

# Organizational strategic orientation types and the role of market learning capability

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*Abstract:* Organizations with different strategic orientations have different perceptions of the environment and therefore engage differently in developing organizational capabilities. Market-focused learning capability is critical for organizations pursuing innovation-based competitive strategy. The results of empirical research in Slovenian organizations show that market learning capability in organizations with innovation-based competitive strategy are not at a much higher level compared to organizations pursuing quality or cost-based competitive strategy. The ability to gather, disseminate and process information about customer needs and competitors is thus in Slovenian organizations pursuing innovation-based strategy not supportive enough to attain levels of innovation and competitive advantage comparable to organizations in the most developed economies.

*Key-Words:* Strategic Orientation, Market Learning Capability, Slovenia

## 1 Introduction

Organizations use different strategies to adopt/or change aspects of their environment for a more favourable alignment. The strategic orientation of the organization may play a key role in how the organization defines and structures its activities and initiatives [1]. Organization's strategy refers to the direction and influence given by managing directors and the top management team to the organization's overall vision and direction. The success of the firm depends on the top management's ability to make the right choices. Top management has the task of selecting/developing the resources and capabilities that are necessary in a certain situation. In transition economies the job of a "socialist" manager was for many decades to increase production and to fulfil the plan established by the central planning system. Quality, cost and innovation have not been important criteria. However, since 1989, Slovenia and other transition economies have been undergoing rapid, major change in all aspects of social, political and economic life. Liberalization of economy and opening up of the market to global competition has forced Slovenian organizations to examine seriously their internal organizational capabilities.

Empirical research on the role of organizational capabilities and their importance for firm strategy has suffered from widespread reliance on anecdotes and assertion, rather than statistical evidence, especially in transition economies. In this paper we do not attempt to provide an exhaustive list of possible capabilities an organization might have. In the next sections we focus instead on market learning capability as one of the strategic capabilities/factors that have been identified in the literature as being critically linked to the innovation capability and long-term competitive success [2], [3], [4], [5]. It is argued that market-focused learning capability is critical for pursuing innovation-based competitive strategy [5].

Based on the above, the purpose of this research is to study the importance devoted to market learning capability in Slovenian organizations pursuing innovation, quality or cost-strategic orientation. Of special interest in our research are the organizations with innovation-based strategic orientation as it is supposed that market-focused learning capability plays in this group of organizations a key role in building and sustaining a competitive advantage.

## 2 Conceptual framework and hypotheses

Different competitive strategies used by organizations represent different approaches and perceptions of the environment and consequently require both wide as well as specific range of capabilities in many areas to allow organization to create economic value and sustained competitive advantage. Capabilities are generally scarce, they are relatively immobile and they are not easily copied by competitors. Therefore, capabilities enable organizations to achieve superior profitability and to sustain competitive advantage over long period of time [6], [3].

### 2.1 Market orientation and organizational learning capability

The literature suggests a strong relationship between organizational learning processes and organizational capabilities [7], [8], [3]. Organizational distinctive capabilities are defined as the organization's capacity to perform a range of organizational routines for the purpose of delivering products and services to the market in a manner that outperforms competitors. Distinctive capabilities are information-based knowledge systems. Organizational learning processes are key determinants of capabilities and learning from markets is a key source of innovation and performance [3], [9], [10], [5]. Therefore market orientation is considered as a resource and/or a capacity of the organization to provide a sustainable competitive advantage [3], [4]. Firms tend to perform better when they attempt to focus on market orientation with special emphasis on flexibility and faster response time [11]. Market orientation is viewed as an important knowledge-based asset that is rare, due to the difficulty and cost of obtaining it, and is potentially valuable because it offers market-based insights that are not available to other [4]. However, creating a market orientation is only the first step. Market orientation only enhances performance when it is combined with a learning orientation [12]. Baker and Sinkula [13] viewed learning orientation as the qualitative engine behind market orientation. Without the ability to use and act upon information, market orientation may not be positively related to performance. The ability to learn faster than competitors might be the only sustainable competitive advantage [14].

### 2.2 Organization's strategic orientation types

In this paper, we use Schuler and Jackson's [15] three

types of strategy, defined from Porter's [16] classification of competitive strategies: innovation, cost and quality.

Organizations with innovation strategic orientation are likely to be first to the market place and seek to exploit this advantage. They have a tolerance of risk and an acceptance of change, empowerment and flexibility. Organizations that emphasize rapid response to change and adopt innovation strategy may be best positioned for recognizing and identifying new opportunities and ideas for their business. These organizations continually search the marketplace for new products, services and technologies. They tend to invest more heavily in research and development as well as in marketing and promotion. They also focus more on new opportunity and product development. Organizations with innovation strategy are the creators of change in their industries. They rely on high levels of environmental scanning to identify new opportunities that are critical to their success.

On the other hand, organizations with quality and cost strategic orientation try to maintain secure position in relatively stable product or service areas by offering lower prices, higher quality or better service than competitors. Therefore, they devote primary attention to improving the quality of products and services and/or the efficiency of the existing operations and maintaining existing markets. They use established ideas and methods, avoid unnecessary risk, have inflexible job description, centralized decision-making and a high level of control. They are usually not at the forefront of new product development.

These internal contrasts suggest that different strategic orientations require different roles for market research/market learning capability [17].

### 2.3 Hypotheses

Differences in terms of market learning capability between organizations with innovation, quality and cost strategic orientation are expected also in Slovenian organizations. It is also supposed that organizations with innovation strategic orientation continually look for new opportunities and therefore more likely support market learning capabilities compared to the organizations with quality and cost strategic orientation. Taken together, the preceding discussion gives rise to the following hypotheses:

H1 Organizations categorized as having cost, quality or innovation strategic orientation exhibit different levels

of market learning capability.

H1a Organizations with innovation strategic orientation exhibit higher level of market learning capability compared to the organizations with quality and cost strategic orientation.

### 3 Research methodology

The main objective of the present research is to examine the significance of differences in market learning capability between organizations with different strategic orientation. The differences are examined by using ANOVA.

#### 3.1 Sample

The empirical data used in this study was drawn from a dataset collected using a structured questionnaire. The initial population consisted of 1000 randomly selected Slovenian manufacturing organizations from the IPIS Database. A total of 254 questionnaires were returned, yielding a response rate of 25.4 percent. Most of the respondents were top or marketing managers as informants that were chosen as persons with the best knowledge of the organization's strategic orientation and the organizational learning capability. Only 156 organizations have classified their strategic orientation as innovation, quality or cost. The rest of organizations described their strategic orientation as the mixture of innovation and quality strategic orientation or quality and cost strategic orientation. In addition, some organizations did not provide us with this information.

The sample referred to in this paper includes data from 156 organizations.

#### 3.2 Measure

Market learning capability scale was constructed to measure organization's orientation towards the customer, orientation towards competitors and inter-functional coordination. Generation, dissemination and use of the information about the market were measured by 10-item scale which is the adoption of 14-item scale proposed by Day [3]. The respondents were asked to provide answers on a seven-point semantic differential type scale (see Appendix for the description of the items in the questionnaire).

### 4 Analyses and results

Based on the main strategic objective top or marketing managers classified their organizations into three strategic groups as follows: 64 organizations have innovation strategic orientation, 47 have quality strategic orientation and 45 have cost strategic orientation. To test our hypotheses, i.e. to find out whether there are significant differences in mean values of variables considered between organizations belonging to three different strategic groups, ANOVA was used. In Table 1 mean values and ANOVA results for the variables that measure market learning capability of the organizations with different strategic orientation are presented.

Table 1  
Mean values and Significance level of ANOVA test of the items that measure market learning capability (MLC)

Variable	Innovation strategic orientation n = 64	Quality strategic orientation n = 47	Cost strategic orientation n = 45	Significance level
MLCEXTENT	5.58	5.17	4.91	0.018 <sup>a</sup>
MLCFREQUE	5.78	5.35	5.02	0.011 <sup>a</sup>
MLCIDEA	4.60	3.98	3.41	0.001 <sup>a</sup>
MLCINTERDIS	4.47	3.83	4.07	0.151
MLCSEGMENT	5.53	5.54	5.53	0.998
MLCCOMPET	5.75	5.80	5.64	0.807
MLCEXCHAN	5.17	4.87	4.64	0.137
MLCNEW	4.41	3.59	3.64	0.012 <sup>a</sup>
MLCDECIS	4.84	4.46	4.13	0.101
MLCPROFES	4.72	5.24	4.71	0.233

Notes: <sup>a</sup> p < 0.05

The results obtained confirm the existence of significant differences in mean values between the three groups of organizations only for some of the variables considered. Specifically, for organizations categorized as having cost, quality or innovation strategic orientation we found significant differences in mean values for four out of ten variables that measure market learning capability. Post hoc multiple comparison using Scheffe's test ( $p < 0.05$ ) indicated that for the most variables the significant differences in mean values are between organizations with innovation strategic orientation and cost strategic orientation. There are only a few variables for which we found significant differences between organizations with quality and cost strategic orientation and between organizations with quality and innovation strategic orientation. Hence, the hypothesis H1 can only be partly accepted. As regards hypothesis H1a, it is evident that organizations with innovation strategic orientation exhibit higher levels of market learning capabilities compared to organizations with quality and cost strategic orientation. Yet, as the majority of these higher levels in this group are not significantly different from quality and cost strategic orientation groups this hypothesis can only be partly accepted, too. Low average values for the majority of the variables presenting market learning capability show that the percentage of new product development based on the information about customers and competitors are only about 40-50% and only about 40-50% of innovative ideas are attracted from market information. Further, cooperation of other functional areas in meeting customers' needs is not very frequently. Organizations with innovation strategy also do not use information from market for business decisions as well as information from other professional organizations very often. Thus, for the organizations that claimed having innovation-based strategy the realization of their strategy is difficult as many of the dimensions of internal organizational capabilities presented by market learning capability are not very supportive. Thus results of the study in Slovenian organizations do not support the well known argument discussed earlier that market-focused learning capability is critical for organizations pursuing innovation strategic orientation.

## 5 Conclusion

The evidence in this paper confirm our expectations and the results in developed economies that

organizations categorized as having cost, quality or innovation strategic orientation exhibit different level of market learning capability (H1). Contrary to our expectation and the results of the research in developed economies are our findings that the differences found in market learning capability between organizations with innovation strategic orientation and other two groups refer only to some of the measures used in the research. Organizations with innovation strategic orientation do not exhibit much higher level of market learning capability compared to organizations with quality and cost strategic orientation (H1a).

Lower level of market learning capability was expected for organizations with cost and quality strategic orientation. But, it is necessary to point out the fact that organizations with innovation strategic orientation do not support the development of market learning capability to the level necessary to realize innovation strategic orientation. Proactive-organizations that are innovative and have the desire to identify new opportunities support activities and practices that encourage market learning orientation. Although some elements of market learning capability considered in this research are at higher level in organizations with innovation strategic orientation, the results regarding their innovation capability and sustained competitive advantage are not comparable with organizations in the developed economies. Although some transition countries, such as Slovenia, Hungary and Estonia, have made great progress in terms of economic development, neither their knowledge-based factors, nor their innovation capabilities have been successfully developed [18]. Recent analyses of the Central and Eastern European countries' innovation capacities confirm that there is a significant gap between Central and Eastern European countries that have recently integrated into the EU and the EU-15 countries, both in terms of their R&D intensity/innovation capacities [19] and in the application of innovation policy [20]. Therefore only a small part of Slovenian organizations with innovation strategy could be compared to organizations in other developed countries as regards international competitive criteria. Their strategy supports the development of important capabilities, which enables them to achieve innovation success and sustained competitive advantage. From these results it is obvious that not only organizations with quality and cost strategic orientation but also many organizations with innovation strategic orientation should improve their internal organizational capabilities to become more innovative and competitive in today's global environment.

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## Appendix

Variables/items used in questionnaire

<b>Variable</b>	<b>Description of the variable</b>
<b>MLCEXTENT</b>	To what extent does your firm collect information about changes in your market? (Never/Extensively).
<b>MLCFREQ</b>	How frequently does your firm collect information about changes in your market? (Never/Continuously).
<b>MLCIDEA</b>	What percentage of innovative ideas has your firm attracted from market information during the last five years? (0% / 100%).
<b>MLCINTERDIS</b>	How often do the employees not directly involved with sales/marketing meet with customers to learn how to serve them better? (Never/Frequently).
<b>MLCSEGMENT</b>	What is the extent of your firm's knowledge about the market segments in your industry? (Limited/Extensive).
<b>MLCCOMPET</b>	What is the extent of your firm's knowledge of competitors? (Limited/Extensive).
<b>MLCEXCHAN</b>	To what extent do you share information about market changes among different departments within the firm? (Never/Extensively).
<b>MLCNEW</b>	How many new products have been developed with information about your customers and competitors during the last five years? (0% / 100%).
<b>MLCDECIS</b>	How often has your firm applied market research information for business decisions during the last five years? (Never/Always).
<b>MLCPROFES</b>	How often has your firm used market research information from other professional organizations during the last five years? (Never/Always).

<sup>a</sup>Answers of the respondents were measured on the scale from 1 to 7. Score 1 on the scale indicates the answer before the slash and score 7 indicates the answer after the slash written within the brackets in the column "Description of the variable".