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*Considering Strategic Proactiveness within a
Market Knowledge Diffusion Framework*

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Abstract

Market orientation remains the focus of extensive research, reflecting a consensus for its centrality and importance pertaining to organizational outcomes. Aiming to extend our understanding of the concept, we investigate market orientation in the context of organizational learning and adopt a broader perspective by engaging proactive strategic orientation when considering knowledge diffusion effects on organizational performance. To that end, we initially examine organizational learning effects on both reactive market orientation and strategic proactiveness. We subsequently investigate the relationships between these constructs and business performance when moderated by effective strategic market planning. We approached this study by generating data from 149 European high technology firms, targeting the SBU level. Our methodology included structural equation modeling as a means to test our hypotheses and our results provide contributions in 3 main areas: (i) According to our findings, market orientation and strategic proactiveness are significantly affected by organizational learning. (ii) Business performance is not directly affected by strategic proactiveness but there is an indirect effect when that path is mediated by market orientation. Finally, (iii) effective strategic market planning acts as a moderator between market orientation and business performance.

Keywords: Market orientation, Organizational learning, Knowledge diffusion, Strategic proactiveness, Strategic market planning effectiveness

INTRODUCTION

Despite the plethora of interest in market orientation demonstrated by academicians and managers alike, it has recently been exposed to considerable criticism (Baker and Sinkula 2005). Scholars have argued that firms should seek to identify latent needs, to innovate, develop opportunities, and find new means of delivering value beyond merely espousing the values and practicing the behaviours associated with market orientation. A market orientation predisposes marketing organizations to *react* to customers rather than being a driving force of customer value. Thus scholars suggest market oriented firms often simply react rather than be *proactive* towards their customers' needs. The burgeoning literature on the importance of proactiveness to market oriented firms (e.g., Atuahene-Gima, Slater and Olson 2005) suggests that proactiveness has been hitherto ignored in much of the market orientation debate. From market orientation literature it is also apparent that organizational learning and an inclination towards *strategic* proactiveness are important keys to successful market orientation and enhanced performance. Indeed, organizational learning would appear central to proactive market orientations (e.g., Atuahene-Gima et al. 2005). Therefore, we identify three criticisms of the market knowledge diffusion literature: (i) conceptual and empirical approaches to characterizing organizational learning within a marketing context have not drawn upon its mature theoretical underpinnings in the management literature; (ii) while reactive market orientation has been the preoccupation of many marketing strategy researchers, limited recognition has been given to its drawbacks—it represents a classic cybernetic system in that it uses focal vision techniques to assess the customer and market environments but in so doing it does not allow for proactive behaviours that punctuate the feedback from the market; and, (iii) the nature of moderators in the market orientation-performance thesis have tended to be situational conditions or strategic actions but rarely have scholars addressed the consequent capabilities that are required to administer effective strategic market planning as a pathway to improved business performance.

Our research makes several contributions to the market knowledge diffusion literature. *First*, unlike previous studies such as by Slater and Narver (1995) and Baker and

Sinkula (1999) that adopt narrow conceptualizations of organizational learning, we assess organizational learning as delineated by Huber (1991) by examining knowledge acquisition, information distribution, information interpretation, and organizational memory.

Organizational learning has rarely been measured in this way yet it provides a more robust, distinctive, and encompassing assessment of organizational learning viz. other measurement systems to provide a more complete understanding of organizational learning in marketing organizations (Huber, 1991). *Second*, we address the nature of interactions among organizational learning, market orientation, and strategic proactiveness, building upon both the hybrid market information processing and learning literatures (Atuahene-Gima et al. 2005; Baker and Sinkula 2005; Kirca, Jayachandran, and Bearden 2005). *Third*, we consider the role that a proactive strategic predisposition plays in the market orientation-performance relationship. This is an area of contemporary debate yet is under researched in current marketing literature. *Fourth*, we test the moderating role of strategic market planning capabilities (hereafter ‘SMPC’) on the effects of both market orientation and strategic proactiveness on business performance. We continue with hypothesis development. Thereafter the research methodology is presented followed by data analysis and results. Several conclusions and implications are then derived.

THEORETICAL BACKGROUND AND HYPOTHESES

Market orientation remains the focus of extensive research, reflecting a consensus for its centrality and importance to marketing thought and practice. Aiming to extend our understanding of the concept, particular research efforts have been dedicated to the relationship between market orientation and business performance (Narver and Slater 1990; Jaworski and Kohli 1993; Slater and Narver 1994a; Atuahene-Gima 1995, 1996; Han, Kim, and Srivastava 1998; Hurley and Hult 1998; Matsuno and Mentzer 2000; Hult and Ketchen 2001). Despite this extensive research conflicting views surround the construct. For example, Hamel and Prahalad (1994) emphasize the ‘tyranny of the served market’ and Berthon, Hulbert and Pitt (1999) suggest that market oriented firms are adversely affected in terms of their ability to be innovative. Although the predominant view supported by several researchers is that market orientation is positively associated with performance (Jaworski and

Kohli 1993; Slater and Narver 1994a), some scholars have addressed the conflicting results by focusing on the proactive and reactive elements of market orientation (Atuahene-Gima et al. 2005).

Based on the substantiated importance of proactive elements in the context of market orientation research, we adopt a broader nomological framework and examine the effects of market orientation on business performance when proactiveness assumes a more strategic nature. Considering the reported problems and dangers of ensuing rigidities or familiarity traps associated with market orientation (Cohen and Levinthal 1990; Leonard-Barton 1992; Levinthal and March 1993), our conceptual model considers the relationships between organizational learning, market orientation, strategic proactiveness, and business performance as well as the moderating effects of SMPC (Figure 1).

Insert Figure 1 about here

Knowledge Diffusion Benefits and Market Orientation

Both market orientation and organizational learning have received particular attention both jointly and independently in the recent marketing literature. According to Narver and Slater (1990), market orientation comprises customer orientation, competitor orientation, and inter-functional coordination. A meta-analytic study by Kirca et al. (2005) of market orientation research has offered a consolidated view of market orientation and, according to this study, the consequences of market orientation, particularly its impact on organizational performance, have received far more research attention than its antecedents.

Hypothesizing about what enables market orientation requires an expansion of our understanding of the market orientation 'value chain'. Such an understanding can begin by considering the behavioural and cultural perspectives of market orientation (Homburg and Pflesser 2000). The behavioural perspective of market orientation examines the organizational activities that are related to the generation, dissemination of and responsiveness to market intelligence (Kohli and Jaworski 1990). The cultural perspective focuses on organizational norms and values that encourage behaviours that are consistent

with market orientation (Narver and Slater 1990; Deshpandé, Farley, and Webster 1993). Existing research on organizational learning points to knowledge acquisition and insights leading to performance enhancing changes (Slater and Narver 1994a). Similar to market orientation, organizational learning is not an organizational value enabler operating in a vacuum (Hult and Ketchen 2001). Market orientation and organizational learning both contribute to organizational market sensing (Bell, Whitwell and Lukas 2002) and in particular, learning within organizations is widely viewed as a competitive advantage and performance inducing resource (Hunt and Morgan 1996).

The interface and interaction between organizational learning and market orientation has indeed raised significant interest (Slater and Narver 1995; Hunt and Morgan 1995; Dickson 1996; Sinkula, Baker and Noordewier 1997; Baker and Sinkula 1999). Day (1994a) examined organizational learning and its role as an antecedent of market oriented behaviour. This stream of research has recognized that information processing activities enable market orientation gains (Dickson 1996). According to Slater and Narver (1995) a learning orientation may enhance the implementation of market orientation while an organization which engages in organizational learning about clients, competition and its environment can realize a successful market orientation (Day 1994a). We therefore posit the following:

***H1:** Organizational learning is positively related to market orientation.*

Knowledge Diffusion Benefits and Strategic Proactiveness

Strategic proactiveness and its contributing value to competitive advantage generation have been studied as a constituent of the wider concept of entrepreneurial orientation and proclivity (Cooper and Dunkelberg 1986; Lumpkin and Dess 1996). According to Mintzberg (1973) entrepreneurial proclivity and strategic proactiveness imply the continuous search for new opportunities and initiation of improvement projects designed to capitalize on such opportunities.

Firms with strong entrepreneurial orientation and strategic proactiveness have been associated with a propensity for competitive and innovative actions (Covin and Slevin 1989; Miller 1987). Such propensity to strategize proactively and hence act before the competition requires firms to constantly scan for, disseminate, and apply timely market intelligence to

decision-making processes. Organizational learning enhances organizational forward-looking abilities and reduces the “frequency and magnitude of major shocks” (Day 1994a, b; Sinkula 1994). Besides contributing to organizational forward looking ability, organizational learning further enables strategic proactiveness by helping reduce the perceived environmental complexity which is usually associated with strategic inaction or even paralysis (Slater and Narver 1995). This is also recognized by March and Olsen (1976) who emphasize that the perception of high environmental complexity inhibits environmental mapping for decision makers. Enabling Strategic proactiveness depends on environmental mapping but also on organizational learning induced flexibility and adaptability. Firms engaged in organizational learning gained the ability to be flexible, to quickly reconfigure its architecture and reallocate their resources to deal with an emerging opportunity or threat (Slater and Narver 1995). Thus:

H2: Organizational learning is positively related to strategic proactiveness.

Enhancing Market Orientation through Strategic Proactiveness

Market orientation research, albeit extensive has mainly focused on the reactive perspective of market orientation. Reactive market orientation can lead to problems of limited effectiveness when it is not complemented by proactive influences. Some scholars suggest that market oriented firms may focus too strongly on the expressed needs of customers (Hamel and Prahalad 1994; Christensen and Bower 1996). When this focus is not complemented by a proactive element or orientation, it can limit the effectiveness of market orientation. Proactiveness and market orientation synergies can ensure the entrepreneurial effectiveness of market orientation. Slater and Narver (1995) argue that market orientation is inherently entrepreneurial because it is able to anticipate and respond to the latent and emerging needs of customers (Day 1994a; Slater and Narver 1998; Jaworski, Kohli and Sahay 2000). Atuahene-Gima and Ko (2001) showed that a combination of market and entrepreneurial orientation improved product performance. Strategic proactiveness is inherent in entrepreneurial orientation and may serve as the enhancing and balancing element to market orientation. The relationship between market orientation and strategic proactiveness has been studied in recent research from Matsuno et al. (2002) which found that market orientation mediated the impact of entrepreneurial proclivity on business performance.

Research results by Slater and Narver (1995) also indicate that a business can achieve market orientation's full potential when driven by an entrepreneurial proclivity, appropriate organizational design and structure. Under-emphasis of proactiveness in firms will lead to constant reinforcement of current beliefs about existing customers and may result in the firm ignoring or overlooking emerging market opportunities (Christensen 1997). The strategic proactiveness element of entrepreneurial proclivity may indeed be a necessary contributor for an effective market orientation. Market intelligence activities and responsiveness are driven by and predicated by entrepreneurial proclivity that encourages proactiveness, innovativeness and risk taking that takes nothing for granted (Matsuno et al. 2002). We hence propose that:

H3: Strategic proactiveness is positively related to market orientation.

Performance Outcomes of Market Oriented and Strategically Proactive Firms

The relationship between market orientation and business performance has received particular attention in recent research with interesting variation in findings, especially with regards to the magnitude and direction of the relationship (Kirca et al. 2005). The predominant view is that market orientation is positively related to business performance (Jaworski and Kohli 1993; Slater and Narver 1994a). Studies have indeed concluded that market orientation provides a firm with market sensing and customer linking capabilities that lead to superior organizational performance (Day 1994a; Hult and Ketchen 2001). In terms of the customer related benefits, market orientation has been found to enhance customer satisfaction and loyalty because market-oriented firms are well positioned to anticipate customer needs and to offer goods and services to satisfy those needs (Slater and Narver 1994b). Innovativeness and product performance benefits have also been associated with market orientation (Atuahene-Gima 1996; Han et al. 1998).

Despite the predominant view regarding market orientation, some research points to non significant or even negative effects for the relationship with business performance (Bhuian 1997; Agarwal, Erramilli, and Dev 2003; Sandvik and Sandvik 2003). The negative effects of market orientation are evident in companies which listen too much to their customers, invest aggressively in technology and provide more products according to stated customer needs (Christensen 1997). This proposition is in line with results from Glazer and

Weiss (1993) who report that intensive, formal intelligence related activities are negatively related to performance in a fast moving environment.

Research has also resulted in conflicting results with regards to how moderators affect the relationship in question (Grewal and Tansuhaj 2001; Slater and Narver 1994a). Aiming to provide further insight into the relationship, Atuahene-Gima et al. (2005) studied the sub-constructs (dimensions) of market orientation and their relationship to new product program performance. A meta-analytic study of market orientation research by Kirca et al. (2005) supports the predominantly positive relationship between market orientation and performance (both direct and mediated) but points to context specificities such as the target sample characteristics. The sample characteristics appear to affect the strength of the relationship with manufacturing firms exhibiting higher market orientation—performance associations than service firms, possibly because of the higher levels of customization that service firms require. We follow the predominant view regarding the nature of the market orientation—business performance relationship but we also consider strategic proactiveness as a necessary antecedent to a market orientation which is positively associated with business performance. Hence:

H4: Market orientation is positively related to business performance.

Beyond market orientation performance benefits, strategic proactiveness is also considered as a performance contributor. These orientations and their relationship with business performance have been extensively researched in the past albeit in separate contexts. For this study, strategic proactiveness is viewed as part of a wider entrepreneurial process and is conceptualized as the predisposition of a firm for innovativeness and risk taking at a strategic level (Matsuno et al. 2002). Strategic proactiveness is one facet of the multidimensional concept of entrepreneurship (Sarkar, Echambadi and Harrison 2001) along with autonomy, innovativeness, risk-taking propensity and competitive aggressiveness. It has been argued that these dimensions may be independent, rather than co varying (Lumpkin and Dess 1996). For instance, a highly proactive organization may not be as innovative or aggressive, yet it may be considered entrepreneurial in terms of its initiatives.

The strategic proactiveness approach considers the possibility that individuals and organizations shape their environments through their own actions (Krueger 1993). It enables a firm to seize initiatives, take some risks and act on recognized opportunities attempting to influence trends and, perhaps, even create demand (Lumpkin and Dess 1996). As part of entrepreneurial proclivity, proactiveness has been indicated as a contributor to superior firm performance (Barringer and Bluedorn 1999; Hult and Ketchen 2001). A firm engaged in strategic proactiveness will be predisposed towards identifying new market opportunities and assume action on those opportunities (Miller and Friesen 1982; Venkatraman 1989) resulting in an increased level of both intelligence generation and responsiveness (Kohli and Jaworski 1990). We hence predict:

H5: Strategic proactiveness is positively related to business performance.

The Role of Effective Strategic Market Planning

The complexities of market orientation, especially with regards to its relationship with business performance, have triggered research which examined the impact of moderating elements. Shapiro (1988) and Jaworski and Kohli (1993) recognized that extant organizational structures and processes can impede the implementation of a market orientation. In their discussion of market oriented management systems, Becker and Homburg (1999) identified planning as one of five categories of capabilities that must support a market orientation.

The traditional concept of strategic planning as systematic, formalized approaches to strategy formulation has come under attack from management scholars during the last two decades (Grant 2003). Criticisms have focused on the theoretical foundations of strategic planning, particularly the impossibility of forecasting (Mintzberg, 1994), while empirical evidence indicates strategies can also emerge from the weakly coordinated decisions of multiple organizational members (Mintzberg and Waters 1982; Burgelman 1983). Research also indicates that strategic planning has undergone a process of evolution, triggered by increasingly discontinuous and unpredictable environments. To that extent, empirical evidence points to the coexistence of formal and informal strategic planning in most large firms (Grant 2003). The same research finds that strategic planning processes have become

more decentralized, less staff driven and more informal. The primary direction of planning is bottom-up (from the business units to the corporate headquarters) while business managers exhibit substantial autonomy and flexibility in strategy making. In bringing together these bottom-up and top-down initiatives through dialog, debate, and compromise, firms displayed aspects of the ‘generative planning model’ that Liedtka (2000) suggests is conducive to strategic change. Moderation ensuing benefits in relation to market orientation and proactiveness can thus be effectively realized (even with centralized decision-making in place) by ensuring top management emphasis, interdepartmental connectedness and appropriate reward systems (Kirca et al. 2005).

SMPC can also ensure benefits for proactive strategizing. Effective strategic market planning will provide a channel and forum for communication, knowledge sharing and will create contexts capable to influence the content and quality of strategic decisions (Grant 2003). Effective strategic market planning is recognized as a provider of process benefits (Dyson and Foster 1982; Greenley 1983). As supported in previous research by Lumpkin and Dess (1996), a proactive firm seizes new opportunities through effective planning processes: (a) scanning the environment to seek opportunities and (b) taking pre-emptive action in response to perceived opportunity. We hence propose the following:

***H6:** Strategic proactiveness is positively related to business performance when moderated by high levels of strategic market planning capabilities.*

***H7:** Market orientation is positively related to business performance when moderated by high levels of strategic market planning capabilities.*

RESEARCH METHODOLOGY

We generated data from a mail administered survey of U.K.-based high technology, industrial manufacturers. First, we randomly selected, from the Kompass directory, 1000 SBUs operating in the: instrument engineering and precision equipment; electrical, electronic, data processing, and nucleonic equipment; advanced mechanical engineering; chemical and oil-related; and, selected heavy industry and high technology transportation plant and equipment sectors. Our pre-study interviews indicated that the Chief Marketing Executive (‘Head of Marketing’) would be the suitable key informant—qualified to comment on all aspects of the

study constructs. The survey method followed Dillman's (2000) guidelines for the Tailored Design Method with a prenotification mailing, questionnaire mailing, and a series of reminder and follow-up mailings. A total of 149 eligible responses were received and these were from 'Marketing Directors' (55%), 'Marketing/Business Development Managers' (42%), or similar other executive personnel. The mean tenure of these respondents was 11 years suggesting that they were readily familiar with the key aspects of their SBU's processes and behaviours. Following Armstrong and Overton (1977) we compared 'early' and 'late' respondents and found no significant differences between the key variables in the study.

Our measures were sourced from existing literature. The business performance scale was composed of traditional accounting-based items and a single generic item of "overall firm performance". In order to avoid lags, we assessed performance in the most recent fiscal year. Respondents were asked with regard to their firm's main marketplace, how they would score their business performance, relative to their major direct competitors in terms of the salient items (Table 1). Responses were gauged on a "much worse" (-3) to "much better" (3) scale with a mid-point of "about the same" (0). We adopt Huber's (1991) conceptualization of organizational learning and measure its four sub-dimensions: knowledge acquisition; information distribution; information interpretation; and, organizational memory. The specific measurement items were all sourced to Pedler et al. (1997). The measures involved attitude statements that required respondents to check an agreement scale ranging from "strongly disagree" (1) to "strongly agree" (7) (Table 1).

The market orientation scale was considered by means of the three sub-dimensions of customer orientation, competitor orientation, and inter-functional coordination (Narver and Slater, 1990). Prompted by a question asking respondents of the extent to which their firms exhibited these behaviours and engaged in these activities, the response scale ranged from "not at all" (1) to "to a very great extent" (7). Strategic proactiveness was measured by using Venkatraman's (1989) battery. A set of statements advanced by Venkatraman (1989) was used to measure respondents' emphasis upon proactiveness in their strategic orientation. A scale anchored by "strongly disagree" (1) to "strongly agree" (7) was used for respondents to check (Table 1). Strategic market planning capabilities were assessed by drawing on the

system capability scale proposed by Ramanujam and Venkatraman (1987). Respondents were asked to what extent their strategic market planning capabilities were effective on a scale ranging from “not at all effective” (1) to “very effective” (7) (Table 1).

The validity and reliability of our measures was examined by confirmatory factor analysis (CFA) using LISREL 8.54. All the scales items were entered into a single confirmatory model using the covariance matrix and maximum likelihood estimation. In order to provide a metric, one indicator of each latent construct was specified with a factor loading equal to one and, using the maximum likelihood method, the model converged with acceptable fit ($\chi^2 = 258.03$; degrees of freedom [d.f.] = 142; $p = .01$; root mean square error of approximation [RMSEA] = .07; comparative fit index [CFI] = .97; non-normed fit index [NNFI] = .96; incremental fit index [IFI] = .97; and, goodness of fit index [GFI] = .85).

The items exhibited strong loadings and their associated t-values were all statistically significant (Table 1). Table 2 displays the composite reliabilities and all were greater than .7, apart from one minor deviation for strategic proactiveness at .63. The test for discriminant validity, the extent to which each latent construct differs from others, together with a correlation matrix are shown in Table 2. Overall, the results indicate that the scales perform reasonably well. We used the average score of scales in our subsequent analysis.

Insert Table 2 about here

ANALYSIS AND RESULTS

We estimated two structural equation models (Table 3). Model 1 contains the hypothesized relations between organizational learning, market orientation, and proactiveness. Model fit statistics show acceptable model fit (Matsuno et al. 2002): $\chi^2 = 75.81$; $df = 32$; $p = .01$; RMSEA = 0.09; CFI = .97; NNFI = .96; IFI = .97; GFI = .91. Model 2 contains the hypothesized relations between market orientation, proactiveness, and business performance along with the interaction terms of marketing planning capabilities. Fit statistics for Model 2 similarly show acceptable model fit: $\chi^2 = 81.62$; $df = 46$; $p = .01$; RMSEA = 0.07; CFI = .96;

NNFI = .95; IFI = .96; GFI = .92. The hypothesis testing results for both structural equation models are shown in Table 3.

Insert Figure 2 about here

Model 1 results show strong support for all hypothesized relations. Organizational learning has a direct positive relationship with market orientation and strategic proactiveness (H1 and H2) suggesting organizational learning is an antecedent activity that a marketing organization must undertake to become both market oriented and proactive. We also found support for H3 for the direct positive effect of strategic proactiveness on market orientation. By being proactive, a marketing organization is more likely to become market oriented. We suggest this has positive implications for ensuring the organization has a proactive, rather than *reactive*, market orientation (Atuahene-Gima et al. 2005). Previous research by Atuahene-Gima et al. (2005) found a positive moderating role for learning *orientation* on the relationship between proactive market orientation and new product program performance. We suggest marketing organizations go a step further than a mere learning orientation and implement organizational learning in their organizations to help generate a market orientation, and crucially, a proactive approach. By implication of the results for H3 we suggest that along with this strategic proactiveness marketing managers can develop a stronger market orientation within the organization that is more proactive than reactive to customer needs and competitors actions.

The results for Model 2 show mixed support for hypotheses H4 through H7. Conflicting results surround the debate of whether market orientation has any positive effect on an organization's financial performance (Baker and Sinkula 2005). We contribute to this debate by demonstrating that being market oriented has positive business performance implications (H4) and this is positively moderated by effective marketing planning (H6). No support is found for the relationship between strategic proactiveness and performance (H5) or the moderating role of marketing planning capabilities (H7) however.

CONCLUSIONS AND CONTRIBUTIONS

Our main research interests concern the broader understanding of interactive and contingent effects of market orientation and strategic proactiveness on business performance in the context of organizational learning and planning capabilities. Even though market orientation is mainly considered an enabler of business performance, some of the conflicting research outcomes have prompted new research directions such as the deconstruction of the market orientation construct (Atuahene-Gima et al. 2005). Our study contributes to the ongoing need for resolving the issues surrounding market orientation research by introducing strategic proactiveness as both an antecedent to market orientation and a direct contributor to business performance. We have also expanded on research streams supporting the importance of learning for market oriented firms (Slater and Narver 1995) and proceeded to contribute further by suggesting organizational learning as an antecedent activity that a firm must undertake to become market oriented and proactive. Furthermore, the quality of market oriented behaviours is deemed as necessary as market orientation itself (Baker and Sinkula 1999) and planning is one of the capabilities identified by studies as necessary for market orientation support (Becker and Homburg 1999). This study contributes to the broader understanding of market orientation and strategic proactiveness in the context of effective strategic market planning. To this end, we proceeded to model the relationships between organizational learning, market orientation, strategic proactiveness, SMPC and business performance. Informed by extant knowledge from the marketing, strategic management, and innovation literatures, seven hypotheses were tested and evidence found to support five of these theoretical hypotheses.

The consequences of market orientation and particularly its impact on organizational performance, have received more research attention than its antecedents (Kirca et al. 2005). In relation to the latter, our study has responded by researching antecedents that enable market orientation without the pitfall of reactivity related performance penalties. Organizational learning proved to be positively related to market orientation (H1) suggesting that activities of information interpretation, distribution and knowledge acquisition are antecedents to the firm's ability to generate and disseminate market intelligence and to

respond to it (Kohli and Jaworski 1990). Market orientation's traditional responsive elements must be balanced by appropriate proactive dimensions if the recognized "familiarity trap" which makes the adoption of new knowledge less attractive (Cohen and Levinthal 1990; Levinthal and March 1993) is to be managed effectively. Strategic proactiveness proved to be positively related to market orientation (H3), suggesting that proactiveness enables to some degree the firm's ability to generate and disseminate market intelligence and to respond to it proactively. This is consistent with the finding that market intelligence activities and effective responsiveness are driven and predicated by entrepreneurial elements such as strategic proactiveness and risk taking (Matsuno et al. 2002).

Organizational learning proved to be positively associated with strategic proactiveness (H2) suggesting that firms exhibiting a propensity to strategize proactively and act before the competition need to constantly scan for, disseminate and apply acquired knowledge and intelligence to decision making processes. As the firm engages in organizational learning, it also gains the ability to be flexible, architecturally adaptable and proactive in terms of resource allocation in dealing with emerging opportunities or threats (Slater and Narver 1995).

While previous studies addressed the market orientation and business performance relationships conflict (Christensen 1997; Baker and Sinkula 2005), by deconstructing market orientation and business performance (Atuahene-Gima et al. 2005) our study assumed a broader perspective and examined antecedents to market orientation likely to strengthen the proactive performance benefits. The validated positive relationship between market orientation and business performance (H4) is an important finding and provides complementary contributions in the area of market orientation research. Indeed, according to the recognized importance of proactive and reactive market orientation, appropriate antecedents to market orientation with proactive characteristics are necessary for enabling performance benefits. A reactive only market orientation can lead to problems of effectiveness and negative performance if it is not complemented by proactive influences. Our finding is consistent with the argument that proactiveness and market orientation

synergies can ensure the entrepreneurial effectiveness of market orientation (Slater and Narver 1995).

As shown in this study, marketing orientation is associated with proactive enabled performance benefits when predicated by organizational learning and strategic proactiveness. Market orientation provides a firm with market-sensing and customer linking capabilities that lead to superior organizational performance when coupled with a propensity to act proactively upon the disseminated knowledge and information.

Strategic proactiveness was positively associated with an effective in terms of performance, market orientation but no support was found for the direct relationship with performance (H5). This is an interesting finding as it indicates the importance of proactiveness in activating the necessary effectiveness balance in market orientation but also highlights that it is not a direct antecedent to business performance. It can thus be concluded that a set of proactive strategic actions must be coupled with the firm's ability to generate and disseminate market intelligence and to respond to it (Kohli and Jaworski 1990) before business performance benefits can be realized. Considering how strategic proactiveness refers to a forward looking perspective and the tendency to anticipate and pursue new opportunities (Lumpkin and Dess 1996), organizational learning is not enough to activate performance benefits through strategic proactiveness alone.

Our results regarding the moderating effect of SMPC address recent research findings which identified planning as one of five categories of capabilities that must support a market orientation (Becker and Homburg 1999). Our study has indeed shown that there is a positive relationship between market orientation and business performance when that relationship is moderated by strategic planning capabilities (H6). This positive moderation effect is consistent with Becker and Homburg (1999) who identified planning as one of the capabilities needed to support a market orientation. Even though the historical view of planning as a formalized and rigid process is expected to hinder performance in volatile and quickly changing environments, the evolved, informal and more integrative planning is actually positively contributing to market orientation effectiveness by ensuring top management emphasis, interdepartmental connectedness and appropriate reward systems

(Kirca et al. 2005). Proactively enhanced market oriented activities are leading to strong performance when harnessed by an effective, informal, flexible and bottom-up strategic market planning.

In contrast, no support was found for the positive moderation of SMPC in the relationship between strategic proactiveness and business performance (H7). Considering the lack of support for the direct relationship between the two constructs this finding is not surprising. The need for a synergistic element (market orientation) before business performance benefits can be actually realized is further emphasized by this finding.

Managerial Implications

Considering the extensive research which highlights the importance of proactive as well as reactive market orientation context, the present study makes an important contribution to managerial practice. Market orientation is indeed vital for hi-performing firms. Managers however must be responsive to the potential pitfalls of a market oriented firm by ensuring that this orientation is constantly influenced by organizational learning activities. Results also imply that hi-performing market oriented firms depend on a proactive proclivity in terms of strategic decisions and actions. This is essential for avoiding becoming overly reactive to customers' needs. The importance of organizational learning is not only relevant to market orientation but results have also shown a direct benefit to strategic proactiveness.

Organizational learning should not thus be solely restricted and directed towards market orientation related activities and decisions. Strategic proactiveness will contribute to an effective market orientation if it benefits from such organizational learning activities.

Managers should thus ensure the necessary diffusion of learning outcomes when designing organizational learning programmes.

Research Limitations and Future Research directions

The results of this study should be considered in the context of the limitations inherent in cross sectional designs. Considering the inclusion of a wide array of industry types and company sizes, results supported by this study cannot be generalized to specific business segments nor can they serve as guidelines to firms adopting particular strategies. Present results are further subject to limitations created by the single respondent sources from

participating firms. Introduced subjectivity and potential common method bias are the unavoidable consequences and should be taken into account (although testing for common method bias reveals no significant problem). Future research introducing multiple respondents as well as objective measures is suggested. Finally, this study is based on a snapshot in time and results should not as yet be considered as indicative of time consistent company behaviours. A longitudinal perspective should be adopted as part of future research in order to address this limitation. It is also considered useful for future research to expand on our understanding of organizational learning and strategic proactiveness enabled market orientation by examining both internal (organizational and structural) and external (environmental discontinuity/continuity) factors simultaneously. Finally, our findings regarding moderating effects of variables such as SMPC should be expanded to include other moderating elements both in the market orientation—business performance and the strategic proactiveness-business performance relationships.

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FIGURE 1
The Relational Effects between Organizational Learning, Market Orientation, and Strategic Proactiveness on Business Performance

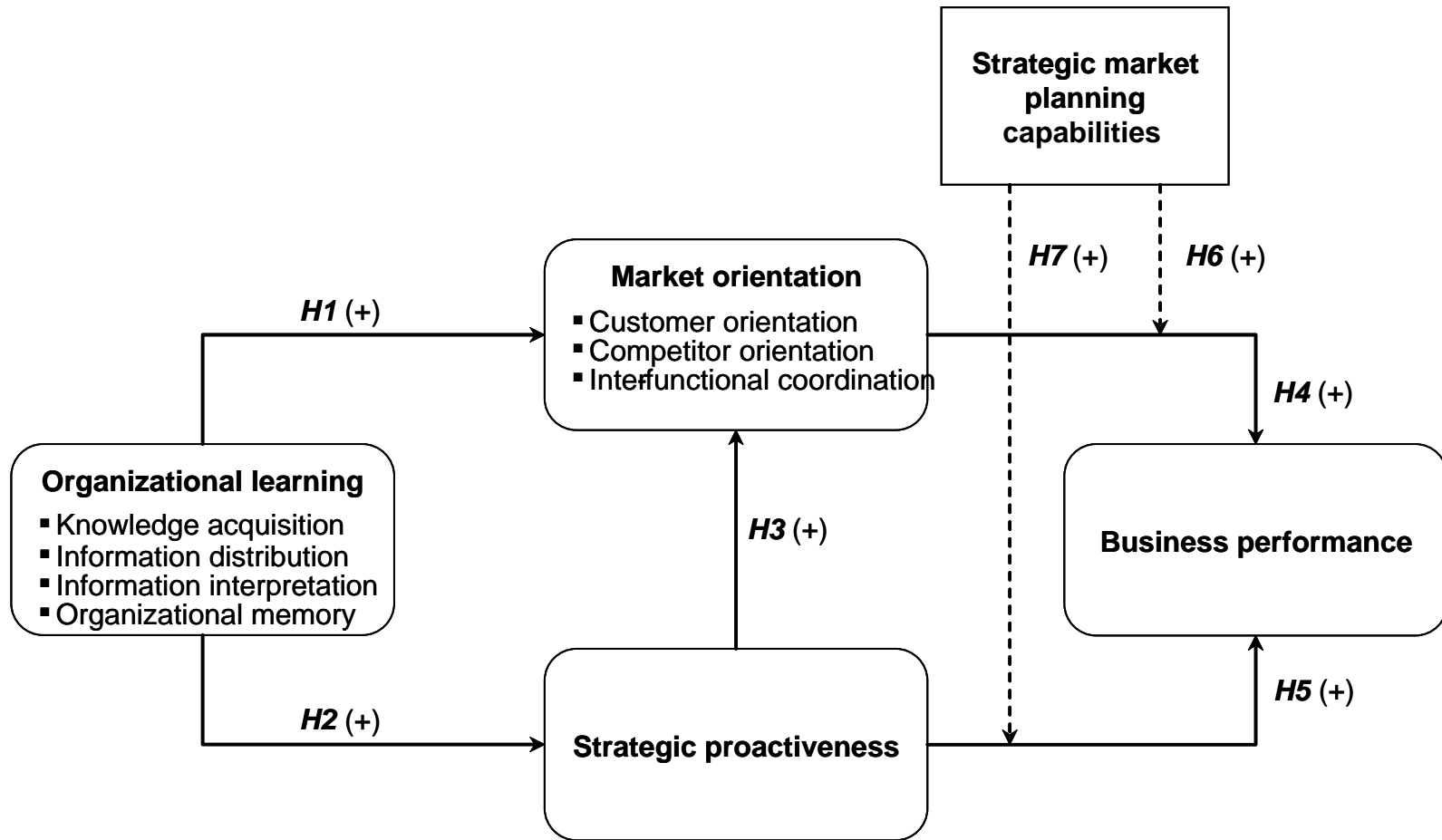


TABLE 1
Confirmatory Factor Analysis Results

Construct	Measure ^a	Standardized Factor Loading	t-value
Knowledge acquisition			
	It is part of the work of all staff to collect, bring back, and report information about what's going on outside the company	.61	— ^b
	All meetings in the company regularly include a review of what's going on in our business environment	.73	6.97
	We meet regularly with representative groups of customers, suppliers, community members and so on to find out what's important to them	.63	6.26
	We receive regular intelligence reports on the economy, markets, technological developments, socio-political events and general trends, and examine how these may affect our business	.73	6.96
	There are systems and procedures for receiving, collating, and sharing information from outside the firm	.73	6.99
Information distribution			
	Information flows freely and openly	.69	— ^b
	Departments speak freely and candidly with each other, both to challenge and to give help	.74	8.04
	People make time to question their own practice, to analyze, discuss, and learn from what happens	.63	7.03
Information interpretation			
	Errors and incidents are analyzed, widely reported, and acted upon	.63	— ^b
	Information is used for understanding, not reward or punishment	.67	7.34
	We really understand the nature and significance of variation in a system and interpret data accordingly	.61	6.75
	Managers facilitate communication, negotiation, and contracting, rather than exerting top-down control	.70	7.57
Organizational memory			
	Information technology is used to create databases and communication systems that help everyone understand what is going on	.86	— ^b
	You can get feedback on how your section or department is doing at any time by pressing a button	.75	10.22
	Information technology is used to create databases, information, and communication systems that help everyone to understand what is going on and to make sound decisions	.80	11.03
Organizational learning			
	Knowledge acquisition	.62	— ^b
	Information distribution	.78	7.69
	Information interpretation	.92	8.49
	Organizational memory	.73	7.33
Customer orientation			
	Focusing on commitment to customers	.83	— ^b
	Creating value for customers	.71	9.54
	Understanding customer needs	.80	11.23
	Setting customer satisfaction objectives	.80	11.16
	Measuring customer satisfaction	.71	9.66

TABLE 1 (cont'd)
Confirmatory Factor Analysis Results

Construct	Measure ^a	Standardized Factor Loading	t-value
Competitor orientation			
	Responding promptly to competitors' actions	.63	— ^b
	Top managers discussing competitors' strategies	.73	6.92
	Targeting opportunities for competitive advantage	.81	7.27
Inter-functional coordination			
	Sharing information across departments	.86	— ^b
	Information shared among functions	.89	14.66
	Gaining functional integration in strategy	.80	12.23
	All functions contribute to customer value	.79	12.06
	Sharing resources across the whole firm	.78	11.72
Market orientation			
	Customer orientation	.75	— ^b
	Competitor orientation	.67	8.04
	Inter-functional co-ordination	.86	10.24
Strategic proactiveness			
	We emphasize basic research to provide us with future competitive edge	.59	— ^b
	We often conduct "what if" analyses of critical issues	.60	5.63
	We are constantly seeking new opportunities related to the present operations	.60	5.64
Business performance			
	Sales growth	.69	— ^b
	Average profits per customer	.82	9.15
	Return on investment	.89	9.67
	Overall firm performance	.86	9.49
Strategic market planning capabilities			
	As a means for generating new ideas	.74	— ^b
	Ability to communicate line management's concerns to top management	.67	8.02
	Ability to integrate diverse functions and operations	.67	8.03
	As a basis for enhancing innovation	.85	10.34
	As a basis for emphasizing creativity among managers	.85	10.32

^a All measurement scales were 7-point Likert-type scales. Measurement scales for organizational learning were anchored (1) strongly disagree to (7) strongly agree. Market orientation scales were anchored (1) not at all to (7) to a very great extent. Business performance was measured with scales anchored (-3) much worse to (3) much better. Strategic market planning capabilities scales were anchored (1) not at all effective to (7) very effective.

^b Item fixed to set the scale.

TABLE 2
Composite Reliability, Average Variance Extracted, and Descriptive Statistics

	CR	X1	X2	X3	X4	X5
X1 Organizational learning	.85	.77 ^a				
X2 Market orientation	.81	.74**	.76			
X3 Strategic proactiveness	.63	.57**	.57**	.60		
X4 Business performance	.89	.33**	.35**	.15	.82	
X5 Strategic market planning capabilities	.87	.56**	.46**	.57**	.26**	.76
Mean		4.23	5.02	4.28	5.04	3.76
SD		1.06	1.02	1.24	1.09	1.17

** p<.01.

CR: Composite reliability. AVE: Average variance extracted. SD: Standard deviation.

^a Figures on the diagonal are square root of AVE.

TABLE 3
Standardized Path Estimates and *t*-values for all Hypothesized Paths

Hypothesized paths		Standardized path estimate	<i>t</i> -value ^a
Model 1:			
<i>Hypothesis 1</i>	Organizational learning → Market orientation	.55	4.02**
<i>Hypothesis 2</i>	Organizational learning → Strategic proactiveness	.72	4.88**
<i>Hypothesis 3</i>	Strategic proactiveness → Market orientation	.43	2.87**
Model 2:			
<i>Hypothesis 4</i>	Market orientation → Business performance	.97	2.03*
<i>Hypothesis 5</i>	Strategic proactiveness → Business performance	-.63	-1.16
<i>Hypothesis 6</i>	Market orientation x Strategic market planning capabilities → Business performance	.32	1.39 [†]
<i>Hypothesis 7</i>	Strategic proactiveness x Strategic market planning capabilities → Business performance	-.25	-0.78

^a Critical *t*-values: when ***p* = .01, critical *t*-value = 2.326; when **p* = .05, critical *t*-value = 1.645; when [†]*p* = .10, critical *t*-value = 1.282 (one-tailed tests).