to managers; increased cost consciousness on the part of the government, employers, and third-party payers; implementation of a prospective pricing system for reimbursing hospitals under Medicare; and the growth and dominance of multi-hospital system. Given this industry environment, top managers of health care organizations are increasingly being forced to recognize organizational competencies and weaknesses, resolve strategic issues, and develop coherent strategies (Zajac & Shortell, 1989).

The findings of the current study provide important pointers to health care executives both in terms of developing a better understanding of the dynamics of the health care industry, and in terms of managing the organization for superior performance, given the industry dynamics. By describing the market orientation construct in the specific context of the health care industry, findings of this study provide specific guidance to hospital executives for building the information gathering, dissemination and response systems in their organizations, which will help them become more market oriented.

This study establishes the importance of market orientation for hospitals in order to obtain a sustainable competitive advantage by relating the degree of market orientation to the extent of success in achieving critical performance outcomes. The study also underscores the necessity of choosing the relative emphasis on different components of market orientation depending on the organizations' strategic orientation. The implications from a practitioner's view point are that: although market orientation has an impact on performance, its ultimate impact is limited by the organization's ability to implement value-creating strategies that current and potential competitors are not simultaneously implementing and are unable to duplicate (Hitt, Ireland & Hoskisson, 1995). Unbundling the relationship between strategic orientation and market orientation should help the organization focus its organizational wide generation and dissemination of, and response to market intelligence on that intelligence that will most effectively and efficiently help the organization create "the necessary behaviors for the creation of superior value for buyers…" (Narver & Slater, 1990: 21). This focus should present the organization with many potential sources of competitive advantage consistent with its strategic orientation and as a consequence, facilitate the organization's selection of value-creating strategies that competitors are unable to duplicate. This should help the organization create a sustainable competitive advantage which is the underlying goal of strategic management.

End Note

Focus strategy was not used in this study because the delivery of health care is mostly local in nature and as such, almost all hospitals would be pursuing some type of focus strategy. However the type of focus would be either cost leadership or differentiation.

The use of self-report data is common to management research. However, under certain conditions self-report data can either inflate (Williams, Cole & Buckley, 1989) or suppress (Ganster, Hennessey & Luthans, 1983) the magnitude of relationships being investigated, creating common method variance problems. Harman's (1967) one factor test was used to address the issue of common method variance. This test involves entering all the independent and dependent variables into a factor analysis. Common method variance is a substantial problem if a single factor emerges, or if one general factor accounts for a disproportionately large variance. After entering all the variables in this study in a factor analysis, an eight-factor solution emerged which explained 76 percent of the variance with no single factor explaining more than 14 percent of the variance. Also, a general factor did not account for a majority of the variance in the predictor and criteria variables. This evidence suggests that common method variance was not a problem in this study. 🕮

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