Market Orientation and Alternative Strategic Orientations: A Longitudinal Assessment of Performance Implications

Although the merits of maintaining a market orientation have been extensively discussed in the literature, studies examining the empirical link between market orientation and performance have shown mixed results. The authors explore the relative performance effects of various dimensions of market orientation using a longitudinal approach based on letters to shareholders in corporate annual reports. Furthermore, the authors examine the relative effects of alternative strategic orientations that reflect different managerial priorities for the firm. The authors also extend previous work by considering the mediating effects of organizational learning and innovativeness on the orientation-performance relationship. The results show that firms possessing higher levels of competitor orientation, national brand focus, and selling orientation exhibit superior performance.

Strategic orientations are the guiding principles that influence a firm's marketing and strategy-making activities. They represent the elements of the organization's culture that guide interactions with the marketplace, both with customers and competitors. Research in marketing has focused almost exclusively on maintaining a market orientation, based on the adoption and implementation of the marketing concept. A market orientation is not the only viable strategic orientation, however. Many successful firms have followed a production orientation, based on the belief that production efficiencies, cost minimization, and mass distribution can be used effectively to deliver quality goods and services to the consumer at attractive prices. Another alternative, a selling orientation, is based on the view that consumers will purchase more goods and services if aggressive sales and advertising methods are employed. This approach emphasizes short-term sales maximization over long-term relationship building. Contrary to the market orientation-or-nothing view that has generally been offered in the literature, we explore these alternative perspectives and their effects on company performance in a longitudinal study of major competitors in a single industry.

For marketers, the emphasis that has been placed on the antecedents and consequences of maintaining a market orientation is not surprising. The main tenets of this view—

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broader context of organizational variables (see Hult and Ketchen 2001). Here, we examine two central factors in the stream, organizational learning and innovativeness, as mediating forces in the relationships between strategic orientations and performance. In summary, this study demonstrates a novel methodology that we use to produce a longitudinal study of the effects of market orientation and other strategic orientations on performance, within a broader context of mediating organizational variables.

Cultures and Orientations

The concepts of market orientation, strategic orientation, and culture are closely intertwined. Market orientation has been a central research area for the Marketing Science Institute (MSI) for more than ten years. As the topic of at least two focused conferences and one summary collection of writings, market orientation has been studied from many different perspectives, including both the antecedents and the consequences of being market oriented (Deshpandé 1999). The nature of the concept itself has also been carefully considered. At the most recent conference on the topic, two significant themes emerged from the work in the area (see Deshpandé 1999, p. 2): (1) the need to consider market orientation at multiple levels, including as a corporate culture and as a strategic orientation, and (2) a need to understand both the antecedents and the performance consequences of being market oriented. The research reported here addresses both of these issues.

Any differences among “culture,” “strategic orientation,” and “market orientation” have not been well established, in part because of different definitions and treatments of the constructs in the literature. In the seminal coverage in marketing literature, organizational culture has been defined as “the pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide them norms for behavior in the organization” (Deshpandé and Webster 1989, p. 4). In this view, culture centers on embedded values and beliefs that guide behavior. Therefore, it is assumed that culture guides the behaviors that ultimately influence performance.

Is market orientation a relatively immutable element of organizational culture? Or is it an organizational choice, related to the adaptive strategies pursued by firms in a given time frame? This question has not been answered definitively in the literature. The former perspective holds that market orientation must be understood within the broader context of organizational culture (Deshpandé, Farley, and Webster 1993). In this view, market orientation is a deep-rooted attribute of the firm, with implications for organizational information processing (Kohli and Jaworski 1990). The alternative view, that a firm’s degree of market orientation is largely a matter of choice and resource allocation, is illustrated by Ruekert (1992, p. 228): “[Market orientation is] the degree to which the business unit obtains and uses information from customers, develops a strategy which will meet customer needs, and implements that strategy by being responsive to customers’ needs and wants.” This perspective suggests that with the proper resources and focus, an organization can become more market oriented in a relatively rapid response to corporate directives. This has a multitude of implications, including the idea that market orientation can be actively managed on the basis of current market conditions and tactical objectives. Adding further complexity to this discussion is an attempt to integrate the concept of strategic orientations.

Strategic orientations have been considered in both marketing and strategic management literature. Miles and Snow’s (1978) framework of alternative strategic orientations has been used to study various outcomes, many of which center on performance (e.g., Conant, Mokwa, and Varadarajan 1990). Other studies of so-called strategic orientations have used different typologies, including the propensity of firms to be opportunity seeking or problem avoiding, to maintain an external versus internal orientation, or to pursue differentiation-based or cost-based strategies (e.g., Wright et al. 1995). Yet another approach has examined strategic orientations as reflections of the beliefs and mental models of senior executives (Hitt et al. 1997). This view ties organizational cognition to elements of culture.

There is no definitive view on the nature of strategic orientation. As summarized by Morgan and Strong (1998), the concept has variously been described as strategic fit, strategic predisposition, strategic thrust, and strategic choice. They have summarized this array of perspectives into three general categories of strategic orientations: narrative approaches, which are anchored in qualitative methodologies and generally result in unique case study–like characterizations; classificatory approaches, which attempt to group strategies on the basis of preexisting or derived categories (e.g., Miles and Snow 1978); and comparative approaches, which identify combinations of traits and dimensions of strategy (e.g., Venkatraman 1989).

On reviewing these alternative perspectives on strategic orientation and research to date, we offer a fourth possibility and organize these views into a simple framework (shown in Figure 1). The framework we offer considers the determinants used in the assessment of a firm’s strategic orientation, either internal priorities and processes or external actions. It also incorporates the descriptive goal of the analyst as either the categorization of the firm relative to established strategic orientations or the development of a unique characterization of the organization. The three elements of Morgan and Strong’s (1998) framework fit effectively into this model. We offer a fourth alternative that uses internal

![FIGURE 1](image-url)

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priorities and processes to categorize the firm, and we describe this as a competitive culture approach to assessing strategic orientation. We define competitive culture as the dimension of organizational culture that provides the organization’s values and priorities in interactions with its marketplace—both customers and competitors—and influences more specific strategies and tactics. This view of strategic orientation is based on the belief that there is a deep, culture-driven characteristic of an organization that influences both the internal processes of that organization as related to marketing and strategic thinking and the strategies that emerge from that organization. Competitive culture should be primarily influenced by long-term management perspectives on the keys to competitive advantage and success in the firm’s environment. Furthermore, the orientation can be categorized and compared across organizations.

Our definition first distinguishes between culture and orientation, treating strategic orientation as a subdimension of the culture construct. This is consistent with Deshpandé, Farley, and Webster’s (1993) work that relates market orientation to culture. The definition also enables us to consider market orientation as one of several strategic orientations that an organization may possess, distinguished primarily by attitudes toward customers and competition. Our definition can be contrasted with that of Gatignon and Xuereb (1997, p. 78), who argue that strategic orientations are “the strategic directions implemented by a firm to create the proper behaviors for the continuous superior performance of the business.” Their view suggests a more malleable and less culture-like view of strategic orientations than we take in this research. In summary, we suggest that one possible view of strategic orientations, the competitive culture view, allows the integration of market orientation and alternative strategic orientations as subdimensions of the broader organizational culture construct.

Market Orientation and Performance

Two closely related frameworks have been the foundation for much of market orientation research. Narver and Slater (1990) view market orientation as consisting of three behavioral components (customer orientation, competitor orientation, and interfunctional coordination) and two decision-making criteria (a long-term focus and a profit focus). Kohli and Jaworski (1990) offer a more process-driven model that considers the stages of generating, disseminating, and responding to market intelligence as the essence of market orientation. The two frameworks share many underlying concepts and activities, such as the understanding of customer wants, cross-functional integration within the firm, and the importance of decisive action in response to market opportunities. We chose to operationalize Narver and Slater’s (1990) framework for this study, because it was better suited to our data source.

A fundamental benefit of being market oriented is purported to be the creation of superior customer value and “continuous superior performance for the business” (Narver and Slater 1990, p. 20). This relationship between market orientation and performance has been explored by means of a wide range of methodologies, contexts, and measures of market orientation (Deshpandé 1999). Several studies have found support for the fundamental market orientation—performance relationship. For example, Pelham (2000) shows that market orientation has a positive and significant relationship to a range of performance measures, including marketing effectiveness, sales growth, market share, and profitability. In a two-period study, Narver, Jacobson, and Slater (1999) show that market orientation is significantly related to sales growth but not to corporate return on investment. The range of positive outcomes associated with market orientation has been extensive. Market orientation has been shown to have a positive relationship to return on assets (ROA) (Narver and Slater 1990), sales growth, new product success (Slater and Narver 1994), and relative product quality (Pelham and Wilson 1996).

Issues of judgment and perception have been raised as important considerations in market orientation research. Jaworski and Kohli (1993) find a significant market orientation—performance link when using a judgmental assessment as the dependent measure but not when using a more objective measure, market share. Pelham and Wilson (1996) also find significant results when using a subjective relative performance assessment, which suggests that a bias can exist in which firms that view themselves as perceptive regarding customers and competitors may overstate their performance.

Many empirical findings from studies of the relationship between market orientation and performance have produced results that are complex and, in several cases, unsupportive. In several studies of the performance consequences of market orientation in international settings (e.g., Bhuian 1998), no effects have been found, perhaps suggesting a cultural influence on the phenomenon. Across many contexts, various studies have found no direct relationship between market orientation and objective measures of performance (e.g., Han, Kim, and Srivastava 1998). Even in one of the founding pieces in this stream, performance effects vary on the basis of the business context (Narver and Slater 1990). From these findings, it appears that more work is needed to understand the range of factors influencing the relationship between market orientation and performance.

Finally, some cautionary issues have arisen in this stream regarding the components of market orientation. Narver and Slater (1990) do not achieve sufficiently high reliability values to evaluate the decision components (long-term focus and profit focus) of their model. Later work in this area has generally avoided an attempt to measure these two dimensions of Narver and Slater’s original conceptualization, creating a knowledge gap surrounding these seemingly important factors. In general, studies of disaggregated dimensions of market orientation have been avoided or have encountered similar problems (see Bhuian 1998). Another issue that has been raised pertains to the potential dominance of the customer dimension in this framework, possibly diminishing the importance of other market orientation components (see Han, Kim, and Srivastava 1998). Although it is not possible to conclude a great deal from these isolated cases, they suggest potentially differential effects of the elements of market orientation on various outcome measures.

A few general observations can be derived from the broad body of performance-based market orientation studies.
research. It appears that the fundamental link been market orientation and performance has yet to be fully explored and supported. Issues of perception, varying results perhaps due to context, and differences in measurement and methodology have created a set of findings that is rich and interesting but somewhat lacking in clearly established grounding from which to advance knowledge. We propose that the combination of using a longitudinal approach, disaggregating the market orientation construct, and including both related factors and alternative strategic orientations into a single study should result in findings of sufficient breadth to advance knowledge in this area in a meaningful way. The longitudinal approach supports the view that, as a culture-like phenomenon, market orientation should have a great deal of inertia; its development and any associated performance benefits should take time to emerge. The disaggregation of the market orientation construct can be supported both methodologically and theoretically. In terms of research design and interpretation of findings, a disaggregation of the market orientation construct allows for better control of the error or "noise" that may influence more holistic measurement attempts. Narver and Slater's (1990) framework has yet to be completely and effectively studied in a disaggregated manner.

The theory of sustainable competitive advantage (Day and Wensley 1983) offers support for the fundamental hypothesis that the relationship between the elements of market orientation and performance. From this view, a firmly entrenched market orientation creates an advantage that the competition has difficulty matching. As Morgan and Strong (1998, p. 1053) describe, "The ability of the market oriented firm to outperform its less market oriented competitors is based on the premise that the former can create long-term superior value for the firm's customers in comparison with the latter." If Narver and Slater's (1990) five elements are true dimensions of the construct, it also follows that each should be expected to have the same causal effects. Considering the ultimate goal of market orientation, we suggest that

\[ H_1: \text{The five dimensions of Narver and Slater's market orientation framework will have a positive impact on firm performance.} \]

**Brand Focus**

Brand development and management have been among the primary focal points of the marketing discipline over the past decade or more. Companies with a history of successful brand development, such as Procter & Gamble and Nike, have created a culture in which all areas of the company are dedicated to the branding process. Developing this brand-focused culture can require significant structural and cultural changes within the firm. For example, an increased focus on branding and brand management can result in a diminished role for outside advertising agencies, significant organizational restructuring, and the enhancement of internal entrepreneurial spirit (Low and Fullerton 1994). Given the increased prominence of branding within firmwide marketing strategy and the organizational commitment required to execute such an approach, it appears that a deep commitment to branding is indeed a reflection of the firm's culture. Furthermore, the necessary understanding of customers, competitors, and organizational processes associated with successful branding suggests a tie to the market orientation construct. We propose that brand focus adds an additional, important dimension to Narver and Slater's (1990) market orientation framework and treat it as such in this study. We define brand focus as a dimension of market orientation that reflects the firm's emphasis on the development, acquisition, and leveraging of branded products and services in the pursuit of competitive advantage.

Despite the widespread attention to branding across many industries in recent years, there still exist significant within-industry differences in branding approaches. For example, across three grocery chains, Corsijens and Lal (2000) report wide variations for private label (store brand) sales as a percentage of the total for items such as fruit juice (20%, 78%, 12%), pasta (30%, 81%, 15%), and several others. There are clear differences in these firms' philosophies toward branding, perhaps explained by some combination of firm choice variables, organizational inertia, and resource constraints. Evidence such as this makes an exploration into the consequences of various branding approaches more compelling.

In retailing, this issue is complicated by the opportunity to pursue two different branding approaches. Private label, or store-specific, brands represent some of the best-established brands in the marketplace. From its earliest days, Sears, Roebuck and Company has distinguished itself through the development of well-regarded private label brands such as Kenmore appliances, Die Hard batteries, and Craftsman tools. More recently, JCPenney has had great success with its Arizona Jeans Company brand. As an alternative to the private label approach, retailers have the ability to offer national brands that are well known to consumers but are often offered by competitors as well. This can create a situation in which national and private label brands compete directly; for example, Tuff Skins and Levi's jeans both vie for the customer's dollar in a Sears store. Resolving a branding balance is not an easy decision for retailers, as recent research has shown that various consumers are drawn to private label versus national brands because of a complex combination of demographic and psychographic factors (Ailawadi, Neslin, and Gedenk 2001).

Companies dedicated to a brand focus can not only develop compelling propositions for the marketplace but also bind their organizations more tightly and increase their general effectiveness. Strong culture theory (Denison 1984) suggests that a dominant organizational culture provides cohesiveness and focus in planning and tactical activities. This effectiveness should lead to superior organizational performance. Thus, the cultural impact of a brand focus should enhance overall firm effectiveness. As Aaker and Joachimsmlhaler (2000) note, however, the nurturing of a new brand is a costly and often time-consuming proposition. Estimates on spending for advertising alone for national brand introductions have ranged from $20 million for the Nike Air Max line (Aaker and Joachimsmlhaler 2000) to $240 million to support the introduction of the Nissan automobile line in the United States (Aaker 1991). Recouping this investment, even for a successful brand, can be an extremely
long-term proposition. Using a relatively short horizon, we expect that a focus on national brands will enhance firm performance because of the previously established equity for these products. Given the considerable investment required for private label brand development, we expect a drag on corporate financial performance to be associated with this approach in the relatively short run. Therefore,

H2: In the short run, private label brand focus will have a negative impact on firm performance.

H3: In the short run, national brand focus will have a positive impact on firm performance.

**Alternative Strategic Orientations**

From the perspective of competitive culture described in Figure 1, we contend that several alternative strategic orientations can be considered at the same level of abstraction as market orientation. Alternative orientations have been explored in a somewhat fragmented body of literature. In a relatively early effort, Keith (1960) examines the historical evolution of a single company through phases of production, sales, and marketing orientation. Miles and Arnold (1991) examine the interrelationship of market orientation and entrepreneurial orientation, finding that the two are indeed discrete management orientations. Other studies have contrasted market orientation or elements thereof with sales orientation, production orientation (Pelham 2000), learning orientation (Baker and Sinkula 1999), and technological orientation (Gatignon and Xuereb 1997).

Despite the compelling nature of the principles of the marketing concept, it is probably myopic to assume that a market orientation is the only legitimate guiding model for business success. Other successful business models exist. For example, eMachines has focused almost exclusively on efficiency and cost minimization to produce personal computers at a substantial cost and price advantage compared with the competition. Maximizing customer satisfaction regarding features, durability, and customization is not the central motivator in this firm’s marketing efforts, yet the relatively new company has made substantial inroads in winning market share from established industry leaders. eMachines, as well as companies such as Supercuts, the ultra-quick hair cutting salon; McDonald’s; and Southwest Airlines follow to varying degrees what has been described as a production orientation. This orientation is based on the belief that the pursuit of production and other operating efficiencies will produce widely available and relatively inexpensive products and services that will attract consumers (Kotler 2000). As suggested by the preceding examples, this approach has been successfully applied in industries beyond the traditional manufacturing setting. The trade-offs inherent in this approach include a reduced ability to maximize customer satisfaction and, in some cases, reduced quality due to the extreme focus on cost minimization. The demise of the poorly regarded Yugo automobile in the United States may reflect a company that pushed this approach past its limits.

From a theoretical perspective, this approach is based on early work in transaction cost economics by Coase (1937) and others, who describe the incentives available to firms that deliver fixed output through lowered production costs. Although most firms practicing this approach pass a portion of the profit margin advantage on to customers in the form of lower prices, a portion is also typically retained by the firm, which results in economic rents and superior financial performance. Therefore, we expect that

H4: Production orientation will have a positive impact on firm performance.

Another potential strategic orientation is based on the firm’s assumption that consumers will purchase more when subjected to aggressive sales techniques and marketing efforts. A selling orientation focuses on maximizing short-term sales at the possible expense of long-term relationship building (Lamb, Hair, and McDaniel 2000). It is based on the premise that customer hesitancy toward purchase can be overcome through marketing pressures. This approach is often practiced for “unsought goods” that consumers do not normally search for, such as insurance, encyclopedias, and funeral plots (Kotler 2000). Time-shared vacation properties, traditional car dealers, and many companies using late-night “infomercials” might also be classified as demonstrating a selling orientation. Although these examples may in some cases represent the antithesis of a market orientation, some of these firms are quite profitable. For example, Direct Focus Inc. (2000), maker of the heavily promoted Bowflex line of fitness equipment, spent a substantial 32.8% of revenues on marketing and selling expenses in a recent fiscal year yet still delivered an impressive 18.5% net profit margin.

From the perspective of value generation, a selling orientation seems to offer little to the consumer. The high advertising expenditures inherent in this approach do not add to the desired product or service attributes, improve the consequences resulting from use of the product or service, or help consumers better achieve the desired end state they associate with the product or service (Day 1994). To the contrary, the costs generated through this approach should inflate selling prices and thereby reduce a consumer’s value perception given a fixed bundle of product or service benefits. From a relationship-building perspective, a selling approach may stimulate short-term sales, but little customer loyalty and repeat business can be expected (see Lamb, Hair, and McDaniel 2000). Therefore, we expect that the reduced value offering and low customer loyalty will result in a negative relationship between selling orientation and performance. In particular, we expect this phenomenon to exist in a retail setting where shopping alternatives for the same goods or services can more readily expose inherent shortcomings in value-based offerings from a selling-oriented retailer.

H5: In a retail setting, a selling orientation will have a negative impact on firm performance.

**The Mediating Effects of Learning and Innovation**

As the conceptual network surrounding market orientation has been explored, several factors potentially mediating the relationship between market orientation and performance have been identified. To deepen our understanding of the
relationships among market orientation, alternative strategic orientations, and performance, we consider two mediating factors that may be particularly influential: organizational learning and innovativeness. Organizational learning involves the use of new knowledge or insights to facilitate performance-enhancing organizational changes. Slater and Narver (1995, p. 63) describe the central role of learning as follows:

The critical challenge for any business is to create the combination of culture and climate that maximizes organizational learning on how to create superior customer value in dynamic and turbulent markets, because the ability to learn faster than competitors may be the only source of sustainable competitive advantage.

In this view, market orientation is described as a necessary, but not sufficient, factor in the creation of a learning organization.

Various views suggesting a positive link between organizational learning and performance have been put forth. Learning has been viewed as a complex resource of the firm that can be used to create competitive advantage and, ultimately, superior performance (Hunt and Morgan 1996). Dickson (1996) suggests that learning enables firms to sustain competitive advantages by continuously improving market information-processing activities faster than the competition.

In several ways, the concepts of market orientation and learning are intertwined, perhaps in a synergistic fashion (Baker and Sinkula 1999). For example, Day (1994) considers “outside-in” organizational processes, such as market orientation, contrasted with “inside-out” processes, such as learning. From this perspective, both types of processes influence the boundary-spanning activities that influence firm performance. Hurley and Hult (1998) treat both market orientation and learning orientation as elements of organizational culture that influence innovativeness and other outcomes. We broaden Slater and Narver’s (1995) general perspective and consider the effects of cultural elements such as market orientation and other strategic orientations on the accomplished learning of organizations. Consistent with various perspectives on learning, we expect that an organization that is effective in learning will exhibit superior performance. Therefore, we expect that

H: Organizational learning will mediate the relationships between strategic orientations (including market orientation) and firm performance.

Organizational innovativeness has been closely tied to market orientation in a range of research. Innovativeness involves the implementation of new ideas, products, or processes (Zaltman, Duncan, and Holbek 1973). Innovativeness has been positively linked to performance in several studies (e.g., Deshpandé, Farley, and Webster 1993) and has been previously shown to mediate the relationship between market orientation and performance (Han, Kim, and Srivastava 1998). In exploring the roots of innovation, Gatignon and Xuereb (1997) consider innovativeness as the outcome of a firm’s resources and its strategic orientation (including elements of market orientation). Connor (1999) also posits a causal link between market orientation and innovation, suggesting that the market-oriented dialogue between the firm and its customers provides the identification of issues and source of ideas necessary to foster significant innovation. Hurley and Hult (1998) examine innovation as part of a broader framework that links cultural aspects of the firm to its capacity to innovate and ultimately its performance. The general finding of these studies is that innovation is closely tied to a firm’s strategic orientation, perhaps especially to market orientation. As Deshpandé, Farley, and Webster (1993) demonstrate, the most important manifestation of market orientation may be in the success of innovations.

Consistent with the literature in the area, we test innovation as including both technological and administrative advances by the organization (Daft 1978). In a retail setting, innovations would include new systems, such as those for inventory management and point-of-sale operations, new selling methods and channels, and internal organizational changes designed to enhance value to the customer or operational effectiveness.

Although studies have examined the interaction between market orientation and innovativeness or that between innovativeness and performance, few have integrated these three variables. One exception is Hult and Ketchen’s (2001) work, which considers these and other variables as equal contributors to a firm’s positional advantages. In extending previous research, we focus on mediating effects and expect that

H: Innovativeness will mediate the relationships between strategic orientations (including market orientation) and firm performance.

**Methodology**

**Research Setting**

To examine effectively the relationships between various strategic orientations and performance over an extended time frame, we chose a single-industry setting. This approach enabled us to consider different strategic approaches and their performance consequences in the same competitive environment. The setting chosen for this study was the mass merchandiser or discount sector of the retailing industry. Although the precise grouping of retailers into strategic groups is a challenging task, a simple demarcation among larger store retailers might distinguish among fashion-oriented department stores, mass merchandiser or discount stores, and so-called category killer stores. Fashion-oriented department stores such as Nordstrom and the May Company stores offer high-quality merchandise at relatively high prices and profit margins and have lower inventory turnover than other formats do. Mass merchandiser or discount stores such as Wal-Mart, Kmart, and Sears rely to varying degrees on a high volume, low margin formula and generally offer more moderately priced alternatives than the department stores do. In recent years, so-called category killer stores such as Home Depot, Toys "R" Us, and Circuit City have also emerged, offering a much narrower and deeper product assortment and relying on high sales volume and high inventory turnover.

Several reasons supported our choice of context. First, the mass merchandiser or discount sector is one of the
longest-standing in retailing: Sears, JCPenney, and Montgomery Ward all have been in operation for over 100 years. This longevity should have allowed for the development of deep-rooted strategic orientations within competitors. Despite this long history, the sector has gone through changes in recent decades during which fundamental success factors appear to have changed significantly. This is evidenced by the dramatic and relatively recent ascendance of Wal-Mart to become the world’s largest retailer. The firm performance differentials in this sector suggest that there are differences in strategies and managerial mind-sets that have led some firms to success and others to relative mediocrity. A second factor in our choice of context involved the level of openness found in the management discussion element of corporate annual reports. In contrast to companies in, for example, high-technology industries, retailers are generally fairly open in their discussion of strategic direction and company priorities in their annual reports, a necessary criterion for the methodology used in this study.

Finally, retailing is an interesting context given the general lack of rent-producing strategic assets in the industry (Barney 1986). In other industries, these assets are generated through proprietary technologies, viable patents, and other unique advantages. In retailing, by contrast, the tools needed to compete effectively are virtually universally available. For example, scanning technology and other technological advances are typically developed by third-party suppliers and offered to all major competitors in the industry; the adoption decision is based primarily on managerial judgments. This phenomenon enables most management teams the freedom to pursue a wide range of strategic alternatives based on their interpretation of the competitive situation. This relatively even playing field makes an analysis of the choices made in the industry and their consequences even more interesting.

We used the subject firms in a panel that covered the years 1986–97. The companies studied were the market leaders during the period: JCPenney, Kmart, Sears, and Wal-Mart. To develop a better understanding of the industry, we also extensively studied trade publications and popular press articles from the era. Panel data have the primary advantage of allowing for the control of potentially unobservable firm-specific effects (Hausman and Taylor 1981). With the exception of Narver, Jacobson, and Slater’s (1999) two-period study, no work has examined the market orientation–performance relationship from a longitudinal perspective.

Mapping Letters to Shareholders

Top management within an organization can be considered the locus of market orientation or other strategic orientations. An examination of the cognitions and mental models of senior management can offer meaningful insights into views on the pursuit of competitive advantage and culture-like elements of the firm such as strategic orientation (Morgan and Strong 1998). However, accessing those managerial insights, particularly over a lengthy time span, poses several challenges.

To assess the strategic orientations present in our subject companies without using unreliable retrospective accounts, we used letters to shareholders (henceforth “letters”) in corporate annual reports as the data source. These letters can be used to examine the cognitions or managerial mind-sets of the senior executive group at the time of publication. Cognitive mapping techniques have been used in a variety of applications (see Huff 1990), often relying on annual reports as the data source. Material from annual reports has been used to seek evidence of managerial learning (Barr, Stimpert, and Huff 1992), identify corporate strategies (Bowman 1978), study causal reasoning and attributions within firms (Bettman and Weitz 1983), assess customer orientation (Judd and Tims 1991), and explain differences in joint venture activity (Fiol 1989).

The issues of who prepares the letters and whose views are reflected in them are important ones. Barr, Stimpert, and Huff (1992) raise some noteworthy cautions regarding the use of these documents. They note that public relations functions have taken to writing many of these letters in recent years. On the basis of our discussions with senior executives, we believe that this is a relatively minor concern. Although the nuances and more semantic elements of these statements may be the work of outsiders, it is clear that the underlying beliefs and guidance behind these letters are the work of senior management. In early planning meetings and final approvals of these documents, senior managers generally took great care to ensure that the current corporate vision is expressed to shareholders and employees. It has also been noted that annual reports are becoming an increasingly popular medium for communicating both company image and current strategies (see Judd and Tims 1991), which emphasizes the need for careful executive attention to these documents. These points all suggest that the letters are reasonable reflections of the prevailing managerial mind-set at the time of publication. As described by Barr, Stimpert, and Huff (1992, p. 22),

While annual reports may not be ideal, few rival data sources exist that can provide insight into the changing mental models of managers over time. This data source also has the critical virtue of being written in the time period of interest. Further, informal conversations with executives indicate that they do have considerable involvement in preparing communications with investors, particularly in times of poor performance. In the end, we used annual report data because we believe this document is too important not to be given close attention by top management, both in terms of early subject framing and later word level editing.

Data Coding

Text was converted into quantitative data through a form of cognitive mapping. The methodology used in this study involved a sentence-by-sentence coding of the letters for the firms and years studied. Two undergraduate students were hired as coders for the project. Ten years of letters for a retailer that was not included in this study’s sample were used as a training forum. The broad parameters of the project (identifying evidence of various types and dimensions of strategic orientations) were explained to the coders.

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1The years 1992–94 were excluded because of the absence of necessary data from one subject firm.
Coders were then given basic definitions of all strategic orientations (including dimensions of market orientation) and mediating factors, along with general guidelines for identifying evidence of these phenomena. For example, the coding sheets used described sales orientation as "including discussions focusing on maximizing sales, detailed comparisons of current to past sales performance, and any new programs or promotions intended to boost sales in the short term."

Using five years of the training sample, the coders then individually examined the letters for evidence of each strategic orientation and dimension under study. The two coders and one of the principal investigators then met and conducted a line-by-line review of each coder's decisions. Agreement was reached on how certain types of statements were to be coded from then on. It was possible for a single statement to be coded as representative of two variables. For example, it was decided that statements discussing the installation of new inventory management technologies would be treated as evidence of both a production orientation, because of the internal efficiencies with which they were associated, and the innovation variable. The coders then proceeded to code the second five-year block from the training sample, and the interpretation discussion with a principal investigator was repeated. Although the agreement level was not formally tracked, there was approximately a 95% corroboration between the coders on the second set of training data.

In general, the guideline given to coders for inclusion of a statement as representative of a variable was that "it should represent a clear and specific act reflective of the dimension being considered." Several statements along the lines of "we continue to strive to maximize customer satisfaction" and "all areas of the company are dedicated to enhancing performance" were excluded on the basis of this rule. The objective here was to separate vague managerial platitudes from concrete actions and beliefs.

The coders then began the process of analyzing the letters used in this study. They were provided coding sheets that included columns for entering the number of sentences in a particular letter that reflected each variable. The coders evaluated each letter independently for evidence of the phenomena in question. After completing five years for a single firm, the two coders met by themselves to compare their findings, agree on any necessary interpretations of the letters, and determine the final coding scheme for each letter. From the beginning of the coding of the data for the study, none of the principal investigators were involved in any way in the coding process. After the coders finalized the coding scheme for a particular letter and completed the final coding form, they used the total number of sentences in the letter to convert the sentence count to a percentage of the total, thereby creating variables that controlled for the varying lengths of letters. The Appendix shows samples of statements that were coded in each of the variables in the study.

We then examined the financial statements associated with the annual reports to record pretax operating profits, sales, and total asset information for the dependent measures. The data coding was a meticulous process, spanning a full year and several hundred person-hours of effort.

Analysis

Estimation

The general approach of our data analysis is to use a class of linear econometric models that commonly arise when time series and cross-sectional data are combined. Such models can essentially be viewed as two-way designs with covariates, and the estimation procedure for the regression parameters depends on the statistical characteristics of the error components in the model. If the specification depends only on the cross-section to which the observation belongs, the model is referred to as a one-way effects model. A specification that depends on both the cross-section and the time series to which the observation belongs is called a model with two-way effects. In addition to these effects, it is also common to specify the nature of the cross-sectional and time-series effects. If these effects are specified as occurring in a nonrandom manner, the models are referred to as fixed effects models. For example, the stable and time-invariant effect of managerial expertise or intelligence may be specified in a fixed effects model of market orientation (see Narver, Jacobson, and Slater 1999).

We estimated the impact of market orientation and other strategic orientations on firm performance using models devised for panel data wherein sample observations are available for few cross-sections (corresponding to firms in our data) but for a relatively long time frame. We chose not to employ the usual fixed and random effects models, because their estimation requires large sample sizes (Kmenta and Ramsey 1980). We assessed firm performance using two measures, ROA and return on sales (ROS), each of which was used, in turn, as a dependent variable in the models we estimated. Each of the models we estimated took the following form:

\[ Y_{it} = \beta_0 + \sum_k \beta_k X_{itk} + \epsilon_{it}, \quad i = 1, \ldots, I \quad (i \text{ denotes the firms}), \]

\[ t = 1, \ldots, T \quad (t \text{ denotes time periods}), \]

where \( Y_{it} \) denotes either ROA or ROS and \( X_{itk} \) denotes the kth measure of market orientation or other strategic orientations. In estimating this model, we relaxed the usual regression assumptions and estimated a series of models, allowing for heteroscedasticity, autocorrelation, and cross-sectional correlations for the error term \( \epsilon_{it} \). Consequently, we estimated the following four models.

Model 1 (groupwise heteroscedastic). This model enables the error variances \( (\sigma^2) \) to vary across the four firms. Specifically,

\[ \text{Variance (} \epsilon_{it} \text{)} = \sigma_i^2. \]

We used this as our baseline model, as the Lagrange-multiplier (LM) test strongly rejects the assumption of homoscedasticity for both the ROA and ROS models. Full results for this and the other models are presented in Tables 1 and 2.

Model 2 (groupwise heteroscedastic [Model 1] with cross-sectional correlation). This model additionally enables the disturbances of each firm to be correlated, on the assumption that the competitive environment may affect each firm to varying degrees. This is a testable assumption and is presented because the hypothesis that there is no cor-
relation across firms is rejected for both the ROA and ROS models. Specifically,

\[ \text{Correlation} (\varepsilon_{it}, \varepsilon_{jt}) = \rho_{ij} \text{ for firm } i \text{ and firm } j. \]

Model 3. This model incorporates the assumptions in Model 2 plus a common autocorrelation parameter for all firms. Thus, the model allows for heteroscedasticity and cross-sectional correlation based on the previous results; in addition, it allows the error terms to be serially correlated. However, the autocorrelation coefficient is restricted to be the same for each firm. Specifically,

\[ \text{Correlation} (\varepsilon_{it}, \varepsilon_{i(t+1)}) = \rho_{i} \text{ for every pair of consecutive time periods } t \text{ and } t + 1. \]

Model 4. This model incorporates the assumptions of Model 2 plus a separate autocorrelation parameter for each firm:

\[ \text{Correlation} (\varepsilon_{it}, \varepsilon_{i(t+1)}) = \rho_{it} \text{ for the } i \text{th firm, for every pair of consecutive time periods } t \text{ and } t + 1. \]

In summary, we first fit a combination of models for the panel that varies the basic assumptions. These models relax the restrictive assumptions underlying ordinary least squares (OLS) regression as we move from Models 1 to 4. Thus, the four models refer to (1) groupwise heteroscedastic, (2) groupwise heteroscedastic with cross-sectional correlations, (3) Model 2 with an autocorrelation parameter, and (4) Model 2 with firm-specific autocorrelation parameters.

The general approach to model estimation is first to pool all the observations and use OLS residuals to estimate the common autocorrelation term. With this estimate in hand, we transform the entire data using the Cochrane–Orcutt transformation. We then use the transformed data for obtaining OLS estimates that have been purged of the autocorrelation and the residual sum of squares, and we use cross-products to obtain the generalized least squares estimates of the model parameters. We use an LM test for the heteroscedasticity specification (chi-square distribution with N – 1 degrees of freedom [d.f.] under the assumption of homoscedasticity). Similarly, we test the groupwise heteroscedasticity as a restriction on Model 2, using the likelihood ratio (LR) statistic. Finally, we test the estimated correlations in Models 3 and 4 for statistical significance by referring the transformation \((T – 1) r^2(1 - r^2)\) to the chi-square distribution with 1 d.f. Further details are given by Kmenta and Ramsey (1980). Although these models show highly consistent results, Model 4 is the least restrictive and therefore is the one that should be primarily relied on in the assessment of hypothesis results.

**Results and Discussion**

The results for all four models are presented in Table 1 (ROS as the dependent variable) and Table 2 (ROA as the dependent variable). The results across all four models for both dependent measures were highly consistent.

**Elements of Market Orientation**

Of Narver and Slater’s (1990) elements of market orientation \((H_1)\), only the competitor orientation dimension was significantly related to performance across all models. That

### Table 1

<table>
<thead>
<tr>
<th>Strategic Orientation Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>.03 (.006)**</td>
<td>.03 (.004)**</td>
<td>.03 (.003)**</td>
<td>.03 (.003)**</td>
</tr>
<tr>
<td>Market Orientation Dimensions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer orientation</td>
<td>-.02 (.04)</td>
<td>.01 (.03)</td>
<td>.01 (.02)</td>
<td>-.006 (.02)</td>
</tr>
<tr>
<td>Competitor orientation</td>
<td>.27 (.09)**</td>
<td>.22 (.06)***</td>
<td>.22 (.04)**</td>
<td>.23 (.04)*****</td>
</tr>
<tr>
<td>Interfunctional coordination</td>
<td>.13 (.07)*</td>
<td>.05 (.05)</td>
<td>.002 (.04)</td>
<td>.003 (.04)</td>
</tr>
<tr>
<td>Profit focus</td>
<td>-.10 (.07)</td>
<td>-.09 (.06)</td>
<td>-.08 (.05)</td>
<td>-.13 (.04)**</td>
</tr>
<tr>
<td>Long-term focus</td>
<td>-.03 (.07)</td>
<td>.002 (.05)</td>
<td>.001 (.04)</td>
<td>-.016 (.04)</td>
</tr>
<tr>
<td>Private label brand focus</td>
<td>-.44 (.10)*****</td>
<td>-.45 (.09)*****</td>
<td>-.35 (.08)*****</td>
<td>-.28 (.07)*****</td>
</tr>
<tr>
<td>National brand focus</td>
<td>.33 (.12)*****</td>
<td>.34 (.09)*****</td>
<td>.24 (.07)****</td>
<td>.15 (.06)****</td>
</tr>
<tr>
<td>Production Orientation</td>
<td>-.08 (.05)</td>
<td>-.003 (.04)</td>
<td>.03 (.03)</td>
<td>-.002 (.03)</td>
</tr>
<tr>
<td>Selling Orientation</td>
<td>.11 (.06)*</td>
<td>.12 (.04)***</td>
<td>.11 (.03)**</td>
<td>.08 (.03)</td>
</tr>
<tr>
<td>Rho</td>
<td>—</td>
<td>—</td>
<td>.27</td>
<td>—</td>
</tr>
<tr>
<td>Rho1</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>-.16</td>
</tr>
<tr>
<td>Rho2</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>.36</td>
</tr>
<tr>
<td>Rho3</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>.48*</td>
</tr>
<tr>
<td>Rho4</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>.40*</td>
</tr>
<tr>
<td>LR statistic</td>
<td>—</td>
<td>—</td>
<td>26.54b</td>
<td>—</td>
</tr>
<tr>
<td>LM statistic</td>
<td>11.09a</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

\(^{a}p < .10.\)  
\(^{**}p < .01.\)  
\(^{***}p < .001.\)  
\(^{a}\text{Rejects homoscedasticity.}\)  
\(^{b}\text{Rejects hypothesis of zero intergroup correlations.}\)  
\(\text{Notes: Standard errors are in parentheses. } n = 36 \text{ for all models.}\)
is, the more focused the firms in our set were on competitor actions, the more their performance benefited. In the highly competitive industry we studied, this is not surprising. This intensity of competition may lend some explanation to the general lack of significance in the profit focus and long-term focus variables. Firms that are focused on marshaling resources to meet a more immediate threat, such as the dramatic rise of a strong competitor, may need to forgo a focus on long-term goals and immediate profits. Interfunctional coordination received some support but not in the most salient model, Model 4. Given the need to coordinate internal resources to both combat competitors and serve customers effectively, this result is interesting. This may represent an underdeveloped aspect of market orientation for the firms in our set.

Finally, the customer orientation variable did not relate to performance. An examination of prior findings of empirical market orientation research reveals few insights to corroborate these findings. Although several studies have gathered a multidimensional measure of market orientation, only the aggregated market orientation–performance relationship has typically been reported (e.g., Jaworski and Kohli 1993). Others report disaggregated market orientation measures but model factors that mediate the relationship to performance, not allowing for an assessment of direct effects (e.g., Han, Kim, and Srivastava 1998). Similarly, Gatignon and Xuereb (1997) identify a moderating relationship in which customer orientation is positively associated with the performance of an innovation only in highly uncertain markets. Although we did not study such potential moderating factors, these limited findings result in a simple conclusion—that the intuitive and theoretically supported relationship between customer orientation and firm performance has yet to be consistently demonstrated in the literature. In this study, customer orientation was not a driver of firm performance.

Next, we consider our extension of the market orientation framework to include brand focus. As developed in our hypotheses, we considered only the relatively short-term effects of the branding approaches. Consistent with our expectation in $H_2$, a private label brand focus was negatively related to performance. That is, the more firms emphasized internally developed brands, the more adversely was performance influenced. It appears that the resource drain imposed by the research, development, and promotion associated with the introduction of a private label brand was not recouped through incremental profits in the short run. Supporting our expectation in $H_3$, a national brand focus was positively related to performance. Firms that placed a greater emphasis on these brands, despite the brands' presence in competitors' outlets, showed superior performance. Among other things, this suggests that the increased volumes generated by these goods offset the lower profit margins they generally carried compared with private label and nonbranded products.

**Alternative Strategic Orientations**

Among the alternative strategic orientations considered, production orientation ($H_4$) was not significantly related to performance. It appears that having operational efficiencies at the forefront of management thinking did not create the best environment for firms' success. Combined with the significance of competitor orientation, this suggests that at least during this period of this industry's evolution, maintaining an "outward focus" was essential, perhaps because of the rapidly changing nature of the competitive landscape.

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**TABLE 2**

Model Results Based on ROA

<table>
<thead>
<tr>
<th>Strategic Orientation Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>.009 (.01)</td>
<td>.009 (.14)</td>
<td>.02 (.01)</td>
<td>.02 (.01)*</td>
</tr>
<tr>
<td><strong>Market Orientation Dimensions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer orientation</td>
<td>-.12 (.12)</td>
<td>-.08 (.11)</td>
<td>-.01 (.08)</td>
<td>.01 (.65)</td>
</tr>
<tr>
<td>Competitor orientation</td>
<td>.61 (.24)**</td>
<td>.50 (.18)**</td>
<td>.36 (.14)**</td>
<td>.33 (.10)***</td>
</tr>
<tr>
<td>Interfunctional coordination</td>
<td>.90 (.20)***</td>
<td>.73 (.20)***</td>
<td>.27 (.19)</td>
<td>.10 (.17)</td>
</tr>
<tr>
<td>Profit focus</td>
<td>.08 (.19)</td>
<td>-.01 (.17)</td>
<td>.04 (.15)</td>
<td>.03 (.12)</td>
</tr>
<tr>
<td>Long-term focus</td>
<td>.29 (.20)</td>
<td>.37 (.18)</td>
<td>.22 (.17)</td>
<td>.14 (.12)</td>
</tr>
<tr>
<td>Private label brand focus</td>
<td>-.00 (.24)**</td>
<td>-.11 (.21)**</td>
<td>-.90 (.20)**</td>
<td>-.82 (.17)**</td>
</tr>
<tr>
<td>National brand focus</td>
<td>.53 (.32)*</td>
<td>.76 (.27)*</td>
<td>.68 (.23)**</td>
<td>.82 (.19)**</td>
</tr>
<tr>
<td>Production Orientation</td>
<td>-.16 (.14)</td>
<td>-.04 (.13)</td>
<td>.06 (.12)</td>
<td>.09 (.10)</td>
</tr>
<tr>
<td>Selling Orientation</td>
<td>.53 (.16)***</td>
<td>.49 (.13)***</td>
<td>.27 (.11)*</td>
<td>.16 (.84)*</td>
</tr>
</tbody>
</table>

*Rho
Rho1  —   —   —   -.258
Rho2  —   —   —   -.54*
Rho3  —   —   —   -.19
Rho4  —   —   —   .52*

LR statistic  —   13.31b
LM statistic  7.67a  —   —   —

*p < .10.
**p < .01.
***p < .001.

*Rejects homoscedasticity.
Rejects hypothesis of zero intergroup correlations.
Notes: Standard errors are in parentheses. n = 36 for all models.
The Mediating Effects of Learning and Innovation

We also examined the mediating effects of learning and innovation on the relationships between various strategic orientations and performance. To explore mediation, we followed the analysis strategy recommended by Baron and Kenny (1986), with one additional step (discussed subsequently) to rule out the possibility of spurious relationships that may be induced by multicollinearity in the data. Baron and Kenny (1986) propose testing for mediation using estimates from three sets of regressions: (1) the regression of the mediator variable (i.e., learning or innovation) on the independent variables (i.e., the strategic orientations), (2) the regression of the dependent variable (i.e., performance) on the independent variables, and (3) the regression of the dependent variable on the independent variables and the mediating variable. The first two regressions seek to demonstrate that the independent variables affect the mediating variable and the dependent variable, respectively. The third regression is done to establish that the mediating variable affects the dependent variable, even when the independent variables are controlled for. The independent variables are included as regressors in the third regression to rule out the possibility that a significant relationship between the mediating variable and the dependent variable is due to the “common causes” of the independent variables on each variable. However, it is also possible that a significant coefficient for the mediating variable in the third regression could be due to multicollinearity among the independent variables and the mediating variable. This possibility can be ruled out through a fourth regression of the dependent variable on the mediating variable only. If the coefficient for the mediating variable is nonsignificant in the fourth regression but significant in the third regression, then we conclude that the effect of the mediating variable on the dependent variable in the third regression is a spurious one, due to multicollinearity among the mediating variable and the independent variables.

The independent variables must affect the mediator in the first regression and the dependent variable in the second regression. The mediating variable must affect the dependent variable in the third and fourth regressions. In addition, the statistical significance of the mediated effect (i.e., the effect of an independent variable on the mediator variable in the first regression times the beta for the mediator variable in the third regression) must be assessed by means of the approximate standard error formula given by Baron and Kenny (1986). We examined mediation separately for each mediating variable, as well as for each performance metric (i.e., ROS and ROA).

We estimated the impact of learning and innovation on ROA in two simple regressions. The coefficient for innovation was positive (beta = .035) but nonsignificant (standard error = .063, p-value > .5), and the coefficient for learning was positive (beta = .18) and significant (standard error = .03, p-value < .0001). This suggested that innovation did not mediate relationships between the strategic orientations and ROA but that learning might play a mediating role. Of the independent variables, only three—competitor orientation, private label brand focus, and national brand focus—had significant, direct effects on ROA (Model 4, Table 2). Accordingly, we regressed ROA on learning and these three independent variables and obtained a positive and significant effect for learning (beta = .10, standard error = .02, p-value < .0001). In the regression of learning on the three independent variables, only competitor orientation had a significant effect (beta = .38, standard error = .13, p-value < .01). Thus, learning mediated only the relationship between competitor orientation and ROA. The mediated effect (.10 times .38) was also statistically significant (approximate standard error = .015).

The regression of ROS on learning was not significant (beta = .061, standard error = .031, p-value > .05), suggesting that learning had no mediating effect. In contrast, the regression of ROS on innovation yielded a significant but negative coefficient (beta = -.079, standard error = .026, p-value < .003). To explore this anomalous finding further, we performed the other regressions recommended by Baron and Kenny (1986). Only four of the strategic orientations—competitor orientation, profit focus, private label brand focus, and national brand focus—had a significant impact on ROS (Model 4, Table 1). When ROS was regressed on innovation and these four strategic orientations, the coefficient for innovation remained negative and significant (beta = -.072, standard error = .026, p-value < .01). In the regression of innovation on the four orientations, the only significant effect was that of private label brand focus (beta = .87, standard error = .34, p-value < .012). Although the overall mediated effect (i.e., .87 times -.072) was not statistically significant given its estimated standard error of .034, the pattern in the results may explain the negative impact of innovation on ROS. In summary, we found that organizational learning (H3) positively mediates the relationship between competitor orientation and ROA and that innovativeness (H2) has a weak, negative mediating effect on the relationship between private label brand focus and ROS.

The overall results provide only modest support for the mediating effects of learning and innovation on the relationships between strategic orientations (including market orientation) and performance. The ability to translate marketplace information, such as that gathered by an effective market-oriented firm, into learning is considered an important process in maximizing organizational performance (Hunt and Morgan 1996). We found evidence of that mediating phenomenon only in the relationship between competitor orientation and one performance measure. Of the possible mediating relationships, however, this is perhaps the most intuitive. High-performing firms are those that not only can gather intelligence and understand competitor actions but also can translate that knowledge into learning, leading to actions such as insightful strategic change. Note that because of the nature of the data source, the learning studied here was primarily that of exploitation, or learning.
from existing routines and actions. An alternative form, exploratory learning, involves the programmatic discovery of new resources and technologies (Sorensen and Sorensen 2001). The more active processes implied by exploratory learning may more strongly mediate the transition of customer and competitor orientations to superior firm performance.

Contrary to our expectations in $H_7$, little evidence was found for the mediating effects of innovativeness on the relationships between strategic orientations and performance. Of the variables considered, we found only a weak, negative mediating effect on the relationship between private label brand focus and ROS. This suggests that in our data, senior management's perceptions of innovation were positively related to the development of private label brands. That is, private labeling was considered a form of innovation in the industry. However, on the basis of our previous discussion of the negative short-term effects of this private label approach, the negative relationship to performance is not surprising. In their study of market orientation dimensions, Han, Kim, and Srivastava (1998) find that the customer orientation–performance relationship is mediated by innovativeness, but mediating effects are not supported when they examine competitor orientation and interfunctional coordination dimensions. Therefore, it appears that the relationship of innovativeness to market orientation and performance has not been fully explained. An alternative view that has received empirical support considers market orientation and innovativeness as equal first-order indicators of the higher-order factor of positional advantage (Hult and Ketchen 2001).

**Conclusions**

This study has limitations that must be considered. One potential limitation is that the causal chain under examination here assumes that competitive cultures (i.e., strategic orientations) influence the behaviors of organizational members, and those behaviors ultimately influence performance. The methodology used here does not allow for the direct examination of individual behaviors, instead it examines the indirect relationship between cultures and performance. Another consideration is the timing issues that may create variations in an individual firm's strategic orientation–performance relationships. For example, variations in asset growth through new store additions and the resulting lags before performance benefits would influence the ROA dependent measure. Finally, we must consider whether the subjective statements of senior executives reflect the more objective underlying characteristics of their firms. As some research has shown, the difference between subjective and objective evaluations of strategic orientation may yield different results.

We can draw several insights into the nature and consequences of strategic orientations from this study. It appears that there are competitive cultures beyond the traditional view of market orientation that may lead to strong firm performance. A selling orientation was associated with higher levels of performance, as were the competitor orientation and national brand focus elements of our market orientation framework. These findings suggest the importance of a broadened perspective in market orientation research. Different firms, possessing different strategic orientations, may be better suited to succeed in various competitive environments. Our examination of mediating factors provided some support for the view that a broadened perspective is needed for the consideration of the relationship between strategic orientations and performance.

Within the market orientation literature, this research illustrates the importance of examining the construct in a disaggregated fashion. Although the subconcepts are conceptually linked and should also be considered in the aggregate, a disaggregated approach examines the relative value of the various elements. In part, this approach lends itself to more precise insights for managers who are interested in developing a performance-enhancing, market-oriented organization. A focus on holistic measures may explain some of the problems and inconsistencies encountered in prior empirical market orientation research. The lack of significance for the customer orientation dimension in this study is provocative and worthy of further study. We can speculate that the key competitive weapons used in this era—aggressive pricing, dominant store locations, and major store renovations—were intended primarily to create a differentiated positioning from competition and less for pure customer satisfaction benefits.

These findings add weight to the recent emphasis on the importance of branding in marketing strategy and as a component of market orientation. As expected, firms that placed a greater focus on the management of national brands exhibited performance advantages. A noteworthy contribution of this study is the negative performance relationship found between private label brand focus and performance. Although an internal cost assessment for brand development is challenging, because costs go beyond dollar investments in research and advertising to include other resources such as senior management attention, our data suggest that firms need to enter into internal brand development cautiously. It appears that the greater awareness and lower costs associated with the use of national brands created a more favorable profit equation for the firms in our data set.

From a methodological standpoint, this study demonstrates the benefits of a longitudinal approach to the study of market orientation. The use of panel data to examine strategic orientations is meaningful, as these cultural phenomena are likely to evolve over time and show links to performance that may vary from year to year. Finally, the use of the annual report coding methodology represents a contribution to marketing strategy literature, suggesting a viable method to approach the study of a litany of marketing management issues. It represents an effective method for exploring the cognitions and marketing mind-sets of senior managers.

Further research in this area can take several approaches. A configurational approach should be pursued to determine the relative combinations of various strategic orientations that lead to performance success in different competitive situations. This research would provide additional insights into the relative value of alternative strategic orientations. Another approach in future work could examine the nature of the industry and the competitive environment as modera-
tors of the strategic orientation—performance relationship. This contingency approach would improve our understanding of the factors that enable firms pursuing alternative strategic orientations to be successful in different environments. Additional models and conceptualizations of market orientation should also be studied from a longitudinal perspective. The more process-oriented elements of Kohli and Jaworski’s (1990) framework would be particularly relevant to study over time.

Although it seems clear that pursuing the principles of a market orientation can help most firms achieve higher levels of marketplace success, the marketing discipline has been remiss in ignoring several other possible strategic orientations that influence the interactions between the firm and its markets. This study has identified several of these alternative orientations and has shown that some are related to higher levels of firm performance. The results show that some elements of one accepted market orientation framework influence performance but several do not. This is consistent with much of the prior research, which has failed to support the performance link fully. These findings highlight a fundamental challenge for marketers—understanding that there is no single strategic orientation that leads to superior performance in all situations and developing an understanding of the environmental, competitive, and other factors that lead one firm and its orientation to greater performance than others.

### APPENDIX

Illustrations of Letter to Shareholder Coding by Strategic Orientation Type

<table>
<thead>
<tr>
<th>Strategic Orientation</th>
<th>Example of Coded Sentence from Letter to Shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer orientation*</td>
<td></td>
</tr>
<tr>
<td>&quot;This consumer confidence is well-deserved because of our commitment to bring high quality, well-made merchandise to all American consumers at low everyday prices within a friendly, courteous and pleasant shopping experience&quot; (Kmart 1998).</td>
<td></td>
</tr>
<tr>
<td>&quot;Our focus on exceeding our customers’ expectations [continues] with wider aisles and significantly more customer space with our new stores averaging almost 100,000 square feet&quot; (Wal-Mart 1991).</td>
<td></td>
</tr>
<tr>
<td>Competitor orientation*</td>
<td></td>
</tr>
<tr>
<td>&quot;The intensifying competition in the retail industry is already altering the landscape&quot; (JCPenney 1995).</td>
<td></td>
</tr>
<tr>
<td>&quot;We recently reaffirmed our commitment to low prices with a 'price promise' advertising campaign that states clearly that Kmart will honor our competitors' regular or currently advertised prices on identical items&quot; (Kmart 1992).</td>
<td></td>
</tr>
<tr>
<td>Interfunctional coordination*</td>
<td></td>
</tr>
<tr>
<td>&quot;As we unite our strengths in merchandising, marketing, customer data, and technology—and the power of 260,000 associates working together to identify and exploit these new opportunities—I am confident of our future success&quot; (JCPenney 1997).</td>
<td></td>
</tr>
<tr>
<td>&quot;We have enhanced teamwork within the company, built closer relationships with suppliers, supported our communities, and intensified our customer focus&quot; (Wal-Mart 1993).</td>
<td></td>
</tr>
<tr>
<td>Profit focus*</td>
<td></td>
</tr>
<tr>
<td>&quot;Thanks to the hard work of our associates, retail profits rose nearly 20% to surpass $1 billion for the first time&quot; (Sears Roebuck 1995).</td>
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<td>&quot;In 1989, we placed even greater emphasis on our pricing leadership, but the lowering of prices hurt margins, and this contributed importantly to our earnings decline&quot; (Kmart 1989).</td>
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<tr>
<td>Long-term focus*</td>
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<tr>
<td>&quot;While we are committed to executing the current program successfully, we are also building for the future by identifying major trends in consumer demand and defining ways we can meet those demands&quot; (Sears Roebuck 1995).</td>
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<tr>
<td>&quot;[Although disappointing], this year's performance represents an extraordinary amount of work completed in order to lay the foundation for a bottoming out of Kmart's financial decline and a return to profitability&quot; (Kmart 1995).</td>
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<tr>
<td>Private label brand focus*</td>
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<tr>
<td>&quot;We built a formidable sales gain in luggage by introducing appealing private brand entries that give consumers what they want in luggage—at prices well below the competition&quot; (JCPenney 1994).</td>
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<tr>
<td>&quot;We also built and strengthened a truly remarkable line of exclusive private label products such as Martha Stewart Everyday, Sesame Street, Jaclyn Smith, Kathy Ireland, Penske Automotive..., [which] offer customers big helpings of quality, style, selection, and value&quot; (Kmart 1997).</td>
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<tr>
<td>National brand focus*</td>
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<td>&quot;We will continue to build our merchandising program around national-brand products sold at everyday low prices&quot; (Wal-Mart 1991).</td>
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<tr>
<td>&quot;In children’s, we already offer most of the key national brands including Healthtex, Spumoni, Weeboks, Toddler University, and Nickelodeon&quot; (JCPenney 1989).</td>
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<tr>
<td>Production orientation</td>
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<td>&quot;[We] maintained better in-stock position on the best selling items, tightened expense control, and reduced markdowns&quot; (Wal-Mart 1987).</td>
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<tr>
<td>&quot;Benefits from the satellite system have been substantial and include reduced data transmission costs, lower customer credit handling expense and improved communication from headquarters personnel to store management through live video transmissions&quot; (Kmart 1990).</td>
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</tr>
</tbody>
</table>

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REFERENCES


