Understanding the Relationship between Market Orientation (MO) and Strategic Business Typologies: A Critical Review

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Abstract

Purpose – The focus of this empirical paper is to investigate the relationship amongst various business strategy typologies and Market Orientation (MO).
Design /Methodology / Approach – The study is solely based on review of relevant literature in the subject area. Strategic business typologies put forward by theorists like Porter, Miles and Snow and Abell have thoroughly been discussed and their parameters are synthesized so as to establish some relation with Market Orientation.
Findings – The results suggest that the strategic business typology of Miles and Snow, which comprises of parameters such as defenders, prospectors, analyzers and reactors, is more market oriented as compared to Porter's strategies of cost leadership, differentiation and focus. Furthermore, the typology suggested by Abell, comprising of differentiated, undifferentiated and focus strategies is also less market oriented.
Practical Implications – Despite getting positive results, it is not possible to state that the typology of Miles and Snow is "totally" market oriented as only some outcomes of market orientation show a positive relationship with this typology.
Originality Value – This paper tries to distinguish between various strategic business typologies with reference to their market orientations.

Keywords Business Strategy, Business Typology, Market Orientation

Research type Conceptual Paper

1.0 INTRODUCTION

Modern markets are often characterized by enhanced power of customers and buyers. This trend has forced the modern firms to get closer to the buyers in order to sustain their business and to create value adding solutions (Galbraith, 2002). This interaction with buyers allows a firm to generate more revenue from its existing customer base (Whiteley, 1993). It has become necessary for a profit-oriented firm to capture customer's attention towards its products and services, in order to gain competitive edge over the others. Therefore, it is only logical that a firms needs to adopt a business strategy, which when successfully implemented, allows it to attain its goals and objectives. Many theorists and researchers have put forward their strategic business typologies, so that organizations can

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derive benefit and can succeed. The famous typologies include those of Porter comprising of cost leadership, differentiation and focus strategies (Porter, 1980), Abell's business typology comprising of differentiated, undifferentiated and focus strategies (Abell, 1980) and Miles and Snow's typology comprising of parameters like Prospector-Analyzer-Defender-Reactor (Miles, Snow, Meyer and Coleman, 1978).

Business strategies today need to be product-oriented and product focused (Galbraith, 2002). Such strategies are internally focused i.e. allows a company to seek its competitive advantage by providing cutting edge products with best possible features as its core competencies. Market-oriented companies generally focus on market i.e. they aim at building their strategies by understanding customer needs and then developing innovative solutions to meet those needs. Emphasis is laid on identifying hidden customer requirements and new markets (Shoham and Rose, 2001). Thus, it is more important to understand the kind of strategic typology being followed by a company.

This paper investigates as to which business typology specified above is more market oriented and can result in enhanced business performance and profitability. The prior research in this domain suggests that strategic typologies are conceptually derived classifications of companies, commonly based on the experience of the research in a limited number of industries i.e. research has been more focused on examples of a few famous companies and cases (Gnidic, 2014; Bhuian, 1997). This study is focusing on empirically testing the validating and usefulness of the strategic business typologies and their corresponding relationship with market orientation.

2.0 LITERATURE REVIEW

A key aspect which has been extensively researched in this subject area is that the organizations should strive to "align" their strategies with business performance (Ansoff, 1987). This alignment become easier if the firm is market oriented and keeps active interaction with market and its key players. Therefore, strategy acts as a kind of adaptive mechanism. The term 'Business Strategy' has been cited in various research papers, but it is quite difficult to agree upon one universal definition. Different researchers have defined strategy in different ways i.e. Chandler (1994) defines strategy as determination of the basic goals and objectives of a firm, also adoption of courses of action and allocation of recourses for carrying out these goal and objectives.

Corporate level strategy focuses on the selection of set of businesses and the corresponding resource deployment (Hofer and Schendel, 1978). Business Strategy is concerned with how a firm can achieve advantage over a competitor (Johnson, Scholes, and

Whittington, 2008). So, business strategy is typically a document which clearly articulates the direction a business will pursue and the steps it will take to achieve its goals.

Miles and Snow (1978) in their book *Organizational Strategy, Structure and Process* explore why organizations within the same industry differ in their strategies, structures and processes. It is elaborated on empirical findings derived from four industries. The typology is classified into four distinct types i.e. prospectors, defenders, analyzers and reactors where prospector is defined as the firms that face the entrepreneurial problem of locating new product and also market opportunities. Prospector type of firms thrives in changing business environments that have an element of unpredictability, and succeed by constantly examining the market in a quest for new opportunities (Sollosy, 2013). Furthermore, prospector organizations have broad product or service lines and promote creativity over efficiency and face the operational problem as well. Secondly, Defender Firms face the entrepreneurial problem of how to maintain a stable share of the market, and hence they function best in stable environments. Next, the Analyser firms are those firms which maintain the current markets and current customer satisfaction with moderate emphasis on innovation (Barney and Griffin, 1992). Reactor firms are those that do not have systematic strategy, structure or design and these firms also not prepared for changes (McDaniel and Kolari, 1987).

Strategy Type	**Definition**	**Examples**
Prospector	Is innovative and growth oriented, searches for new markets and new growth opportunities, encourages risk taking	3M
Defender	Protects current markets, maintains stable growth, serves current customers	BIC
Analyzer	Maintains current markets and current customer satisfaction with moderate emphasis on innovation	IBM
Reactor	No clear strategy, reacts to changes in the environment, drifts with events	International Harvester in the 1960s and 1970s, Joseph Schlitz Brewing Co., W.T. Grant

Figure 1 Strategy types suggested by Miles and Snow

Source: Barney, J.B. & Griffin, R.G. (1992). The management of organizations: Strategy, Structure and Behavior. *Houghton Mifflin*

Defenders are those firms which have narrow product-market domains and top managers in this type of organization are highly expert in their organization's limited area of operation but they don't tend to search outside of domains for the new opportunities (Barney and Griffin, 1992). As the result of this narrow focus, these organizations seldom need to make major adjustments in their technology, structure as well as the methods of operation.

Secondly, prospectors are those organizations which almost continually search for the market opportunities and they regularly experiment with potential responses to emerging environmental trends (Gnidic, 2014). So, these firms are often the creators of change and uncertainty to which its competitors must respond. However, because of their strong concern for product and market innovation, these organizations usually are not entirely efficient as comparatively to the other organization. Thirdly, analyzers are those organizations which operate in two types of different product market domains i.e. one which is relatively stable, while second which is dynamic (Sollosy, 2013). In stable areas organizations operate routinely and efficiently through use of formalized structures and processes. Finally, reactors are those organizations in which top managers frequently perceive change and uncertainty occurring in their environment of the organization but are unable to respond to it effectively.

Many authors emphasize on the relevance of Miles and Snow's typology, describing it as an "*integrated idea of other schools of strategic management*" (Mintzberg et al., 1998). According to Hambrick (1983), the typology of Miles and Snow is suitable for a variety of industries and businesses, thus making it a most notable strategic typology. Likewise, as per Peng, Tan and Tong, 2004) the typology of Miles and Snow is the most frequently empirically proven classification, because of its "elegance *and integrated contingency, concept and ease of operationalization*". Murray, O'Driscoll and Torres (2002) argue that the typology of Miles and Snow is widely accepted because of the consistency in its application in various industries. Its usefulness has been demonstrated by numerous studies confirming the basic assumptions of the proposed model in the areas of strategic management and strategic marketing (Snow and Hrebiniak, 1980; Hambrick, 1983, McDaniel and Kolari, 1987; Ketchen, 2003; Isoherranen and Kess, 2011)

Porter business typology is based on three generic strategies such as cost leadership strategy, differentiation strategy as well focus strategy. Differentiation strategy enables a firm to aim and develop unique products for diverse set of customers (Porter, 1980). Cost leadership, in basic words, means the lowest cost in the industry. The cost leadership is often driven by company efficiency, size, scale, scope and cumulative experience (Porter, 1980). A cost leadership strategy aims to exploit scale of production, well defined scope and other economies whereas the focus strategy describes the scope over which the company should compete based on cost leadership or differentiation.

As companies strive to get clarity and insight into its customers and their needs, it is important to determine the technologies which can be helpful. Derek F. Abell, a professor from Harvard University defined a business framework in 1980 to address this issue. According to Abell (1980), strategic planning process is the starting principle for any organization and defines its mission statement.

Any organization needs to address the following three questions:

1. Who are the customers of the organization?
2. How can the organization meet its customer's needs?
3. What techniques does the organization use to meet the needs?

These questions have been summarized by Abell in his framework i.e. a horizontal axis represents the customers/ user groups, a vertical axis represents buying needs and an inclined axis represents the applied technologies. So, the *"business model"* defined by Abell is as follows:

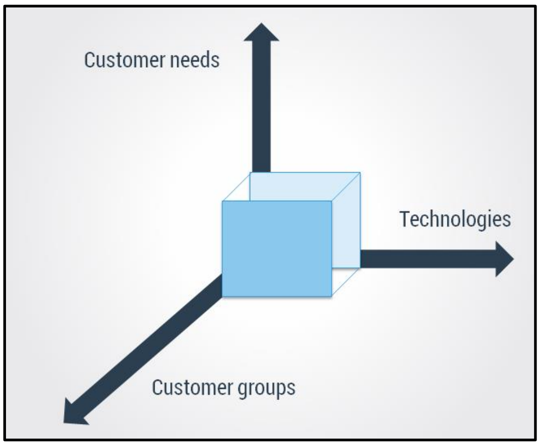

Figure 2 Abell's Three Dimensional Business Model

Source: Abell, D. F. (1980). Defining the business: The starting point of strategic planning: *Prentice-Hall Englewood Cliffs*.

- **Customer** needs relevant to the company are identified on the basis of the products and services being offered.
- **Technologies** in this model not only represent those which create a product, but also those technologies that are used to put a product on the market.
- **Buyers** make the market. Each organization wants to get down to the core of the buyers and therefore customer segmentation is very important. By having a thorough knowledge of the various target groups, an organization can make targeted product offers.

The Abell Framework provides an organization with a quick and easy overview of the most important factors that can be used in the marketing concept (Abell, 1980).

The concept of market orientation is defined by different researchers in different ways and recent studies have shown MO as implementation of the marketing concept (Kohli and

Jaworski, 1990). MO is an approach that focuses on identifying and meeting hidden needs and wants of different customers. Market orientation is also defined as the generation and distribution of market intelligence which is composed of information about the customers' current and future needs and exogenous factors that influence those needs (Kohli and Jaworski, 1990).The concept of marketing orientation is an emerging concept and is defined by different schools of thought e.g. (Becker, 1999; Deshpand, Farley and Webster Jr, 1993; Kohli and Jaworski, 1990; Narver and Slater, 1990; Ruekert, 1992; Shapiro, 1988; Narver and Slater, 1994). According to (Becker, 1999) market orientation is considered as the degree to which the different management systems of an organization are designed in a market-oriented way. Market Orientation in conceptual point of view considered in three different perspectives such as behavioral, culture and system based perspectives (Becker, 1999). Market orientation also has been conceptualized from both perspectives such as behavioral and cultural perspective (Homburg and Pflesser, 2000).

According to (Slater and Narver, 1994) market orientation is considered as organizational culture consisting of three behavioral components namely customer orientation, competitor orientation and inter-functional coordination whereas Kohli and Jaworski (1990) defines market orientation as organization-wide generation of market intelligence, and dissemination of this intelligence across different departments.

3.0 RESEARCH METHODOLOGY

The research paper primarily aims at thoroughly analyzing various business typologies, in order to determine which typology is more market-oriented as compared to the rest. This research intends to 'describe' and 'highlight' a possible relationship between different business typologies and market orientation. Therefore, the question being posed in this research effort is:

1. Which typology is more market oriented comparatively to others typologies?

In order to address the identified research question, data analysis has purely been based on review of relevant literature through which some characteristics/ outcomes of market orientation are identified. These characteristics have been identified through study of various schools of thought for Market Orientation (MO) as put forward by Narver and Slater (1990) and Kohli and Jaworski (1990). Next, the business typologies and frameworks discussed in the literature review are compared with these outcomes.

As part of research methodology, diverse set of Research Papers (especially those published after the year 2000) have been extracted from online repositories such as Emerald Insight. Moreover, data has also been collected from JSTOR database and all the articles have critically reviewed.

The three business typologies and frameworks as suggested by Porter (1980), Miles and Snow (1978) and Abell (1980) have been discussed from all major aspects in the preceding section. Now, the question is that which of these typology is more market oriented and what mechanism can be used to determine the market orientation of these typologies.

Market orientation may have a weak or strong influence on business performance i.e. this influence is dependent upon environmental conditions such as competitive intensity and market turbulence (Houston, 1986). Many studies illustrate that market orientation is positively associated with superior performance for the firm (Harris and Ogbonna, 2001; Jaworski and Kohli, 1993; Kirca, Jayachandran, & Bearden, 2005). According to Ruekert (1992) Market orientation is positively linked to profitability and also increased sales revenue and higher levels of employee satisfaction and commitment. Some studies have shown that market orientation leads to higher innovation and corporate success (Helfert, et al., 2001). However, on other side some researchers reported non-significant or negative effects of market orientation e.g. (Bhuian, 1997; Sandvik & Sandvik, 2003).

According to the reviewed literature, the researchers propose the following model that establishes a nexus between Market Orientation and Business Typologies:

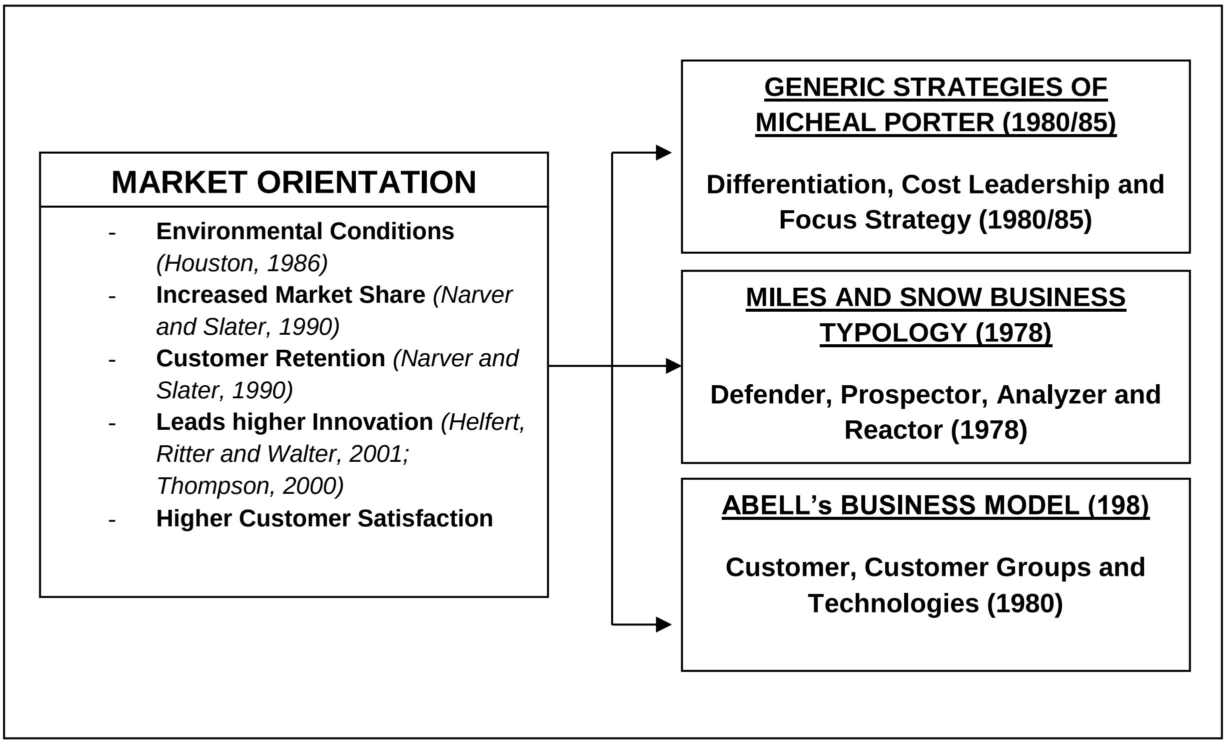

Figure 3 Proposed Relationship Model between Market Orientation and Business Typologies/ Frameworks

From the literature some outcomes of market orientation are being selected to check effect of different typologies on Market orientation. For Market orientation there are five characteristics being taken i.e. environmental factors, innovativeness, market share, higher customer satisfaction and customer retention for analyzing that which business typology highly adopt the outcomes of MO in comparison to others.

4.0 RESULTS AND DISCUSSION

The literature shows a positive relationship between typology and environmental forces, innovativeness and customer satisfaction (Miles et al., 1978). According to Sollosy (2013), organizations that adopt "Prospector" and "Defender" strategies as suggested by Miles and Snow tend to be more aware of their environment. Successful organizations can be viewed as those organizations that most efficiently interact with their environments. This to some extent implies that firms following the typology of Miles and Snow are slightly more market oriented than the others.

In accordance with the proposed model and above analysis, the strategies of Miles and Snow relate to only some outcomes of market orientation i.e. Innovativeness, customer satisfaction and environmental forces. However, for outcomes such as increased market share and customer retention, there are no proper references to conclude that these outcomes are related to strategies of Miles and Snow. Moreover, based on the gathered data, it is also not possible to say that only those firms become successful who adopt strategies proposed in the typology of Miles and Snow, very weak empirical evidence exists that establishes any relationship between these strategies and all outcomes of MO, as proposed in the model.

Business typology of Miles and Snow helps an organization to be more innovative, manage the environmental changes and provide customer satisfaction. It is already established in the literature that there is no a single strategy fit for any business to be successful and everything depends on the nature of the business. So, based upon the information reviewed in the literature review section, it can be summarized that organizations that tend to follow the strategies given by Miles and Snow are comparatively more market oriented than others. However, such conclusions lack authentic and established empirical evidence. As far as the strategies proposed by Porter and Abell are concerned, there is no doubt that these strategies are extremely important and have been acclaimed by researchers throughout the world. Many successful companies have adopted strategies of Porter and Abell and have achieved unmatched success. However, the scope of this research is to find out the relationship of these strategies with Market Orientation, therefore the data collection is limited to that concept only. Hence, it is difficult to give an opinion about the market orientation of these strategies.

5.0 CONCLUSION

Strategy is considered an important aspect of doing business, as it defines the future direction of an organization. The amount of time spent on defining the strategy is often related to organizational success. However, recent developments suggest that modern firms need to be market oriented i.e. they should be well aware of the market conditions in which they are operating and must be able to identify and then concentrate on the needs of consumers. So, this research study endeavors to find that for a modern firm following an established strategy (as proposed by established and credible theorists), which one of the most market oriented. Evidence has been generated from literature and a model has been proposed that connects some outcomes of market orientation with three different business typologies/ frameworks. Based upon, the results, it was concluded that the typology given by Miles and Snow in 1978 tends to be more market oriented, as compared to the frameworks proposed by Micheal Porter in 1980 and Abell in 1980.

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